The United Nations University

WIDER

World Institute for Development Economics Research

Research for Action

Research for Action

Trends in International Cooperation and Net Resource Transfers to Developing Countries

Krishnalekha Sood

UNU World Institute for
Development Economics Research
(UNU/WIDER)

Research for Action

Trends in International Cooperation and Net Resource Transfers to Developing Countries

Krishnalekha Sood

UNU World Institute for Development Economics Research (UNU/WIDER)
A research and training centre of the United Nations University

UNU World Institute for Development Economics Research (UNU/WIDER) was established by the United Nations University as its first research and training centre and started work in Helsinki, Finland, in 1985. The principal purpose of the Institute is policy-oriented research on the main strategic issues of development and international cooperation, as well as on the interaction between domestic and global changes. Its work is carried out by staff researchers and visiting scholars in Helsinki and through networks of collaborating institutions and scholars around the world.

Printed at Forssa Printing House Ltd, 1995

ISBN 952-9520-23-9

CONTENTS

PREFACE

Meaningful achievements in the development process on a global level depended on sound domestic policies and on the international conditions. International conditions which were considered desirable and favourable included supportive monetary, trade and debt policies; and resource transfers in the forms of capital, expertise, and technology. In the increasingly competitive world of the 1990s, the further reduction of protectionism and the expansion of international trade are crucial factors in promoting economic growth and development.

Stable and low interest rates and exchange rate stability could also help the development process, as the overall external indebtedness of the developing countries is still growing and debt still is, and will be, a major problem for a number of countries, especially in Africa. The world should be doing more to find reasonable and satisfactory solutions for global debt management, on the basis of the appropriate combination of case-by-case treatment with such general guidelines which take into account the needs of socio-economic development and which do not undermine the domestic savings potentials of the countries. The inflow of external resources must be considered and their role analysed in the context of the overall development process.

The aim of this paper by Dr. Krishnalekha Sood, a Senior Civil Servant from India - and who is spending a few years as a Visiting Fellow at UNU/WIDER - is to look at the issue of resource transfers in the context of the overall development policies. Her work is a part of a comprehensive research programme which deals with the future of development cooperation. The paper presents a changing trend in the resource transfers: the increasing role of foreign investments which are helping a few developing countries to reduce their dependence on development assistance and promote their integration into the global economy.

Still, ODA is playing an important role in the net resource transfer to a number of countries, therefore both its quantities, qualities and conditions are extremely important. In the research work of UNU/WIDER, the issues of ODA are related to the new global environment. The new environment in the mid-1990s has been influenced by a number of factors. The relative importance of the donor countries changed. Japan became the most important source of ODA, followed by the USA, France and Germany. There are new donors emerging. It is, however, not just the changing order of donors, but their new policies which influence the future trends. There is a general trend of aid fatigue, but on varied levels. In some countries it is related to the efforts to reduce the deficit of public budgets, in others to diminishing political support. There is at the same time an increasing consensus of the donors to use ODA as an instrument for addressing certain global problems like; the alleviation of poverty, the reduction of defence expenditures, sustainable development, democracy, human rights, etc. There is also a growing debate in the donor countries about the future of aid policies, about their feasibility, necessity and structure.

In 1995, this debate is especially important in the USA. Its outcome may influence the future of the aid programme, as a whole. There are also changes amongst the recipients. The shift of the former socialist countries in Europe from a donor to a recipient position is probably the single most important change. Some of the recipient countries are questioning the rationale and functions of the new conditionalities. Other groups are advocating a new policy which would facilitate external assistance to help, in a more direct way, private entrepreneurship in the developing countries. In the new context, the future role of multilateral agencies and the proportions between bilateral and multilateral assistance became, yet again, a debated issue. This paper by Dr. Sood, as a part of her research work, offers a historical overview, a factual and an analytical presentation of the new trends and a contribution to the international dialogue.

Mihály Simai
Director, UNU/WIDER
January 1995

INTERNATIONAL DEVELOPMENT COOPERATION: TRENDS AND PROSPECTS

1. The early years and institutional development

International development cooperation became important after the second world war, and as a consequence of it. World War II had demonstrated in no uncertain terms the interdependence of nations in a world constantly shrinking due to technological advances, and the explosive situation which can result when tensions and pressures build up and transcend national frontiers in the absence of a viable international cooperation regime. The economic depression in the thirties and the total breakdown of the international trade and monetary system in the inter-war years showed that international integration was required in a far wider and deeper manner than could be encompassed by an institution like the League of Nations set up after the first World War. It was also realized that economic forces played a pivotal role in world affairs and that international cooperation should focus on this area. The founders of the United Nations in 1945 defined a new set of responsibilities for national governments of member states. Accordingly, the United Nations Charter incorporated the commitment of members to 'employ international machinery for the promotion of the economic and social advancement of all peoples' and this formed the basis of modern international development cooperation. During the fifty years following World War II, there has been shifting emphasis regarding the areas most deserving of aid and development cooperation. The war devastated economies of Europe and Japan were the first areas of international cooperation, such as the Marshall Plan for Europe or the Dodge Plan for Japan. These countries, having had large industrial and manufacturing foundation since the onset of the industrial revolution could effect a speedy recovery after 1945 and soon emerged as donors of aid, with Germany and Japan being among the foremost by the sixties, after the economic miracle in both countries.

From the sixties the cold war played a major role in international development cooperation. Newly independent countries were emerging after decolonization and they became areas where development aid was most required. The two super powers used development cooperation as an instrument to extend and consolidate their spheres of influence in keeping with their respective geo-political strategies. Security perceptions weighed heavily in aid allocation. Thus certain countries in Latin America and the Middle East received far more aid than very poor countries in South Asia or Africa. Tensions and conflicts developed due to superpower rivalry such as the wars in Indo-China during the sixties and seventies, the Arab-Israeli wars in 1967 and 1973, the wars between India and Pakistan in 1965 and 1971, and long drawn civil wars in Angola and Mozambique after their independence from Portuguese colonization.

The sixties also saw a crystallization of multilateral development cooperation, under UN auspices and the emergence of the OECD, a consultative body of developed countries which became a vital institution regarding policy formulation on development assistance. At the same time, bilateral aid from post-colonial powers were channelled towards their earlier colonies with trade preferences similarly weighed. Aid to ex-colonies and dependencies became permanent programmes of development cooperation. U.K., for instance, had the Commonwealth Preference Scheme and France developed special concessional terms with the regions of the PAC - Pacific African and Caribbean countries with which it had traditional ties.

The fifties and sixties were years of prosperity and growth for the industrialized countries and development cooperation functioned under a largely benign attitude of the rich towards the poor. The word 'development' took centre-stage and the OEEC (Organization of European Economic Cooperation) which was enlarged in 1961 to include major industrialized countries outside Europe became OECD (Organization for Economic Cooperation and Development).

In 1961, the industrialized countries of the West adopted a Resolution on the Common Aid Effort which became the basis of aid dispensation for the member countries of the OECD. Within the OECD, the donor countries formed the Development Assistance Committee (DAC) as a consultative forum for assistance to less developed countries and this body has remained a key agency of the industrialized nations for aid assessment and dispensation. It has been mentioned that the purpose of the DAC mission was to assuage the 'conscience of the rich nations'[1] and the resolution agreed 'to the expansion of the aggregate volume of resources made available to the less developed countries and to improve their effectiveness' with the intention of improving the standard of living in the less developed countries, meeting the aspirations of these countries and adapting assistance to the requirements of individual countries, along with periodic reviews so that the aid objectives could be met. Developmental aid was to be dispensed on a sustained long-term basis so as to assure the sound economic growth of developing countries without falling under the burden of debt.

The United Nations, in its turn in 1961, declared the 1960s as the United Nations Development Decade with the objectives of bringing the growth rate of developing countries to 10 per cent per annum by the end of the decade and also enhancing aid contribution and assistance to a level which would aggregate 1 per cent of the combined national incomes of the economically advanced countries. The United Nations Conference on Trade and Development (UNCTAD), first convened in 1964 similarly affirmed to solve by means of international cooperation, problems of world trade for all, and the urgent development problems of developing countries. It recommended 1 per cent of national income for transfer of financial resources annually from each industrialized country to developing countries. This was adopted by the DAC in 1965. In 1969, official development assistance — ODA — was separated from other official flows and the 'grant element' concept was accepted as the measure of concessionality.

---

[1] Rubin, Seymour J. (1966) *The Conscience of Rich Nations: The Development Assistance Committee and the Common Aid Effort*, Harper & Row, New York.

The multilateral financial institutions such as the International Bank for Reconstruction and Development (IBRD) or the World Bank and the International Monetary Fund (IMF) became central features of international cooperation. This development was a major achievement as it established allocation of aid as a result of dialogue and interaction between donors and recipients. These institutions became the main channels for financial and technical assistance to low income countries and intermediaries in the flow of investment capital to middle income countries. In 1965 the United Nations Development Programme (UNDP) was formed as a combination of the UN Special Fund and the UN Expanded Programme for Technical Assistance. The Asian Development Bank and the African Development Bank also began operating from the sixties.

Outside the UN system, the EEC emerged as a major source of multilateral aid with periodically revised country programming under the Lomé convention where a formal contractual relationship with recipients came into existence. The Commonwealth in 1950 initiated the Colombo Plan, Council for Technical Cooperation in South and South-East Asia, with India, Sri Lanka (then Ceylon) and Pakistan as members and Australia, Canada, UK and New Zealand as donor countries and this was later expanded. The Inter-American Development Bank (IDB) also functioned as an important regional development institution, outside the UN system.

During the sixties bilateral aid also got institutionalized and flourished as individual countries, not having colonial histories, set up their own aid and development agencies such as Agency for International Development (AID) by USA, Canadian International Development Agency (CIDA), DANIDA, FINNIDA, NORAD and SIDA by the Nordic countries and Overseas Economic Cooperation Agency (OECF) and Overseas Technical Cooperation Agency (OTCA) by Japan which was later incorporated in Japan International Cooperation Agency (JICA). The Soviet Union and the Socialist countries also played an important role in development cooperation. Security considerations were of paramount importance to these countries and they introduced certain new concepts to facilitate development cooperation, such as dispensation of long-term loans at non-commercial rates and other facilities such as massive technical cooperation to countries in their spheres of interest.

2. Reassessment of North-South relationships

The seventies saw an important change in the attitudes and relationships between the rich and the poor countries. In 1974 the United Nations General Assembly adopted a programme of action on the new international economic order which called for urgent increases in development assistance to bring better standards of living and more equitable distribution of wealth between the North and the South, but inspite of further adoption in the UN of a resolution on Development and International Cooperation, the disparity between the rich and poor countries continued to widen. The North-South divide became deeper with the poor South beginning to demand more remunerative commodity prices, better terms of trade and seeking to extract other concessions through collective negotiations. This was apparent in the Tokyo Round of GATT negotiations, and the emphasis placed by non-aligned countries in 1976 on economic cooperation among developing countries — ECDC and also technical cooperation among developing countries — TCDC. The North began to question its hitherto benevolent attitude towards developmental assistance as the industrialized countries experienced deceleration in their growth rates, partly no doubt, brought about by the effects of the end of the colonial system of international allocation, manufacture and trade of commodities and goods. The culmination was the confrontation posed by the oil cartel with the formation of the Organization of Petroleum Exporting Countries (OPEC) which brought about a four-fold increase in oil prices between 1973 and 1974 and again a doubling of oil prices in 1979.

Consequently, the 1970s are coloured by the global oil crisis and far flung effects in the world economy and inter-relationships. The OPEC countries now emerged as capital exporters, the world market became flooded with the petrodollars and the international monetary system pegged to the dollar and the system of fixed exchange rates which had worked so well in the earlier two decades, fell apart. The decision by USA in 1971 to devalue the dollar and suspend its linkage with gold brought about the freely floating exchange rates and distortions in the international trade regime. It also brought to an end the golden age of uninterrupted growth for the countries of the North and heralded a recession which would last many years. The oil crisis and the glut of petrodollars resulted in massive commercial loans by financial institutions to some of the developing countries which in turn resulted in the emergence of the highly indebted developing countries. The economic repercussions of coping with the debt problem were felt throughout the eighties. One sinister aspect of the oil crisis of the 1970s has been the net transfer of resources from poor developing countries in the South to the banks in the North via the OPEC.

The effects of the oil crisis on international development cooperation was diverse. Although it produced a new group of rich developing countries, the non-oil exporting developing countries were severely hit with the unforeseen hike in their import bills and faced balance of payments crises and cutback in exports which affected their developmental plans. Special international assistance programmes came up in the 1970s to take care of these specific problems. The IMF developed the Extended Fund Facility which gave medium term loans specifically for overcoming structural balance of payments maladjustments and created the Temporary Oil Facility to help members cope with high oil import bills.

The seventies and eighties saw a significant change in the norms of international trade. With some of the newly industrialized developing countries offering stiff competition to the industrialized nations in the field of manufactures and other technologically advanced products, the advanced countries created neo-protectionist trade barriers even while exhorting the developing countries to liberalize their international trade regimes. The pernicious multi-fibre arrangement (MFA) was created in 1974 which sets out a rigid quota system in all textile items pertaining only to developing countries' exports on the ground of protecting the more expensively produced textile items of the developed countries. This measure alone has hit the poorest of developing countries, especially those in South Asia which have a revealed comparative advantage in this field.[2] The MFA has been periodically renewed till the present day and the resultant losses in exports and foreign exchange to the developing countries have been calculated to be of a large enough magnitude to counterbalance a substantial proportion of developmental assistance to them.

This decade also saw a categorization of developing countries for financial purposes: petroleum exporting developing countries, highly indebted developing countries, newly industrialized countries (NICs) and least developed countries (LLDCs). The aid approach of donors differed accordingly. One happy outcome was that the importance of giving concessional aid or ODA to the poorer countries was affirmed by different groups of donors. The soft loan window of the World Bank, International Development Association (IDA) became an important instrument for this purpose, its fifth and sixth replenishment in 1978 an 1981 raising its resources to US$ 7.7 billion and US$ 12 billion respectively. The DAC in 1978 set a target for increasing the grant element in each member country's ODA programme to 86 per cent, with even higher concessional terms for LLDCs. Japan launched a 'doubling of ODA' plan in 1977 which was fulfilled and repeated a few years later. The focusing on poverty and fulfilment of basic human needs as the prime area for international development cooperation was a significant feature of the late seventies, and one which has assumed increased importance later.

3. The eighties

During the 1980s international cooperation was largely concerned with the debt crisis as it became apparent that highly indebted countries would not be able to repay their debts. The mechanisms for restructuring/writing off of debts and maintaining sustainable international flows was a major preoccupation of this period. Throughout the eighties the industrialized countries went through a period of slow growth and recession and with it came the demand for accountability of funds for developmental aid. It also became clear that there were serious lacunae in the methods adopted for aid dispensation and utilization as economic performance remained dismal in many countries which had absorbed heavy doses of aid. The need for sustainable development now assumed importance as did other criteria such as preservation of the environment. The need was felt for exercising discipline over utilization of aid funds and conditionalities for aid went beyond mechanisms for ensuring the repayment of the loan to far reaching demands for reformation of institutions and policies in recipient countries. The World Bank in 1980 initiated structural adjustment loans (SALs) for supporting the costs ensuing to the developing countries for undertaking the prescribed reforms. These structural adjustment measures generally involved asking for systemic changes in the recipient countries, the most important changes being liberalization of the foreign trade regime often leading to devaluation of the currency, deregulation of state controls and operation of free market forces, disinvestment of public sector undertakings and curtailment of subsidies. These SALs and SAFs (structural adjustment facility) by

---

[2] Sood, Krishnalekha (1989) *Trade and Economic Development: India, Pakistan and Bangladesh*, Sage Publications, New Delhi/Newbury Park/London, pp. 175-184.

the Bretton Woods institutions have been the subject of heated debate as the reforms prescribed by them caused unprecedented hardships to the poorer and more vulnerable sections of the recipient countries and sometimes social disruption and rebellion while their consequent economic performance did not always prove to be advantageous. Conditionalities for loans and aid to developing countries have now become an integral part of development cooperation. In fact their importance has increased as the donor countries seem to be in the grip of aid fatigue in the nineties, brought about by the difficulties and delays regarding effective aid utilization.

4. Recent trends

From the end of the eighties and into the nineties history seems to have accelerated and long established global concepts and alignments are being transformed. The Gulf War in January 1991 put an end to the solidarity of the OPEC, ran a gauntlet through the Middle East and established the authority of the United States as the global policeman. The petrol prices plummeted and ceased to be the decisive factor in international trade, as the centre of pricing of oil shifted away from the OPEC.

The German re-unification in January 1989 heralded the closing of the East-West divide. This also signalled the end of the Communist era in East Europe as country after country in the Eastern block had uprisings and overthrew the communist regimes. By mid-1991 the great monolith of the Soviet Union began to undergo the tremors and convulsions which resulted in its break-up into the CIS states. Communism was abandoned and condemned by the former states of the Soviet Union (FSU's) and also by Central European countries which were under Soviet hegemony. As a result, a new breed of economies came into the global stage: the transformation economies. Most of these economies are now undergoing painful adjustments as they try to find a balance between the free operation of market forces and the socialist system which they had so categorically rejected.

Other seemingly intractable areas of conflict and the subject of international concern for decades have been dramatically resolved in the early nineties. These are the Israeli-PLO cooperation for bringing peace to the Middle East opening up the possibility of an integrated Arab-Israeli economic front in this region which has tremendous possibilities of spectacular growth. It also signifies future adjustments in international flow of funds in this area, this being already a major recipient of aid based on security perceptions. Another dramatic event has been the end of Apartheid and the setting up of a black majority government in South Africa, bringing this area into the mainstream of international trade and cooperation after years of economic sanctions and isolation. These positive developments, however, also signify the emergence of two more areas requiring urgent development cooperation at a time when international development funding is becoming inelastic.

Certain international events though dramatic have not been pleasant. The ongoing trauma of the ethnic war and carnage in former Yugoslavia and Rwanda, the latter resulting in half a million deaths and two million refugees in a remarkably short span of time, have been graphically recorded by the media and brought home to millions of peoples all over the world. They have emphasized the fragile foundations of peace and security and the possible spillover of these conflicts into other areas of the globe.

International development cooperation in the nineties has reflected the concerns generated by the recent global events. During the first two years of this decade all but one-eighth of net inflows into the developing countries went to West Asia, particularly Kuwait and Saudi Arabia for post Gulf war reconstruction.[3] The aid and other resource flows to the countries of the former Soviet Union and the Central and East European countries have been increasing and the integrating of the transformation economies into the market oriented system has become a primary concern of industrialized countries. Concessional aid disbursement by the OECD member countries to these countries stood at US$ 8 billion in 1992.[4] In fact a Marshall Plan type of aid has been thought of to speedily integrate these economies into the market-oriented system of the industrialized world. This new group of countries are now in competition with the developing countries for concessional flows and other international assistance, because the total quantum of aid has not increased sufficiently. The situation is more serious when it is compounded with the fact that earlier these countries, members of the Council for Mutual Economic Assistance (CMEA) were a source of aid to developing countries. The Soviet Union itself was a massive source of aid and technical cooperation. In the transitional stage these sources are drying up though it may be mentioned that the Soviet Union is still a donor of developmental aid. It remains to be seen how long it takes for these countries to revive their economies and become contributors in the development cooperation scene.

Another diversion from quantum of aid to developing countries has been the vast sums spent on global peace-keeping operations which have increased in the nineties. The humanitarian tragedy of refugees and ensuing rehabilitation measures for the war-torn populations have also made a major inroad into the common budget for development cooperation. The proportion of aid for disaster relief has increased from two per cent five years ago to seven per cent today.[5]

For the developing countries the end of the Cold War has meant a reduction in bargaining power with the North because the earlier superpower rivalry based on ideological and security considerations which resulted in careful nurturing of areas of influence has diminished in importance. The new phenomenon is the emergence of powerful regional blocks, and future development cooperation has to take this reality into account. The enlargement and strengthening of the European Union has already lessened the importance of individual developing countries because the member countries of the E.U. are pursuing their policies in a collective manner through the Union. By the mid-nineties, two important new regional blocks have been formed, the NAFTA (North American Free Trade Association) and the APEC (Asia-Pacific Economic Community). These blocks include powerful entities such as the USA and

---

[3] UN (1993) *World Economic Survey*, New York.

[4] OECD (1993) Development Cooperation, Paris.

[5] *The Economist* (1994) 'Foreign Aid', May 7th.

Japan as well as less industrialized but richly endowed developing countries, heralding a fruitful sharing of resources and cooperation within the block. An unfortunate but inevitable result of these regional blocks is the marginalization of the very poor and populous countries in South Asia and Africa which are not part of any such composite regional cooperation.

While the unfolding of historical events have resulted in development cooperation being focused into particular regions and emergent problems, in the last two decades there has been a growing awareness of the importance for all nations to preserve and share global resources. The United Nations Conference on Environment and Development (UNCED) in its Rio de Janeiro Summit held in 1992, drew world attention to the serious extent of environmental degradation, the depletion of the ozone layer and the consequences to the entire world if these issues were not urgently addressed. It also underlined the need for sustainable development. While it has been estimated that the dangerous global greenhouse gases have been caused by the historical overuse of energy and emission of carbon dioxide in the atmosphere by the rich countries such as USA, Germany, and UK for more than a century, the future opportunities for pollution control lies in inducing energy efficiency in poor countries with huge populations such as India and China where with the progress of industrialization there is bound to be increased per capita energy consumption.[6] Sustainable development is now of interest to all with the global consciousness today of sharing the total world natural resources and the biosphere over the future. Ever increasing populations in situations of mass-scale property has been identified as the chief source for concern regarding rapid depletion of natural resources and environmental degradation in the future.

Inspite of fifty years of international development cooperation and all the rhetoric of the world community over the years, such as development decades and the New International Economic Order, the bottom-line today is that there remains scandalous disparity between the rich and the poor. In 1992, the richest one-fifth of world population shared 82.7 per cent of the world income while the poorest one-fifth received 1.4 per cent.[7] At present there are five and a half billion people in the world, with four billion of them in developing countries. Stabilization of population is expected to be around 11 billion by 2100 and the greatest rates of increase is also expected to be from the poorer countries. As the gap between the rich and poor countries widen, globalization only exacerbates the disparities and underlines destabilizing forces which transcend national boundaries and pose a threat to the entire world. These are communicable diseases, drug trafficking, terrorism and other crimes and compulsive migration of population or labour force driven out by pressure of population and poverty from their own lands. The social disruptions inherent in these trends imply tremendous costs to the rich as well as to the poor. To tackle these problems, the population explosion has to be contained which implies better health and education to all in the

---

[6] 'The Most Important Chart in the World', by Kirk R. Smith, UN University lecturers, June 1993. Smith estimates that the per capita 'Natural Debt' of USA since 1950 from fossil fuel is about 160 tons, whereas India and Indonesia have 3 tons and Bangladesh only 0.5 tons per capita.

[7] UNDP (1992) *Human Development Report*, New York.

poorer countries with special emphasis on women who have remained deprived and neglected. This in fact means equity and human development. Human development has come into the centre of the international cooperation programmes in recent years. Herein lies the salvation of the poor countries like those in South Asia and sub-Saharan Africa in the future, which are not of particular strategic interest, especially after the end of the Cold War.

In conclusion it may be said that international development cooperation has been propelled largely by self-interest of nations and has not merely stemmed from benevolent motives. The future course it takes will also be guided by self-interest, albeit enlightened self-interest. For a large part of the last fifty years, some of the main perceptions which shaped development cooperation were hangovers of the colonial era and also bipolarization of global interests due to two major super-power rivalry. In the last decade there have been phenomenal changes. The guiding forces for development cooperation are accordingly different. The world is reshaping itself with new protagonists which may assume superpower status, such as China. Russia, too, after its integration into the market economy will once again come centre stage. International cooperation in the future is likely to assume hegemonistic lines with brisk interaction in the economic field due to globalization of markets and modern systems of communication.

In this scenario, the areas which are not of great strategic importance and not part of present regional cooperation agreements have a real danger of becoming marginalized. These are countries of South Asia and sub-Saharan Africa, which are also the poorest in terms of per capita income with a population explosion in South Asia adding to the problems. There is a degree of complacency in present literature and media while discussing world progress and glossing over the low performance of these regions. This poses a very real danger to the world community in the future. Abysmally low poverty levels and income disparities applying to a quarter of the world's population would cause severe social disruptions and pose environmental and migration-related problems which would affect everyone ultimately. International development cooperation needs to keep its focus on these traditional areas of hard-core development and poverty alleviation. As activities in the international cooperation field increase with new areas and new demands requiring to be addressed, there should be a concerted effort to tap new sources of funds so that new cooperation areas can be activated without sacrificing long-standing priorities.

1. Resource flows in development cooperation

Development cooperation is broadly understood to mean the amount of multilateral and bilateral aid given to the developing countries. It also includes less quantifiable forms of cooperation such as technical assistance, training programmes and scholarships as well as access to high technology or information systems. For instance, the large number of students from developing countries receiving subsidized higher education in the USA may be taken as an example of international cooperation, which in turn can be offset by the 'brain-drain' of technically qualified young people from developing countries to the USA. Such forms of international cooperation and interaction are difficult to quantify. Here international development cooperation will be assessed in terms of net resource transfers mainly in the form of financial flows to and from developing countries.

Development aid from the rich to the poor countries has now become a regular institutionalized exercise, periodically undertaken in various fora — multilateral, bilateral and non-governmental. By early sixties the need was felt to coordinate and integrate different features of development cooperation, such as bilateral aid, technical assistance programmes, aid programmes stemming from security considerations (basically to countries at the periphery of the Communist bloc), and aid through multilateral institutions. It has been estimated that since 1960, US$ 1.4 trillion (in 1988 dollars) has been spent on development aid from rich to poor nations.[8] The results, however, have been so uneven and lopsided that the whole business of aid for development has come in for severe criticism and soul searching in recent times. The main reason for this is that the net resources made available to the poorer nations is far less when account is taken of the entire balance of resource transfers.

The net resource transfer to developing countries has been so inadequate that far from diminishing the gap between the rich and the poor countries, there has been a shocking increase in disparities. In 1991, the richest one-fifth of the globe hogged 84.7 per cent of the world GNP and 84.2 per cent of the world trade while the poorest one-fifth accounted for 1.4 per cent of GNP and 0.9 per cent of world trade.[9] Even in the distribution of aid, the relatively better off countries receive far more per capita aid than the poorer ones: the ten countries which account for two-thirds of the world's poor receive only one-third of world development assistance.[10] The Human Development

---

[8] *The Economist* (1994) 'Empty Promises', May 7.

[9] UNDP (1994) *Human Development Report.*

[10] The ten developing countries with two thirds of the worlds' poor (855 million poor people) are Bangladesh, Brazil, China, Ethiopia, India, Indonesia, Nigeria, Pakistan, Philippines and Vietnam.

Report 1994 has highlighted other disturbing trends to which UNDP officials have invited attention of other international agencies. The main sources of concern are as follows:

- OECD's ODA declined 10 per cent from US$ 60.8 billion in 1992 to US$ 54.8 billion in 1993.
- Ratio of development assistance to GNP of donor countries fell from an average 0.33 per cent in 1992 to 0.29 per cent, the lowest figure since 1973.
- In 1962, the richest 20 per cent of the world's population had 30 times the income of the poorest 20 per cent. This gap has now doubled to 60 fold.

The cause for the decline in development assistance in recent years is accounted for partly by the increase in emergency aid and distress relief. In UN agencies, this item of expenditure rose from 25 per cent of total assistance in 1988 to about 45 per cent in 1992. The cost of UN military peace-keeping operations rose from less than US$ 300 million in 1988 to US$ 3.6 billion in 1993. The other large demand of international funds has been from eastern and central Europe which accounted for US$ 7.7 billion of OECD assistance in 1992 from practically no assistance before the end of the Cold War. The total official external financing to Russia for 1992 and 1993 was US$ 38 billion with another US$ 15 billion in commercial debt service deferral. The financing from IMF would have been US$ 12 billion more had Russia implemented more of IMF's conditionalities regarding micro-economic stabilization.

The need to address problems of emergency aid and peace-keeping must not detract from developmental assistance, because it is underdevelopment, poverty, environmental degradation and population pressures which are the underlying causes which trigger the emergencies and conflicts. Preventive action in alleviating and eliminating these root causes of social disruption would be more satisfactory and sensible than massive expenditure and efforts on peace-keeping and rehabilitation measures once conflicts have flared up. It is therefore vital that funds for emergency aid and peace-keeping are not taken out of funds meant for ODA which address poverty alleviation and the underlying causes for social malaise. Disaster relief aid has already risen from 2.5 per cent of total aid in 1989 to 7 per cent after five years. There should be distinct sources of funding for ODA and emergency operations and each should have a separate status. Official aid to transitional economies should similarly be recognized as finding distinct and separate from ODA as development assistance has historically assumed the character of aid to underdeveloped countries.

Development aid, though a very important resource flow for developing countries, is only one of the factors which determines how much international resources a country receives. It is necessary to assess other major inflows and outflows of resources to come to a conclusion regarding the net financial transfers to or from a country. Financial inflows consist of multilateral flows, bilateral flows and private flows. Actual resource transfers may be assessed by offsetting the inflows with the outflows from the country such as debt repayments and interest payments, payment of dividends from bonds and profits from investment. To get a complete picture, the balance of trade and payments, the foreign exchange reserve position and the terms of trade factor also have to be taken into consideration. Multilateral and bilateral flows may be non-concessional loans or concessional loans or grants qualifying as official development assistance (ODA).[11] Although ODA or ODF (official development finance) is the most important ingredient of development cooperation, it is necessary to consider the sum total of resource transfers to a developing country to assess how much it actually benefits as a result of international cooperation. Private financial flows, for instance, have become increasingly important lately. Private flows consist of foreign direct investment (FDI), portfolio investment, international bank lending, grants by non-governmental organizations and other private inflow such as remittances by non-residents. In addition, there are export credits. While private flows with proper economic management can stimulate growth in a country, these inflows cannot be compared with grants or concessional aid as they are motivated by profit.

2. A historical perspective of resource flow trends

In the earlier years after the Second World War, fifties and sixties, international flows to developing counties were mainly through bilateral sources. In the beginning capital resources mainly emanated from USA, and as Europe recovered from the post-war effects, it also started generating substantial savings for the developing world. Japan also became a major contributor, and developmental financing was mainly official bilateral financing. When the Development Assistance Committee of the OECD was first formed in 1961, official development financing accounted for nearly sixty per cent of total flows to developing countries and out of this only a small proportion was multilateral financing. Among non-concessional finance, export credits — mainly official — accounted for 14 per cent in 1961 and foreign direct investment came to 9 per cent.[12] As the sixties proceeded, multilateral official financing gained more importance and concessional loans to the poorer developing countries by the International Development Association (IDA) of the World Bank assumed special significance. This kind of resource-flow mix, with a large component of official net transfers was considered the logical and healthy way to transfer resources from the industrialized to the developing countries.

With the oil-crisis the scenario changed completely and dramatically and developing countries became net capital exporters. To start with the OPEC countries mopped up huge resource transfers not only from the industrial countries but also from the non-oil exporting developing countries. These resources, however, soon found their way into the industrialized countries due to the investment of petro-dollars there. Some developmental aid was generated by the OPEC countries but it did not compensate the non-petroleum exporting developing countries for their mounting oil import bills and consequent adverse balance of payments. It was logical that these countries should resort to borrowing to balance their deficit trade accounts, and getting commercial loans

[11] To qualify as ODA, aid must be administered with the promotion of economic development and welfare as the main objective and be concessional in character with a grant element of at least 25 per cent. To calculate the grant element, a 10 per cent discount rate is used.

[12] OECD Report (1985) *Twenty-Five Years of Development Cooperation.*

from the international banks, which were now flush with petro-dollars, was not difficult. Soon the OPEC countries themselves, with grandiose projects and profligate expenditures became receivers of bank loans themselves. A tremendous rise in international bank lending to developing countries followed.

The effects of the oil crisis began to be felt in a long-term manner in the industrialized countries too in the form of recession and low growth rates. This caused high interest rates and a 'world saving shortage'. During the eighties, the developing countries which had taken large private loans began to lose their credit-worthiness when they could not repay their loans and found debt-servicing difficult. As a consequence, the capital-importing developing countries were forced to undertake painful structural adjustments of their economies. This led to shrinking imports, devaluation of currencies and expanding exports, with loan repayments exceeding export incomes. During the eighties, the aggregate use of external resources of developing countries fell to an all time low level.

From 1983 to 1990, the oil-importing developing countries became net exporters of capital. Between 1983 to 1989, the net outflow of financial resources from capital importing developing countries amounted to US$ 98.5 billion. Although from 1990 the net transfers became positive, it has been estimated that the transfer of real resources was only barely positive when weightage is given to the deterioration in terms of trade of these countries.[13]

The debt crisis and its management was a prominent feature of international development flows in the 1980s. The IMF in particular became quite draconian in its prescriptions for structural adjustment in the countries which had messed up their foreign exchange balances and in spite of loans for structural adjustments, the IMF repayments in 1987 exceeded new credits by US$ 6 billion.

Another swing of the pendulum which took place in the world of net resource transfers, was the emergence of United States as a major importer of capital. The huge deficit of the United States offset the saving surpluses of Europe and Japan taken together. From 1983 to 1988, the US has absorbed well over a US$ 100 billion each year in net transfer of resources, the peak being in 1987 when it was US$ 157.5 billion. Although there was a downward trend of external resource absorption after this, from 1992, net resource transfer to US started increasing again and stood at US$ 84 billion in 1993.[14] Most other industrialized countries, particularly Japan, have made positive net transfers to developing countries during the debt crisis years of the 1980s, but in spite of this it is only since 1991 that the industrialized countries once again became net suppliers of funds to the rest of the world. A general view of the last twenty-five years show that during 1972 to 1982 the net flows to developing countries remained positive with an average level of US$ 22.7 billion, and from 1983 to 1992 they remained negative at an average of US$ -14.7 billion.[15]

---

[13] United Nations (1992) *General Assembly Paper* A/47/404, 14 September.

[14] United Nations (1994) *World Economic and Social Survey*, Table A 26.

[15] UNDP (1994) *Human Development Report.*

3. The situation in the nineties

The change to positive net transfers after 1992 reflects a number of changed circumstances. The highly indebted countries became credit-worthy once again after their outstanding debts had undergone various adjustment mechanisms such as writing-off of some debts, buy-back and other rescheduling arrangements. Consequently they began to have a positive net transfer of resources, due to a large flow of short-term borrowing and a return of flight capital. At the same time there has been a large rise in the share of private flows to the developing countries mainly in the form of stock market and equity investments which reflects a world-wide phenomenon of accelerated international transactions in equities, bonds and other securities. Other trends in the nineties with regard to resource flows to developing countries have been a decline in Official Development Funds, growing debt servicing burden of poorer countries, a continuation in adverse terms of trade for developing countries and an increase in trade flow restrictions. These are now examined below.

3.1 Rise in private flows

There has been a tremendous rise in the holdings by foreign investors globally, from US$ 2.4 billion in 1986 to US$ 186 billion in 1993, and since 1991, the emerging markets in the developing countries have accounted for a quarter of the new funds floated. The net foreign investment in developing countries in the last few years rose approximately as follows:

1989	-	US$ 3 billion
1992	-	US$ 20 billion
1993	-	US$ 52 billion.

While this in itself has increased the foreign exchange liquidity of the developing countries, short-term private funds from abroad and that too of a speculative nature is not devoid of risks for developing countries as such funds may be abruptly withdrawn. These funds also demand good macro-economic management in the receiving country's economy. In the short-term, large inflows of foreign funds give rise to inflationary conditions when the monetary base expands with the accumulation of hard currency. It also exerts upward pressure on the country's currency and the resultant revaluation may become detrimental to the country's exports. In the long run, it is imperative that the excess liquidity resulting from private foreign transfers is channelled into productive investments as otherwise the country would suffer when there is the repatriation of dividends and profits.

Private investment flows have been concentrated in a few countries with liberalized economies and attractive terms of investment. Between 1989-92, 72 per cent of these flows went just to ten countries, while Sub-Saharan Africa received only 6 per cent and the least developed countries only 2 per cent.[16]

[16] The ten countries in descending order are China, Mexico, Malaysia, Argentina, Thailand, Indonesia, Brazil, Nigeria, Venezuela and the Republic of Korea. *Human Development Report,* 1994.

3.2 *Decline in official development funds*

While there has been a surge in private flows which are commericial in nature, there has unfortunately not been an increase in the flow of official development funds which are concessional. ODF has in fact gone down, not only in proportion to total flows, but also in real terms. There has been a contraction of funds in the main international development agencies such as the UNDP, WHO, etc. This bodes ill for the poorer developing countries which rely preponderantly on ODF. This reduction in ODA is caused by diminishing contributions by the donor countries, reflecting on the one hand the near-stagnant GDP growth rates in these countries in the first half of the nineties and other economic problems within their domestic economies, and on the other hand, mounting disillusionment and concern amongst donors regarding the effectiveness of aid and aid utilization in many cases.

Table 1 gives a picture of total net resource flows to developing countries from 1984 to 1992. The flows have been disaggregated into Official Development Finance, export credits and private flows. ODF has declined from US$ 74.1 billion in 1984 to US$ 67.2 billion in 1992, and from 52.6 per cent of total flows in 1984 to only 42.2 per cent in 1992. Even ODA, the component of ODF going to the very poor countries, has declined after 1991 in real terms while as a proportion of total flows it came down to 34.8 per cent in 1992 from a level of 48.2 per cent in 1988. Export credits which were 8.3 per cent of flows in 1984 have ceased to be significant and were less than one per cent in 1992. It is private flows which have surged but the nature of this flow is different from the large long-term bank-transfers to developing countries at the time of the oil crisis. There is a large component of portfolio investment in the recent transfers and in the case of bank-transfers the majority of transfers are short-term. Table 1 also gives some idea about the negative transfers in the form of interests and dividends paid and asset transfers of LDCs. Until 1991 asset transfers were negative, and in 1991 interest and dividends paid out by LDCs amounted to more than US$ 78 billion.

Table 2 gives us an idea of net transfer of financial resources to developing countries on an expenditure basis — i.e., negative of balance of payments of goods, services and private transfers, excluding investment income. Net transfers to developing countries as a whole after being generally adverse improved from 1991 and reached a high level in 1993, standing at US$ 54 billion. The situation varies among different groups of developing countries but nearly all groups have positive transfers, except for the 'four tigers' — i.e. Hong Kong, Republic of Korea, Singapore and Taiwan. Africa's negative transfer has come down to US$ -0.26 billion from US$ -10.6 billion in 1990. Asia (excluding West Asia) had a positive net transfer of US$ 6.7 billion in 1993. It may, however, be noted that over a third of the positive transfers to developing countries was absorbed by the petroleum-exporting countries of West Asia and another one-third by the Latin American and Caribbean countries.

3.3 *Debt servicing burden of developing countries continues to grow*

The total external debt of the developing countries have continued to grow and stood at US$ 1601 billion in 1993.[17] Inspite of several debt-restructuring agreements, the debt servicing charges of developing countries is also going up. In 1992 they paid US$ 160 billion in debt servicing charges, more than two and a half times the ODA received by them during that year, and US$ 60 billion more than the total private flows to developing countries in that year.[18] The burden of debt servicing is now growing relatively heavier on the poorest countries. In Sub-Saharan Africa, in 1992 it accounted for 20 per cent of exports in 1992 compared to 11.5 per cent in 1980. In South Asia, total debt servicing accounted for 23 per cent of exports in 1992 compared to 11.9 per cent in 1980.[19] While there has been a distinct improvement in the debt-service ratio of all developing countries as a whole between 1987 and 1991, this is mainly because of the improvement in the relatively better off regions of East Asia and Latin America. The situation has deteriorated for the poorest regions of the world. South Asia and Sub-Saharan Africa. The issue has to be urgently addressed, not only in terms of realizing the terms of the Toronto and Trinidad Agreements, but measures have to be strengthened to actually write off substantial amount of debts of the poorest countries.

3.4 *Terms of trade effects in financial flows*

In Table 3, it may be seen that developing countries have been losing substantially due to their deteriorating terms of trade. While the oil-exporting countries have had wide fluctuations in their terms of trade, poor countries of South and East Asia have consistently had negative terms of trade. Negative terms of trade have to be offset against positive financial flows to arrive at real resource availability. In 1991, although the capital-importing developing countries received a net financial transfer of about US$ 32 billion, nearly half of this has been cancelled due to negative terms of trade.

The commodity terms of trade has fallen far more sharply. The World Bank index of Real Commodity Prices fell by over 40 per cent from the 1980 level. With 1980 as the base year the losses in commodity terms of trade for developing countries averaged US$ 25 billion a year from 1980 to 1991 ranging from around US$ 5 billion a year from the first half of eighties to US$ 35 billion from 1986-88 and to around US$ 55 billion from 1989 to 1992.[20]

3.5 *Trade flow restrictions*

Developing countries have been also losing substantially due to various trade barriers against their exports. These trade flow restrictions, in the form of quotas and non-tariff barriers, raised specifically against developing-country products constitute a

---

[17] United Nations (1994) *World Economic and Social Survey*, Table A. 35.

[18] UNDP (1994) *Human Development Report.*

[19] The World Bank (1994) *World Development Report,* Table 23.

[20] Maizels, Alfred (1994) 'The International Primary Commodity Markets: Key Policy Issues for Developing Countries', *UNCTAD Bulletin* No. 25, March-April.

loss for the developing countries which substantially cancel the net gains from aid flows. The most common barriers affecting developing-country exports are:

- 'Cascading tariffs' where higher tariffs apply to developing country products the greater the processing or value-added in a product, the raw material often being imported duty-free. This negates the very basis of comparative advantage in international trade and attempts to perpetuate the colonial system of production;

- Quotas restricting entry of products specifying in minute detail the number, category and degree of processing of a product. These are applicable to textile and garments and leather goods — the chief components in developing countries exports of manufactures;

- Insistence on high labour standards and environment standards. This is all set out to be the prime barrier in future trade restrictions. Insisting on high standards in these areas in countries having overall subsistence standards of living is a formidable barrier to trade. Significantly the barriers apply to manufactured exports which compete successfully with industrialized-country products, and not with, say labour standards in plantations or mines where primary raw materials are produced;

- Domestic subsidies to agricultural products in industrial countries where developing countries have a comparative advantage and sometimes dumping these artificially cheap agricultural goods in developing countries.

In 1992 it has been estimated that the trade barriers on textiles and clothing alone amounted to a loss of US$ 50 billion for developing countries, when ODA for that year came to US$ 55.3 billion.[21] It has been suggested that in cases where industrial countries find it imperative to levy tariffs and barriers on competing developing-country goods to protect their own industries, or other political constraints, they should compensate the developing countries for the resultant losses. This would impart a measure of dignity to justifiable resource-flows into the developing countries which is lacking when the flows arrive in the form of aid with the undercurrent of charity and the overtones of conditionalities. The recently concluded Uruguay Rounds of multilateral trade negotiations will also benefit the industrialized countries far more than the developing countries. It has been calculated that by the year 2002, the world as a whole will gain around US$ 275 billion by these trade liberalizations but more than two-thirds of the gain will accrue to OECD countries. In the interest of equity and to lessen world tensions and imbalances, unrestricted trade flows or compensations on barriers to developing countries in exports would greatly improve the net resource flows into the poorer countries and in a more justifiable manner than increase in aid and grants.

---

[21] UNDP (1994) *Human Development Report.*

4. The place of official development assistance in resource flows

Official Development Finance, and ODA, the mainstay of poor countries has been diminishing in real terms and also as a percentage of net flows to developing countries. This has been brought out by Table 1. ODA from non-OECD countries, which accounted for one-third of total ODA in 1980 fell to only an estimated 2.5 per cent only in 1992. This was because of the Gulf War which dried up Arab aid to developing countries and also the collapse of the USSR and the CMEA bloc. Table 4 gives an idea of this fall in ODA availability.

As far as the DAC countries are concerned which now account for most of total ODA contributions, although their ODA contribution rose from US$ 43.4 billion in 1981-82 to US$ 56.8 billion in 1991-92, their contribution as a percentage of their GNP did not go up. Although the accepted target for ODA contribution for these countries is 0.7 per cent of the country's GNP, the average ODA as percentage of GNP for total DAC countries was 0.34 in 1981-82 and 0.29 in 1992-93. The contribution of USA which accounts for 19.3 per cent of total ODA was 0.23 per cent of GNP in 1981-82 and 0.20 per cent in 1991-92. This downward trend on the part of the single largest contributor of ODA is even more serious when compared to a decade earlier when ODA contribution of USA was 0.6 per cent of its GNP. This is partly due to the shifting strategic concerns of the USA and also a reassessment regarding effectiveness of aid. Japan, on the other hand, which is the second largest contributor of ODA (18.1 per cent of total in 1991-92) has made a substantial increase in its ODA as percentage of GNP, from 0.28 per cent in 1981-82 to 0.31 in 1991-92. The Nordic countries as a group are the only members of the DAC whose ODA contributions as a percentage of GNP has remained higher than the 0.7 per cent target. It was 0.77 per cent of GNP in 1981-82 and went up to 0.95 per cent in 1991-92.[22]

As the total amount of aid availability is limited and there are now other urgent claimants for aid such as peace-keeping, humanitarian assistance and refugee rehabilitation and official aid given to the economies in transition, it becomes imperative for the richer countries to reconsider their total ODA contributions and at least meet the 0.7 per cent level on which they have agreed. In 1991-92, US$ 15.9 billion in official aid has gone to the Central and East European countries and in January 1, 1993, five Central Asian republics belonging to the Commonwealth of Independent States have been included in the DAC's list of countries eligible for aid. It has been estimated that an additional US$ 640 million would be required simply to accommodate these countries at comparable levels of aid given to countries of similar per capita income.[23] Traditional recipients of ODA, like South Asia which received 25 per cent of net ODA disbursement in 1980, saw their share falling to 11 per cent in 1990.

Net flows of ODA to developing countries can only increase when there is a substantial increase in ODA contribution by the rich countries. The justification of not increasing percentage of ODA contribution because there was recession in the

---

[22] OECD (1993) *Development Cooperation*, Table V-2.

[23] OECD (1993) *Development Cooperation.*

industrialized countries in the last decade and slow growth is not convincing when we consider the high level of GDPs of the OECD countries (around US$ 17,000 average per capita income) compared to less than US$ 500 in countries which are the main recipients of ODA. In fact, it has been calculated that if there was a total stoppage of foreign aid, the industrial countries would be able to increase the budget on their domestic social safety nets from 15 per cent of GNP to only 15.3 per cent of GNP.[24] On the other hand, an average additional contribution of 0.3 per cent of GNP on aid contribution would double the quantity of ODA available today, while still remaining below the 0.7 per cent target.

5. International multilateral institutions

The resource commitments of multilateral development institutions have fallen sharply after 1991. This may be seen from Table 5, which gives the position regarding the international multilateral financial institutions and the operational agencies of the UN system.

Among the World Bank Group of financial institutions, the commitments of both IBRD and IDA have gone down after 1991 when they reached a peak. The International Development Association or the concessional window of the World Bank where net outflow had increased 1.8 per cent annually in the 1980s lowered its commitments by 15 per cent in 1993, which was 25 per cent lower than the peak achieved in 1991. Only the IFC's commitment has gone up, but this institution lends or invests in the private sector. The IMF has also diminished flows for the economic adjustment programmes to the developing countries. The structural adjustment facility (SAF) and the enhanced structural adjustment facility (ESAF) of the IMF make loans to IDA-eligible countries for long-term balance of payment problems at concessional rates of interest. IMF also has been lending to eligible countries under enhanced access policy (EAP) in which there is no subsidized interest rates. From 1986 to 1993, with the exception of 1991, developing countries repayments to the IMF have exceeded loans disbursed by it. Table 6 gives the position. The IMF has diminished flows even to the very low income countries drawing concessional loans even though it still disburses on a net basis to them. In 1992 it had 17 adjustment programmes committing US$ 17 billion, but in 1993 there were only 13 programmes committing US$ 3 billion.

As far as the United Nations operational institutions are concerned, concessional lending has been going down and this trend is likely to continue. Concessional flows accounted for half the total of multilateral development programmes in 1970 but this has fallen to less than one-third by 1993. One reason for the drop in concessional loans is that some amount of assessment is taking place amongst all donor organizations and criteria are being formulated to bring about a qualitative improvement in the use of funds so as to enhance their effectiveness and also take into consideration the impact on environment and overall sociological aspects. The other reason, which is of graver consequence to poor countries which are traditional recipients of concessional finance,

---

[24] UNDP (1994) *Human Development Report.*

is the fact that there are now competing claimants on funds in the shape of transitional economies and emergency operations such as UN peace-keeping or refugee resettlement. The increase in the cost of UN military peace-keeping operations from US$ 300 million in 1988 to over US$ 3.6 billion in 1993 and the increase in OECD assistance to nations of Eastern and Central Europe from zero before the end of the cold war to US$ 7.5 billion in 1992, has contributed to the slowing down in the growth of ODA and the diminishing flow of concessional assistance.

Within the figures of commitments of multilateral institutions are now included commitments to the new transitional economies, and so the share of traditional recipients of developmental aid has fallen still further. UNDP saw a 15 per cent drop in voluntary contributions in 1993 which forced it to hold its commitments at 70 per cent level of that which was originally planned. The real disbursement of UNDP fell by 1.1 per cent a year between 1981-82 to 1991-92 while the disbursement of UNHCR rose by 2.6 per cent,[25] showing clearly that emergency relief has been biting into the portion meant for development aid. The traditional recepients of developmental aid have also suffered by diminishing resource commitments of UN Population Fund, UN Children´s Fund and World Food Programme institutions which focus on poverty relief and improvement in the social sector. In 1993, contributions to Unicef fell by 22 per cent, the overall income of UN Population Fund fell by 8 per cent and the World Food Programme achieved only half of its targets of contributions.[26] The activities of the WFP have been going up recently, but now three-fifths are going for short-term emergency relief rather than long-term development.[27]

There is quite a different set of incentives for the rich countries for aiding emergencies and peace-keeping operations. Some of them are immediate leverage at home and abroad due to wide publicity. In addition, the deployment of military equipment and employment of personnel, are both beneficial to the donor country's industry and labour markets. There is also political indebtedness of the crisis ridden country towards its benefactors. Aiding transitional economies makes eminent economic sense as establishing a presence in these countries which are far better off than third world countries would reap commercial and investment benefits as soon as these countries recover from their transition problems. These incentives are more attractive than development aid to poor countries, particularly through multilateral organizations as they address the much less spectacular business of development and poverty alleviation where results are slow and there is no significant dividend in terms of gratitude.

The World Community has recognized that sustainable human development is a necessary goal for the survival of the 'global village' in the future. If the goal is to be achieved, resource flows through international development institutions addressing the basic needs of nutrition, education and health in poor countries should be maintained on an uninterrupted long-term basis. The international policy makers need to ensure that

[25] OECD (1993) *Development Cooperation.*

[26] United Nations (1994) *World Economic and Social Survey.*

[27] United Nations General Assembly (1994) *Report of Secretary General* A/48/935, 4th May.

emergent demands rising out of conflicts and disasters or changes in global political systems are met out of separate funds.

6. Future increase of resource flows on a sustainable basis to developing countries

After more than a decade of negative flows to developing countries, resource flows have turned marginally positive in recent years. Although the net flows has turned positive, this is largely due to increase in private flows. Private flows are attracted to emerging market economies and are motivated by profit, and whether they benefit the country where investment is being made depends on good macro-economic management and the country's ability to use these funds successfully as a catalyst to further economic growth. Private flows are in any case not attracted to the poorest of the LDCS. They are by no means a suitable substitute for ODF and activities of international development institutions. The LDC's need resources on a reliable long-term basis to enable them to achieve development on a sustainable basis so as to become integrated members of the global community in the near future.

Resource flows to developing countries may be increased by improvements in the system already operating, and by generating new ways of funding and resource transfers.

6.1 Improvements in the existing system

6.1.1 Increase in ODF

The global distribution of income has become less equitable through the years, but this is underplayed by the media and the information systems of the global establishment. The impression given is that the developing countries as a whole have been growing at a faster pace during the last decade while the industrialized countries are on a slower growth-path with massive internal problems. This creates public opinion in the democratic countries of the capitalist world that there should now be a contraction of developmental aid. A random look at any annual report of global financial institutions shows that it begins by giving the growth rates of GDP's of different country groups and at least for the last decade we are told that developed market economies have been facing severe economic slowdown, deepening recession etc. and recently they are experiencing slow recovery. It is emphasized that the industrial countries real GDP growth rate has been around two per cent in the early nineties while the developing countries have been doing much better, around five per cent GDP growth during the same period. The projected growth rates for the next decade is similar. The signals derived from this kind of emphasis in reporting is that it is important that industrialized countries should use their resources to improve their own lot rather than divert this to developing countries which are now growing at a higher rate than the industrialized world. But what is the basis on which the growth rates are calculated? Gross domestic product per capita in 1990 averaged US$ 12,490 in developed market economies and US$ 980 in developing countries, and income per capita in an average developing country was 7.8 per cent of income per capita in an average rich country, having fallen from 10 per cent in 1960. These figures are in fact rosy, because they include the rich oil exporting countries among the developing countries. The average income of the 42 least developed countries in 1990 came to only US$ 241 per capita per annum, or only one-fiftieth of the level of the average rich country.[28] It is therefore important that public opinion in developed market economies is given the right picture and priorities for sustained and equitable development in the future in the face of global interdependence.

The goal of 0.7 per cent of GNP for development aid agreed by industrial countries should be reached on a priority basis. At present only Netherlands and the Nordic countries (wih the exception of Finland)[29] are meeting the target. Japan has made a new medium term aid target in 1993 by which aid is expected to increase by 50 per cent or nearly US$ 5 billion on an average. Italy and France have also increased their ODA contributions as a percentage of GNP during the last decade, but the contribution of other countries such as UK and USA as a percentage of GNP have gone down. The annual average growth rate of ODA from DAC members has been falling over the decades, being 4.1 per cent in the 1970s, 2.7 per cent in the 1980s and 2 per cent in the early nineties.[30] If DAC members increase their ODA contribution to the agreed upon 0.7 per cent level of GNP, the total flow of ODA to developing countries will double and go on increasing with the growth in the industrialized world.

There is thus a considerable scope in increase of ODA from traditional sources. In various fora, this kind of increase has been agreed upon. The Agenda 21 agreed upon meeting the additional finances needed for sustainable development through traditional sources, and the 20-20 programme of the UNDP also urges on greater contribution by traditional sources in proportion to the increased economic performance of the developing countries themselves. These targets are, however, not being met nor is there a serious effort to achieve these goals.

6.1.2 Channelling of current account surpluses in industrialized countries into developing countries

The UNU/WIDER Study Group Series[31] had already suggested in 1987 a plan for mobilizing the Japanese surplus and other international surpluses in the balance of payments for development. In the years that have followed the share of Japanese ODA as well as investments to developing countries have in fact been going up. However, there is continuous pressure on Japan to increase domestic consumption and imports so as to draw down its balance of payment surplus with USA and other industrialized countries. Countries with a savings surplus should be encouraged to channel these into

[28] *A World of Difference: A New Framework for Development Cooperation in the 1990s.* Ministry of Foreign Affairs, The Hague 1991.

[29] Finland's ODA share of GNP collapsed from 0.8 per cent in 1991 to 0.38 per cent in 1994.

[30] OECD (1993) *Development Cooperation.*

[31] UNU/WIDER Study Group Series, No. 1 (1986) *The Potential of Japanese Surplus for World Economic Development* and UNU/WIDER Study Group Series No. 2 (1987) *Mobilizing International Surpluses for World Development.*

resource transfers to developing countries rather than being pushed to increase their own consumption. There is a suggestion to institutionalize the cycling of these surplus funds to capital deficit developing countries through an international investment trust.[32]

6.1.3 Freeing restrictions on developing country exports

As soon as developing countries organize themselves by offering effective competition in areas where their comparative advantage in exports is strongest, barriers come up against their products. Developing countries have resorted to more efficient means of production and cutting down profits but are helpless in the face of quotas, voluntary export restraints and new barriers such as environmental and labour standards which cannot be met within the short term without expensive restructuring of the means of production. Cutting down of barriers to developing countries' trade would allow them to earn foreign exchange and cut down aid requirements.

6.1.4 Improvement in terms of trade for developing country exports

There are many suggestions in this regard in UNCTAD and other fora. The prices of developing country exports, particularly primary commodities and manufacturers must not only improve so that their unit value is restored vis a vis industrial country exports, but they should go up in line with the foreseeable increase in the price of industrial country's agricultural and food exports consequent to the latest GATT agreement which would diminish agricultural subsidies. The attitude of confrontation between North and South should be dropped in an effort to obtain more equitable terms of trade for commodities and products belonging typically to developing countries.

6.2 New ways to raise funds

Many new sources of funding have been suggested for improving human development in the poorer countries and making resources available to them. The World Social Summit in 1995 will no doubt see that some of these proposals do materialize into generating funds for poor countries where these funds are most needed. In the past, there has been criticism that development aid is basically a transfer of resources from the poor people in the rich countries to rich people in the poor countries. Future funding should ensure that the burden of funding falls upon those sectors which are capable of sparing funds or sectors which owe some obligation for contributing a part of their wealth or profits to more deprived sections. Some possibilities are touched upon below:

6.2.1 Tax or levy on international stock exchange transactions

It has been estimated that more than US$ 1 trillion is being transacted daily through international bank transfers and stock exchanges. Even a minuscule percentage of each transaction as cess or levy would generate more funds in a month than all ODA

---

[32] Streeten, Paul (1993) 'Principles of International Cooperation', *Development and International Co-operation,* Vol. IX, No. 17, Dec.

generated in a year. With the modern computerized international capital market today it should not be too difficult to calculate and administer the funds generated. James Tobin has proposed a tax on international currency transactions at the rate of 0.5 per cent on foreign exchange transactions which would yield a revenue of over US$ 1.5 trillion a year.[33] A global stock exchange bureau could be set up for administering the taxation process and its distribution. This institution could also provide global information and guidelines for stock exchange transactions.

6.2.2 Compensations to developing countries for trade restrictions

There are areas where the industrialized countries have restricted exports of commodities or services because of economic or social pressures in their own countries or their desire to continue production of some items, even though uneconomical for strategic reasons. In such cases there should be compensatory funding by the trade restricting countries to the affected developing countries. This process can be worked out under the auspices of the World Trade Organization.

6.2.3 Compensations/incentives to developing countries for environmental protection

It has already been worked out that it is the environmental pollution generated by the rich countries over the last two hundred years which has caused the severe environmental hazards being faced by planet earth today, such as depletion of the ozone layer, global warming and other danger to flora and fauna.[34] The poor countries are now asked not to take the same route to rapid development but ensure environmentally friendly methods, which are generally far more expensive. It has therefore been suggested that the developing countries should be fully compensated for the extra expenditure involved and also for the loss of the well-being in the common biosphere caused by earlier methods of environmental degradation by industrialized countries.

6.2.4 Tax on global exports of arms and ammunitions

One of the major causes for the translation of global tensions into armed conflicts is the huge supply of arms and ammunitions available to any group and the vast quantity of arms and ammunitions which cross national boundaries. Powerful arms lobbies in the industrialized countries which wield enormous clout within political systems are responsible for the unabated production, supply and proliferation of lethal weapons. There should be a tax on international export or movement of arms and ammunitions and the onus of payment should be on those who profit from the production and sale of weapons. The fund thus created could be used for international peace-keeping, releasing funds now being used for this purpose for developmental aid, as funds for the latter are now often being diverted towards peace-keeping and rehabilitation.

---

[33] Tobin, James winner of the 1981 Nobel Prize for Economics in *Human Development Report,* (1994) UNDP.

[34] Smith, Kirk R. (1993) See notes at 6 ante.

6.2.5 Recycling the 'peace dividend'

Between 1987 and 1994 global military spending declined on an average at 3.6 per cent a year and there is already a cumulative peace dividend of US$ 935 billion due to this reduced expenditure on arms. Countries have been utilizing this amount for reducing budgetary deficits and other economic adjustment measures. It has been suggested that for the next ten years military spending should be reduced at the rate of 3 per cent a year with a definite linkage between reduced military spending and increased social spending. A global human security fund could be set up.[35] This fund which would have as its objective reordering society towards a more peaceful existence would also result in transfer of resources from the rich to the poor countries as the emphasis would be on human development.

6.2.6 Sustainable development compacts

Sustainable development compacts could be entered into between the industrialized and poor countries whereby developing countries would undertake to implement sustainable development programmes which combine environmental protection with socially necessary growth.[36] The rich countries as a quid pro quo would undertake to provide foreign savings support to them. This idea was spelt out by Norwegian Foreign Minister Thorvald Stoltenberg in OECD in 1989, where a framework for economic reform was suggested which would replace the economic rigours of structural adjustment programme of the eighties by a system of reciprocal agreements or development contracts between the rich and poor countries.[37] The resources for the foreign savings support would come from writing down of debts of developing countries against commitments of debtor countries to implement agreed forms of sustainable development, or from utilization of the vast debt servicing charges accruing to the debtor countries.

7. Conclusion

Development Aid is only one form of resource transfer from rich to poor countries. An analysis of total financial flows between industrialized and developed countries show that net transfer of resources have in fact been negative for the poorer countries between 1983 to 1992. They have become positive after that mainly due to the tremendous rise in foreign investment in developing countries. If, however, account is taken about the loss incurred by the developing countries in the form of negative terms of trade, and restrictions of developing country exports, the developing countries are still losing in the balance of resource transfers and in this analysis the loss is greater for

---

[35] UNDP (1994) *Human Development Report,* Nobel Peace Prize Winner, Oscar Arias suggest a 'Global Demilitarization Fund'.

[36] Jayawardena, Lal (1993) *The Potentials of Development Contracts and Conditionality*, UNU/WIDER Research for Action Series.

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

poorer developing countries. The burden of debt servicing is also now becoming relatively heavier for the poorer countries.

The importance of Official Development Assistance and activities of international development organizations remains of utmost importance to developing countries, particularly the poorest countries dependent on concessional aid. Unfortunately, here also the picture remains bleak for the poorer countries. The contribution of industrialized countries have remained at less than half the agreed target of 0.7 per cent of their GNP and now there are new claimants for these funds in the form of peace-keeping, refugee relief and other emerging concerns such as the environment, and in the face of inelastic supply of aid funds, the traditional recipients of aid in the poorest countries suffer. Even the resource commitments of multilateral financial institutions and the operational agencies of the UN system are going down. There is a strong case for separating funds for development from funds for emergencies, peace-keeping and aiding transitional economies. For sustainable and integrated global development in the future there has to be an increase in the continuous and reliable flow of resources to the developing countries. For this purpose efforts should be made to increase the supply of resources from traditional sources and also explore non-traditional areas for generating funds.

SELECTED READINGS

Avramovic, Dragoslav (1989) *Conditionality: Facts, Theory and Policy*, Research for Action Series, UNU/WIDER, Helsinki.

Bossyut, J., Laporte G. and Brigaldino G. (1993) *European Development Policy after the Treaty of Maastricht*, Occasional Paper, European Centre for Development Policy, The Hague.

Colas, Bernard (ed.) (1994) *Global Economic Cooperation: a Guide to Agreements and Organizations,* UNU Press, Deventer, Kluwer, Tokyo.

Feinberg, Richard E. and Avakov, Ratchik M. et al. (1991) *From Confrontation to Cooperation? U.S. and Soviet Aid to Developing Countries,* US Third World Perspectives No. 15, Overseas Development Council, Washington, D.C.

George, Susan (1990) *A Fate Worse than Debt, The World Financial Crisis and the Poor*, Grove Wiedenfeld, New York.

Helleiner, G.K. (ed) (1990) *The New Global Economy and the Developing Countries, Essays in International Economics and Development*, Edward Elgar Publishing Limited, England/USA.

Kaul, Inge and Menon, Saraswathi (1993) *Human Development: from Concept to Action,* Human Development Report Office Occasional Paper No. 7, New York.

Larsson, Karl-Anders (1994) *Structural Adjustment. Aid and Development*, SIDA (Swedish International Development Authority), Sweden.

Lele, Uma and Nabi, Ijaz (ed.) (1991) *Transitions in Development: The Role of Aid and Commercial Flows,* International Centre for Economic Growth, USA.

Ministry of Foreign Affairs, The Netherlands (1991) *A World of Difference: A New Framework of Development Co-operation in the 1990's*, The Hague.

ECD Development Assistance Committee (1992) *Guideline for aid agencies on global environmental problems,* Series: Guidelines on Environment and Aid, No. 4, Paris.

Riddell, Roger C. (1987) *Foreign Aid Reconsidered*, The John Hopkins University Press, Baltimore, and James Currey London, in association with Overseas Development Institute, London.

Sengupta, Arjun (1993) *Aid and Development Policy in the 1990s,* Research for Action Series, UNU/WIDER, Helsinki.

SIDA (Swedish International Development Authority) (1994) *State, Market and Aid: Redefined Roles,* Sweden.

LIST OF TABLES

TABLE 1

TOTAL NET RESOURCE FLOWS TO DEVELOPING COUNTRIES
(In constant 1991 prices and exchange rates)

	$ billion					Percentage of total		
	1984	1988	1990	1991	1992	1984	1988	1992
I Official Development Finance (ODF)	74.1	70.0	71.9	69.7	67.2	52.6	62.3	42.2
of which, Official Development Assistance (ODA)	52.8	54.2	54.4	57.5	55.3	37.5	48.2	34.8
II Total export credits	11.6	-2.9	4.6	2.1	1.4	8.3	-2.5	0.9
III Private flows	55.1	45.2	58.9	59.2	90.5	39.1	40.2	56.9
of which								
Direct investment	19.7	25.0	28.1	23.4	23.7	14.0	22.2	14.9
International bank lending	30.3	8.9	15.5	11.0	37.7	21.5	7.9	23.7
Total bond lending	0.0	1.7	4.7	13.0	13.4	0.0	1.5	8.4
Total net resource flows (I + II + III)	140.8	112.4	135.3	131.0	159.1	100.0	100.0	100.0
Total net credits by IMF	9.3	-5.0	-2.3	1.0	-0.2			
Acquisition of assets by LDC's net	-35.2	-25.7	-26.4	27.5	- -			
Interest and dividends paid by LDCs gross	-157.5	-104.7	-92.3	-78.5	- -			

Source: OECD, Development Cooperation, 1993 Report, Table IV.1.

TABLE 2

NET TRANSFER OF FINANCIAL RESOURCES TO GROUPS OF DEVELOPING COUNTRIES, 1983-1993 (a
(Billions of dollars)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 (b
Africa	3.2	-7.3	1.9	-3.2	3.7	0.8	-10.6	-6.9	-4.5	-0.2
of which:										
Sub-Saharan Africa (c	2.4	2.8	5.5	5.5	7.1	5.6	7.2	7.8	9.8	8.6
Latin America and the Caribbean	-34.9	-30.2	-11.8	-17.9	-21.4	-28.5	-25.8	-7.2	12.2	18.9
West Asia	13.5	20.2	26.9	18.3	19.2	10.1	-2.0	41.9	32.2	21.0
Other Asia	-4.1	4.1	-11.6	-30.1	-17.2	-10.1	-3.0	-2.6	-1.4	6.7
of which:										
China	-0.4	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.0	-5.8	9.7
Four exporters of manufactures (d	-9.1	-12.1	-23.1	-30.3	-25.4	-21.1	-10.4	-5.3	-5.4	-9.1
All developing countries	-23.0	-15.0	5.2	-33.7	-20.3	-27.7	-31.3	32.9	43.7	54.0

Source: World Economic and Social Survey, 1994, Table IV.4.

Note: (a Expenditure basis (negative of balance of payments on goods, services and private transfers, excluding investment income).

(b *Preliminary estimate.*

(c Excluding Nigeria and South Africa.

(d Hong Kong, Republic of Korea, Singapore and Taiwan Province of China.

TABLE 3

TERMS OF TRADE LOSS OR GAIN OF DEVELOPING COUNTRIES
(Annual percentage change in dollar-based indices)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993 (a	1994 (b
Developing countries:	0.7	-2.0	-21.8	1.6	2.3	0.6	-1.5	-1.6	-0.8	-0.7	1.1
Latin America	-0.2	-1.7	-15.7	-2.4	1.9	1.0	-0.1	-4.8	-1.2	-2.1	1.6
Africa	2.9	-2.3	-40.9	-1.8	-7.0	7.9	1.8	-7.9	-3.4	-3.5	2.5
West Asia	0.3	-1.3	-50.0	12.2	-14.3	12.5	10.7	-11.7	-1.6	-7.8	1.7
South and East Asia	0.8	-1.1	-11.1	-1.0	2.5	-0.4	-2.9	-0.8	-1.0	-0.6	0.0
China	-1.6	-0.9	-11.2	3.5	1.8	1.2	-1.5	-1.4	-1.1	-1.3	-0.1
Mediterranean	1.3	-1.1	-2.1	-4.4	8.8	-0.7	-10.2	2.0	-0.8	1.4	1.1
Memo items											
Net energy exporters	0.4	-1.2	-43.7	6.7	-9.3	9.2	11	-9.6	-1.7	-3.4	1.7
Net energy importers	1.3	-2.1	-8.5	-2.4	4.0	-0.5	-4.2	-0.6	-1.4	0.2	0.1

Source: World Economic and Social Survey, 1994, Table A.20.
Note: (a Preliminary estimates.
(b Forecast.

TABLE 4

ODA FROM NON-OECD DONORS
(Net disbursements in millions of US dollars)

	1980	1985	1989	1990	1991	1992
Central and Eastern Europe	2,827	3,610	3,386	2,178	(1,100)	- -
of which: ex-USSR [a]	2,313	3,065	2,960	2,000	(1,100)	- -
Arab countries	9,539	3,609	1,590	5,955	2,665	1,054
of which: Saudi Arabia	5,682	2,630	1,170	3,652	1,704	783
Kuwait	1,140	771	170	1,295	387	202
UAE	1,118	122 [b]	2 [b]	888	558	35 [b]
Other LDC donors	708	440	491	428	451	(400)
of which: China [a]	334	167	169	141	120	- -
India [a]	126	144	109	110	81	- -
Korea	25	44	51	77	71	110
Taiwan	- -	- -	21	27	125	107
Venezuela	135	32	49	41	9	- -
Total	13,074	7,659	5,464	8,561	4,215	- -
Per cent of total ODA	33.3	21.0	10.7	13.6	6.7	(2.5)

Source: OECD, Development Cooperation, 1993, Table V-6.
Note: [a] Calculated by OECD Secretariat.
[b] Incomplete data.

TABLE 5

RESOURCE COMMITMENTS OF MULTILATERAL INSTITUTIONS
(In millions of US dollars)

	1983	1989	1990	1991	1992	1993
Financial institutions	22,036	32,410	34,776	39,793	38,700	37,605
World Bank group	15,786	22,765	23,043	25,381	23,844	23,016
IBRD	11,721	16,251	15,176	17,021	15,551	15,098
IDA	3,112	4,924	6,300	7,160	6,310	5,345
IFC	953	1,590	1,567	1,200	1,983	2,573
Operational agencies of the UN System	1,722	2,708	2,823	3,653	3,616	3,177
UNDP	527	1,063	1,111	1,159	960	834
UN Population Fund	117	194	211	212	164	206
UN Children's Fund	182	498	545	947	917	655
World Food Programme	896	953	956	1,335	1,575	1,482
Total commitments	23,758	35,118	37,589	43,446	42,316	40,782
Commitments in units of 1980 purchasing power	26,694	28,551	27,639	32,182	30,443	29,768

Source: World Economic and Social Survey, 1994 Table A.33.

TABLE 6

NET IMF LENDING TO DEVELOPING COUNTRIES
(in billions of US dollars)

	1983	1987	1990	1991	1992	1993
Regular facilities	8.3	-3.9	-1.6	-1.2	-0.1	-0.3
Concessional facilities	-0.1	-0.2	0.2	1.1	0.8	0.2
Additional facilities	2.3	-1.1	-0.8	1.2	-0.9	-0.2
Total	10.6	-5.2	-2.3	1.0	-0.2	-0.4

Source: World Economic and Social Survey - 1994, Table A.29.

UNU World Institute for
Development Economics Research
(UNU/WIDER)
Katajanokanlaituri 6 B
00160 Helsinki, Finland

Telephone (358) 0-693841
Telex 123455 unuei fi
Facsimile (358) 0-6938548