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"Assessing Aid"and Global Governance Why poverty and redistribution objectives matter

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Abstract

Development aid cannot be allocated purely on criteria of selectivity (selecting recipient countries with good economic policy indicators). Indicators of good economic development are not robust and correlation of these indicators with poverty alleviation is not automatic; more emphasis needs to be given to redistribution policies. Development aid as a percentage of total flows is declining and is too small and inefficient to provide sufficient buffers to recurring international crises. A system of global economic, social and political governance is discussed in which development aid is part of wider global redistributive mechanisms to foster social progress and development in the 21st century.

Preface

This working paper by Rolph van der Hoeven, which is a revised version of a presentation given last year at the University of Groningen, discusses the issue of development in the context of global governance. The paper is a reaction to nowadays often heard argument that development aid should be allocated purely on criteria of selectivity (selecting recipient countries with good economic policy indicators). It argues that selected indicators of economic performance and policy making (such as public deficit/GDP ratio or export/GDP ratio) are not always robust and a correlation of these indicators with successful poverty alleviation is not automatic. The paper elaborates the need for more emphasis to be given to poverty and redistribution policies and to make poverty alleviation a central plank of aid policies.

The paper also demonstrates that development aid as a percentage of total foreign flows is declining and is too small and inefficient to provide sufficient buffers to recurring international crises. The paper argues therefore that development aid is neither any longer the driving force behind development, nor can it function as a substantial element of a stable international macroeconomic framework under present conditions of aid provision.

A system of global economic, social and political governance is suggested in which development aid is part of wider global redistributive mechanisms to foster social progress and development in the 21st Century. Arguments are made from a rights-based approach to development in which development aid in a new form of a system of international social transfers could play an important role.

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1. Introduction

"Assessing Aid" is a pathbreaking report undertaken by a group of enthusiastic scholars at the World Bank. The report (World Bank 1998) is done in an objective and conscious manner. It raises a number of important issues of the continuous development debate. The main conclusion is that aid works when governments undertake the right type of economic management but that aid does not work when governments do not undertake the right type of economic management. The report also argues that conditionality does not work and that aid will always be fungible, whatever conditions are put to it.

The message that aid works in countries with good economic management is of course a very powerful message and has, because of the simplicity, also a direct appeal to aid advocates who have been so often battered in the past by pessimistic reports on the effects of development aid. However, a major question which remains after reading the report, is whether the message of the report provides sufficient guidance for policy action by donors. Two other equally important questions are: 1) if the policy advice of the report is implemented, what are the consequences for the developing countries, and 2) are the recommendations on aid policy part of an improved agenda for international development policies in the 21st century? This article argues that despite the clear message of the report, the aid policy implications of the report still need discussion. It argues also that the new millennium calls for new and bold rethinking of all policies at the international level and that aid policies need to form part of the broader discussion on global governance. Discussing aid policies without taking in consideration the global governance issues is like discussing the effectiveness of a specific group of fire fighters when forest fires crop up everywhere.

2. How obvious are policy implications of "Assessing Aid"?

For many readers, the policy implications of the Assessing Aid report are obvious. And the presentation in the report makes that its message is frequently picked up in the non-academic press which boils the message down to the proposition that one should provide aid to countries which have "good policies" and not try to assist those countries which do not yet have got a grip on good policy making. It is good to have a clear message. However clarity has also its flip side: clarity is often easier said than done. First of all the question of what is good policy is not always easy to answer. The fact that the question of good policy is not easy to answer is not an argument against defining good policies through numeric indicators. It is always good to be as explicit as possible in order to raise discussion and to prepare for judicious policy making. By being explicit and emphasizing the use of indicators, the report certainly provides the basis for a more informed debate. However, when filling in the numerical details of various indicators, one has to be very careful with such indicators of good economic management. This can, for example, be illustrated by Table 1 which provides two lists of African countries with good economic management, one drawn up by the World Bank in 1993 and one by the IMF in 1998. As one notices both groups of countries with good economic management are rather small, but what is even more important to notice is that there are *only three out of the 12-14 countries qualify to be included in both lists of countries with good policy making.* Most of the good performers of the 1993 list have disappeared from the 1998 list and others reappeared as new candidates on the list of 1998. *Hence the indication of good economic management in poor developing countries with little infrastructure and underdeveloped institutions varies rapidly over time and remains difficult to apply consistently*.

Table 1: Adjustment and performance in African countries

Core group of adjusters[a]	**Recent strong performers**[b]
Burundi	Angola
Gambia	Benin
Ghana	Botswana[c]
Kenya	Côte d'Ivoire
Lesotho	Equatorial Guinea
Madagascar	Ethiopia
Malawi	***Lesotho***
Mauritania	Mauritius[c]
Namibia	***Nigeria***
Nigeria	South Africa
Uganda	Togo
United Rep. of Tanzania	***Uganda***
Zambia	
Zimbabwe	

a E.V.K. Jaycox, *Africa: From Stagnation to Recovery* (Washington, D.C.: World Bank, February 1993).
b IMF, *World Economic Outlook,* April 1998 (Washington, D.C.: IMF), Vol. 1, Table 12.
c In the 1993 grouping by the World Bank, Botswana and Mauritius were excluded as outliers.
Source: UNCTAD (1998): *Trade and Development Report,* 1998 (Geneva).

The question is how far one should go in precisely classifying good management. The report is using four indicators of economic management: low inflation rates, a budget surplus, trade openness and reliable institutions (World Bank 1998, Appendix 1). The problem with such macroeconomic indicators is that (as Stanley Fisher indicated in his article on macroeconomic policy and economic growth, Fisher 1991) *many macroeconomic indicators are not independent of economic growth.* For example at times of fast economic growth the budget deficit usually decreases because higher growth brings in more tax receipts; the question is whether the decline of the ratio of budget deficit to GDP is a policy variable or the result of faster growth? Trade openness is also correlated to economic growth. *Hence it is often difficult to indicate whether the macroeconomic indicators are the result of fast growth or are contributing to fast growth*. It remains thus difficult to have a set of indicators of good economic management which are related to the growth performance of the country, as the causality is not always clear.

Another issue which is important to highlight when interpreting the conclusions of the report is that the discussion on the efficiency of official development has to be placed in the context of the *declining importance of development aid in the total of global financial flows.* Table 2 indicates that aid (official flows), as part of global financial flows, has declined from 56 per cent in 1990 to less than 20 per cent in 1998. This is a huge shift in a very short time period over less than ten years. The stagnation in terms of absolute levels and the decline as a percentage of all global financial flows makes development aid nowadays especially important for countries which are not able to attract private capital flows or foreign direct investment; these are the poorer countries. Countries which have good economic management and trade policies are in a better position to attract private flows.[1] But countries which do not score high on having 'good economic policies' are, if the popular interpretation of "Assessing Aid" is followed through, double punished: *they are not receiving any private flows and may also be locked out*

[1] Although private investors still are looking for safe bets, despite many small developing countries undertaking economic reform policies, the bulk of private flows goes to a limited set of countries. In 1990, 90 per cent of total private flows went to only 20 of countries, leaving the other 100 countries with only 10 per cent. Even if the size of these countries is taken into account, the per capita amount of private flows in these 20 countries was 5 times higher than in the other 100 (UNCTAD 1999).

from receiving more development aid or from receiving development aid at all. Hence, it becomes important to consider the political question, what the type of conditions for development aid should be applied in countries which don't have a good track record on good economic policy. Would this imply an increase in conditionality in order to force a better economic management or would there be other means in order to improve good economic management? Although the report argues that detailed conditionality, as the World Bank itself has been practising, in the form of long lists of specific "ex ante"policy targets, does not work, it still advocates a form of "meta" conditionality (selectivity) related to the overall outcome of economic management in the past. But as Stiglitz has argued: "If our sole objective in providing aid were to maximize aggregate growth in the less-developed countries, the implication of our research work would be that we should provide the most aid to those with the best policy environments and no aid to those with the worst policy environments. But we need to remember that successful growth requires long-run investments" (Stiglitz 1999, p. 26). Instead, it seems therefore more appropriate to develop institutional capacity for improved economic and social policy-making. This would not only imply bolstering the efficiency of existing institutions and the creation of new institutions [2], but also the capacity of the people taking decisions. In this respect, strengthening of democratic control and participation by those who are affected by the consequences of the policy changes should be encouraged and supported in order to provide necessary countervailing power in the process of economic and social development (van der Hoeven and van der Geest, 1999).

Table 2: Long-term financial flows to developing countries, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998[a]
Net long-term resource flows	100.8	123.1	152.3	220.2	223.6	234.9	308.1	338.1	275.0
Official flows	56.9	82.6	54.0	53.3	45.5	53.4	32.2	39.1	47.9
Private flows	43.9	60.5	98.3	187.0	178.1	201.5	275.9	299.0	227.1
International capital markets[b]	19.4	26.2	52.2	100.0	89.6	96.1	149.5	135.5	72.1
Foreign direct investment	24.5	34.4	46.1	67.0	88.5	105.4	126.4	163.4	155.0

a. Preliminary b. Bonds, loans, and portfolio equity flows.
Source: World Bank *Global Development Finance 1999* (Washington D.C.).

The report also elaborates on the relation between *aid and poverty alleviation*. The report, although not explicitly, tends to argue that there is less need for specific policies on reducing inequality as poverty alleviation and economic growth go hand in hand. The report correctly argues that fast growing countries can reduce poverty, even if there is no explicit policy to reduce inequality, as the poor will, by law of averages, grow out of poverty ('A rising tide will lift all boats'). However there are two qualifications to the argument of not explicitly being concerned

[2] One of the ironies of the renewed attention towards institutions in order to better implement economic and social policies is that *earlier conditionality by the Bretton Woods Institutions, by grossly simplifying the concept of public sector efficiency, did destroy some of the very public institutions which are now called upon to implement the economic policies*. The World Economic Outlook of 1999 (IMF 1999), for example, argues in Appendix II for a strengthening of the civil service and for higher civil service wages in order to make civil service more productive. Yet it fails to acknowledge that even in recent years, the same report has made many pleas for lowering the expenditure on the civil service and for reducing the influence of the State on development.

about income inequality. The first qualification is that a number of countries will not be able to grow fast, unless inequality is reduced. Recent research findings (discussed in van der Hoeven 2000) have confirmed that inequality, contrary to the thinking in the 60s and 70s, affect a country's growth performance negatively. The obvious conclusion is that if growth is to pick up, special programmes to reduce inequality and hence to reduce poverty are needed in that respect. Growth will take off or accelerate once inequality has been reduced. This is especially the case in countries with a high inequality ratio. [3] Hence reduction of inequality is needed to foster growth. An indicator capturing a reduction of inequality could have been constructed and added to the indicators of good economic management which in the report relate mainly to macroeconomic management. The second reason to be more concerned about poverty and inequality in assessing economic management is that *higher inequality increases social tension and will make the acceptance of economic reform programmes and other macroeconomic policies more difficult* (van der Hoeven and van der Geest 1999). Hence there is need to support explicitly programmes on reduction of inequality. Growing out of poverty is only a solution for those few countries which have achieved already a low measure of inequality and which have a set of social institutions in place which foster a more equitable distribution of income. In most developing countries this is not the case (van der Hoeven, 2000).

The cleavage between countries with a "good" track record, and countries with a "bad" track record, where "good" and "bad" is captured through a limited number of mainly macroeconomic indicators, may be reinforced in the current state of political realities under which *multilateral and bilateral aid is provided.* Selectivity towards well-managed countries is something most donor countries are nowadays striving for, leading to a situation where all donor countries are chasing after the smaller group of good performers. For an individual donor country with a limited development aid budget, going after "winners" might be an obvious and politically sound choice, but at a global level, this can lead to overshooting and leaving the "losers" completely out. This international phenomenon of all donor countries following the same development aid policies can be compared to the national phenomenon that "correct" microeconomic decisions by households, especially in times of economic crisis, may lead to wrong collective macroeconomic behaviour, as Keynes has pointed out during the crisis of the 1930s. The discussion on what type of aid and who should receive aid, should therefore not be dominated by aid bureaucracies, but be part of a wider discussion on global governance, in order to avoid micro management of aid policies, which may lead, like in the 1930s at national level, to wrongly formulated aid policies in donor countries.

[3] It might be interesting to note that investment in infrastructure, agricultural land redistribution and education opportunities in the Republic of Korea preceded the good economic management policies, for which the Republic of Korea is commended these days. USAID officials in the 1960s were very sceptical about all development aid provided to the Republic of Korea, which was described by some aid officials as putting money in a sinking hole, but showing little result!

3. Aid and Global Governance

Development aid has preoccupied international policy making since the creation after the Second World War of the United Nations and the Bretton Woods Institutions as part of that. Over the years different views on the role and function of aid in development can be noted. The first observable function of aid was to provide technical cooperation in terms of supporting manpower to ministries and projects in countries which had gained independence as well as to improve investment flows to developing countries to close the investment-savings gaps since capital was seen as the major constraining factor in economic development. Development aid was mainly used to finance large-scale capital projects. This emphasis on capital and growth was then later questioned, as investment did not lead automatically towards employment creation and poverty alleviation. Consequently development aid became much more related towards achieving social goals and satisfaction of basic needs, dethroning the primacy of economic growth as the determinant of aid (van der Hoeven 1997) and emphasizing investment and improving efficiency in social sectors..

The vagaries of the international economic climate of the 80s resulted in the need for many countries to adjust their economies in order to accommodate the external shocks. This led to refocusing aid from project aid towards programme aid in the form of structural adjustment programmes designed by the World Bank and the IMF. With the need in many countries to stabilize their economies, following a string of external shocks in the early 80s (higher interests rates, declining demand for developing countries exports , declining terms of trade and declining capital flows) the character of aid in the form of structural adjustment programmes became more short to medium term and less long term. The changing character of aid propagated by the Bretton Woods Institutions was followed by many bilateral donors.

Table 3: Annual percentage change in oil and non-oil commodity prices, 1981-2001 (World Bank commodity price indexes, nominal U.S. dollars)

					Forecasts		
Commodity group	**1981-90**	**1991-95**	**1997**	**1998**	**1999**	**2000**	**2001**
Non-oil commodities	+2.3	4.1	2.2	-15.7	+6.3	1.1	5.0
Agriculture	-3.2	5.8	2.5	-16.2	-5.2	1.8	3.3
Metals and minerals	0.5	0.3	1.2	-16.2	-10.3	2.0	12.2
Fertilizers	+2.5	0.7	-0.1	2.0	+5.2	+4.1	0.0
Petroleum	-4.7	-5.8	-6.2	-31.8	-8.2	2.5	6.7
G-5 MUV[a]	3.3	3.6	-5.1	-3.9	1.3	2.6	2.7

a. Manufactures Unit Value Index
Source: World Bank(1999): *Global Development Finance 1999* (Washington D.C.).

But how effective is development aid in helping countries to overcome the negative aspects of economic shocks and global economic crises? The 1990s have been characterized by *increased global volatility and a string of capital market crises*[4] and can provide an insight of how effective

[4] Some (e.g. Taylor 1999a) argue that increased global volatility is the result imbalances in of the current global macroeconomic/ financial system, which fosters financial instability even in well-managed countries with contagion effect on other developing countries, irrespective whether these are well or less well managed

development was in cushioning countries against external shocks. A first observation is that *the amount of development aid compared to negative effects of external shocks which most developing countries undergo is rather small.* For example, the Asian crisis triggered off a *decline in producer prices for primary commodities of more than 15 per cent* in 1998 (Table 3).

This decline in producer prices, combined with a *decline in the growth of exports* of developing countries to developed countries from about 10 per cent to 3 per cent per year in 1998 and a *drying up of capital to developing countries*, has led for the totality of developing countries to a demand outfall 3-4 per cent of their GDP in 1998 (World Bank 1999). This is by far larger than the percentage of aid to GDP provided which for all developing countries, which was less than 1 per cent (OECD 1999). Only countries in Africa and some in Central America and Asia have a higher percentage of aid to GDP than 3-4 per cent. Hence in many cases, development aid can still not compensate for adverse shocks on the trade and capital markets which many developing countries undergo. But even in cases where on average the total amount of aid is of a magnitude that it could compensate for negative external shocks, there are serious problems. Despite the relative large size of aid compared to government expenditure and GDP in many of the poorer (LDC) countries, the total amount of aid is not constant. Many studies have noticed the volatility in aid flows. There is even proof that aid flows, because of conditionality and donor inertia, are behaving procyclical instead of anticyclical. Karshenas (2000) has calculated coefficients of variability and co-movement of aid, government revenue and experts in LDC's form 1970-1998 (see Table 4).

The coefficient of annual variation in aid growth rates in local currency varied between 5.7 for Bangladesh and Myanmar to 1.2 for Nepal, and when calculated in US dollars, between 4.0 for Myanmar and 1.8 for Nepal. The coefficients for variation in government revenue were much lower and varied between 2.5 for Uganda to 0.5 for Malawi. For the total number of LDC countries the mean (median) of the correlation coefficient between the annual variation in aid and government revenue was 0.25 (0.29) and between the annual variation of aid and expert revenue 0.01 (0.15). One notices the correlation between aid and these two variables is thus rather weak, and in the majority of the cases there is a positive correlation between aid and the variables of government expenditure (17 out of 23) and exports (15 out of 23). Foreign aid has thus not alleviated the short term external shocks in LDCs, and on the contrary my have reinforced the effects of these shocks. The volatility of aid flows has thus contributed to macroeconomic instability, something which the donor community had singled out as a key element of success and hence of conditionality.

Even if the volatility of aid could be reduced, another worrying fact is that in those developing countries where the totality of aid could compensate for such adverse conditions, aid usually represents an amount which is larger than 5 per cent of GDP. *This large percentage of aid to GDP restricts these developing countries in their own decision making processes* (Berg 1997). Developing countries receiving amounts of development aid, which represent several percentage points of their GDP, have to spend an enormous effort on co-ordination, and have to accept continuous interference in their national planning processes to deal with the various demands of scores of bilateral donors and limiting scarce time and capacity to formulate national economic and development policies. *Hence we notice a paradox that aid often could not help to cope with external shocks and if it could, by the very nature of the current aid process, it interferes too much in the decision making processes of the developing countries.*

Table 4. Variability and Co-movement of aid, government revenue and exports in LDCs, 1970-98

	Coefficient of variation of annual growth rates				Correlation coefficient between annual variations in aid and (b)	
	Aid in domestic currency	Government revenue	Aid in US dollars	Expert revenue in US dollars	Government revenue	Export revenue
Burkina Faso	1.57	1.38	1.86	2.23	0.425	0.452
Burundi	1.71	1.14	2.68	13.70	0.288	-0.099
Congo, Dem. Rep.	4.67	3.45	5.55	4.58	0.989	0.223
Ethiopia	1.75	1.53	2.24	2.12	-0.207	-0.237
Gambia, The	2.44	0.88	2.85	2.00	0.478	0.002
Lesotho	1.44	0.79	2.93	2.10	0.112	0.635
Liberia	3.27	1.74	3.27	2.79	0.369	0.377
Madagascar	1.61	1.40	2.69	2.32	-0.326	0.149
Malawi	1.30	0.46	2.05	2.88	0.131	0.241
Mali	2.05	0.73	2.12	1.73	0.048	0.191
Rwanda	2.02	0.87	2.08	6.53	-0.078	-0.408
Sierra Leone	1.42	1.33	2.51	15.07	0.567	0.163
Sudan	1.93	0.71	3.35	4.22	0.425	0.148
Tanzania	1.21	0.53	1.79	3.95	0.455	-0.117
Togo	2.48	1.66	2.66	3.26	0.460	0.385
Uganda	1.66	2.25	2.66	4.60	-0.065	-0.376
Zambia	1.40	1.30	2.49	7.61	0.543	0.256
Bangladesh	3.71	0.88	2.90	1.37	0.771	-0.076
Myanmar	3.71	1.03	4.05	2.23	-0.250	-0.099
Nepal	1.16	0.48	1.77	1.25	0.046	0.341
Solomon Islands	2.14	0.63	3.24	1.77	-0.283	-0.095
Maldives	2.57	1.23	2.43	1.95	0.656	0.001
Vanuatu	2.74	0.61	2.79	1.61	0.135	0.144
Mean	**2.17**	**1.18**	**2.74**	**4.00**	**0.247**	**0.096**
Median	**1.93**	**1.03**	**2.66**	**2.32**	**0.288**	**0.148**

Notes: (a). Export revenues include income from abroad. (b). Measured in domestic currency for government revenue and in US dollars for export revenues (including factor incomes). Official exchange rate is used for conversion.
Sources: Karshenas, (2000).

A change in global governance, reducing the volatility of the international economic system and protecting the poorer countries from such volatility seems a necessary complement to domestic reform policies increasing economic efficiency. This was one of the reasons behind the recently published Meltzer report (US Congress 2000) which recommended the World Bank to focus on concessional lending to poorer countries on a long-term basis and to write off the debt of the poorer countries. The IMF was recommended to deal with sort-term stabilization policies and strengthen its original role of a lender of last resort, and consequently withdraw from longer term structural adjustment activities in poorer countries leaving the operation of these activities to the World Bank and other regional development banks. The Meltzer report, although emphasizing the need for a strengthened system of lender of last resort in an international system of concessional and non-concessional flows, falls short however to make recommendations for a better functioning of the global financial system. However, a world financial authority would be able to better coordinate global growth and avoid shocks (Pollin 1998), and can provide a good international framework in which the flow of concessional finance to developing countries and especially LDCs clearly distinguished between financial flows to whether economic and natural shocks and to build capacity for growth, poverty reduction and human development.

Regarding the need for capacity building, one notices recently a reconsideration of the concept and contents of structural adjustment and economic reform policies . Research and evaluation have pointed out that the development path of the countries depends not only on good economic policies, but even more so on well-developed and properly functioning institutions, which are needed to implement such policies, as well as institutions enabling the general acceptance of economic policies by larger parts of the population (van der Hoeven and van der Geest 2000) and a better appreciation on which groups gain and which groups loses from reform policies and how losers can be compensated.

Since the end of the Cold War, political motives for development aid have become less [5] and in principle more concerned with the situation of poor people. Therefore, development aid can be regarded again in the context of a wider system of global redistribution, for which it was originally intended when the international system was created after the second World War. As Nobel Prize Laureate, Tinbergen, argued in one of his last writings, "Redistribution is the core political issue of the 20th century" (UNDP 1994). Developed nations spend a substantial amount of their GDP redistributing to other parts of their population. This ranges from about 15 per cent in the United States to 35 per cent in Northern European countries. But this notion of redistribution within national boundaries needs to be taken further on a global scale and needs to be part of a system of global governance in which the UN system and its specialized agencies, including the World Bank the and IMF, all have contribute to an integrated system of global redistribution within the context of larger system of global governance. *However, discussion and research on issues related to global redistribution is still in a embryonic stage* .

An efficient system for international redistribution of global resources (including development aid) requires a system of international governance, where economic, social and political concerns are treated in an integrated manner and where rights to development of individuals and their families are acknowledged and acted upon by the international community, even in cases where such rights are not fully acknowledged by individual governments. Development aid needs to become a global public good for all people, irrespective of the varying behaviour of their government (Kaul et al. 1999). A system of global economic, social and political rights should complement the current malfunctioning global economic and social framework which is basically founded on two principles, namely the existence (or the potential) of a national welfare state (including national "national redistribution") and an international system of free trade and free capital flows (globalization) which determines the national framework for economic and social policies (Kapstein 1999). But, as is becoming increasingly clear, the construct of a national redistribution system in a globalizing and liberalizing world is creating increasingly tensions.

This can be partly explained by the fact, as Rodrik (2000) has pointed out, that there is a "trilema" between three trends in socio-political development. Namely: - international economic integration, - the strengthening of the nation state and - the resurgence of mass political participation which are currently propagated by aid donors and international aid agencies (World Bank 2000). Like in the field of economic integration where independent monetary policy, fixed exchange rates and open capital account are not compatible, (and where most countries have chosen for abolishing fixed exchange rates), these three social political trends are not fully compatible. Attitudes of people and governments may shift between these three trends. The problem is that current aid conditionality imposes changes in all three directions: More political

[5] But political motives are certainly not absent, as for example the bulk of bilateral aid of the US still goes to the Middle East and most of the bilateral aid of France to her former colonies.

participation, better national economic management and greater international integration, without having a clear understanding on the interaction between these directions. The most far reaching scenario is that the importance of the nation state might diminish, as has happened by the different States in the United States, and currently happening in EU and in the enlargement of the EU (Rodrik 2000). The question of political participation then becomes important, giving people a sense of influencing global (federal), bodies at global (federal) level and having room and space for political participation at local and regional level. Currently the situation is in a flux which can be viewed by the protests and criticism on some of the international organizations. These organizations are criticized on the one hand of doing too much and destroying local space and on the other are criticized of doing too little against issues like child labour, influence of multinational enterprises, etc. Where the balance will be in the near future (global integration, nation state, political participation) is still uncertain difficult to predict. The discussion on a global framework on aid and transfers of resources in general will, at least in the near future, be characterized by these uncertainties, but nevertheless needs to take the trilema between international integration, developing nation-state and political participation seriously.

If we accept the premise of Tinbergen that a redistributive framework remains a necessity, and taking into account the trilema sketched above, a global framework should be concerned with at least three global issues: Firstly, a framework to *raise and distribute resources globally*, secondly, an *acknowledgement of the right of individuals to development* (and freedom of want as the Basic Human Rights charter acknowledges) and thirdly, *an international system making more explicit the obligations of all States for distribution of resources and for the guarantee of international human and labour rights.*

In a well-developed system of international governance, *resources for international redistributive purposes should not be collected through voluntary pledges of development aid,* (be it bilateral development budgets or pledges to international development agencies as currently is the case) but be collected as part of an international taxation scheme which should include new forms of international taxation such as taxing capital movements, air transport, Internet use, etc. Proposals made by Tanzi (1996) and Tobin (1996) are relevant in this respect. A system of international taxation would be a sign of maturity of the international system and would relieve development ministers in donor countries to spend a considerable part of their time in lobbying national groups to support the votes for the development budget and for development aid allocations. [6]

Rights of individual to development (which include labour rights) are part of a right-based system of international cooperation which includes the notion of the right to a social minimum. *The international system is currently very embryonic in the rights-based approach.* The discussion on global governance and the rights and obligations of individual States is currently taking place at various levels. One level is the discussion on global peacekeeping and responsibility of the global community in this respect. Another level is the application of international law to individuals, where timid attempts are made to convict individuals at courts with international jurisdiction. Yet another level is the internationalization of trade policies and on global financial flows, where countries subject themselves to arbitration by international bodies. Furthermore, there is also a discussion on global governance in the social field. For example, the Declaration of Fundamental Principles and Right of Work by the ILO (ILO 1998) obliges all countries and communities to adhere to a fundamental set of labour standards (see

[6] This process of continuous justification for development resources can easily lead to increased conditionality either in the form of ex ante conditions or expost selectivity in assigning aid resources to developing countries.

Table 5). However most of these discussions on global governance take place in isolation and are not yet part of a more fully integrated worldwide scheme of global governance where complementarities and inconsistencies are taking into account and discussed.

Table 5: Fundamental rights of work

a.	Freedom of association and the effective recognition of the right to collective bargaining.
b.	The elimination of all forms of force or compulsory labour
c.	The effective abolition of child labour.
d.	The elimination of discrimination in respect of employment and occupation.

Source: ILO (1998).

In order for a system of global governance to function adequately, developing countries and people from developing countries should have the capacity and the space to operate. As Helleiner and Oyejide have argued, global governance should be understood as a system for equal partners. “Governance is not simply a matter of designing an optimal system and the putting it in place through whatever mechanisms are available (including coercion if necessary). Rather, it should be thought of as a communicative and consultative process through which disputes are resolved, consensus is built and performance is continually reviewed. To develop the required new arrangements for effective governance of the global economy, one must therefore begin with an effective and credible process, ideally a process involving civil society and business as well as governments and existing international organizations” (Helleiner and Oyejide, 1999, p. 119). For example, suggestions for development aid to support trade delegations from Third World countries at the World Trade Organization point out the importance of access of their products to markets in industrialized countries and effectively negotiate on this[7], as does support to Trade Unions in the Third World to negotiate with multinational companies on working conditions and distribution of value added.

A more developed system of global governance also implies that *multilateral organization need to take into account the rights of individuals,* but enforcing these rights should not be done uniquely through putting more conditionality or applying selectivity in development aid allocation to nation States, as is often argued, but should be done through the conclusion of national development pacts, for which the national governments are accountable and which have to be developed not by donors, but in a national context in consultation and agreement with different national groups so as to respect individual’s human and labour rights to development. An international rights-based approach would imply that individuals and groups can hold their governments nationally but also internationally accountable for the implementation and delivery of concluded development pacts. Such development pacts, especially in poorer countries, need

[7] “But policies adopted by developed countries are just as important. Aid cannot be seen in isolation. The developed countries have increasingly recognized that it is in their economic interest to provide aid. This economic rationale is often highlighted by noting that developing countries have become the worldwide engine of economic expansion. Unfortunately many developed countries view trade liberalization only as the process of opening foreign markets. They view trade as good, but imports as bad. Tariff barriers are being replaced by even more insidious non-tariff barriers. .... The messages sent by trade restrictions are as damaging as the direct economic costs”. (Stiglitz, 1999, p. 29).

to incorporate, as a necessary component, the creation of institutions and the improvement in capacity of different groups of the population to analyze economic and social trends and to enter into a national dialogue of such trends. Hence the initiative and scrutinizing of good economic and social policies should be initiated by groups and individuals in individual countries rather than by international bureaucracies. As Sachs (1998) has argued: "The development potential of a country rests on its cultural ability to formulate a national project, then to mobilize the political and administrative capacity to carry it out, much more than on its endowment in natural resources and the degree of advancement of the productive forces, important as they may be. This cannot happen in the absence of self-confidence (p. 2234).

How much individuals can exercise their rights to development *depends on the appropriate institutions in a particular country*. An analysis of structural adjustment policies in the 1990s in Africa revealed that the problem for many African countries is the lack of institutions able to implement development policies, and especially the lack of institutions able to forge social consensus on economic, social and labour issues (van der Hoeven and van der Geest 1999). Also Azzam et al. (1999) argue that when the international development community ignores the effect of aid on institutions in recipient countries, the outcome of development aid depends strongly on initial conditions in recipient countries. [8]

Under this current political scenario of emphasizing good economic behaviour, the role of the multilateral system, especially in coordinating aid flows to less performing countries and providing a lender of last resort, becomes even more important, and a stronger argument can be made of switching more bilateral development aid to multilateral aid organized by international development agencies. However, as Killick (1998) has argued there are also problems with the suggestion of channelling more aid through multilateral agencies, namely that some multilateral agencies are currently less professional than others and may spawn an even larger bureaucracy, with even greater concentration of power *vis-à-vis* receiving governments. And if the multilateral system abandons its global mission and decides collectively to select "winners" in attributing development aid, the poorer "losers" may be completely left in the cold.

4. Conclusion

The preceding analysis has hinted already to some of the possible policy implications of the Assessing Aid Report. Although the report is critical about *ex ante* conditionality, something which is entirely justified given the current process of aid conditionality, it is suggests another type of conditionality, namely *ex post* conditionality, which implies selecting countries on the basis of a small number of mainly macroeconomic policy indicators which have done well, and providing the bulk of development aid to these countries for aid to be effective. The indicators used are however too restrictive and do not necessarily capture good policy. In donor-recipient country relation, it remains necessary to judge results, but these should be broader than macroeconomic outcomes. Countries can be better judged on results concerning social indicators, which are usually of a more long term nature, and which can be an indication of steady progress. We have argued that reducing inequality, especially in those countries where inequality is high

[8] This observation adds another element to the discussion on indicators of good economic policy, namely it is not only difficult to determine whether a good score on the indicator is the cause or the consequence of foster growth, but it is also difficult to attribute an absolute level for an indicator of good economic policy, as the capability to implement good economic policy depends on the level of development.

should also be one of the indicators of good policy. Such long term indicators could be part of a development pact. This would change the relation between multilateral and bilateral donors, and would imply that *development aid in the 21st century should be in the form of better financing for the international organizations and should support these organizations in making a more solid construct for global governance which would include redistribution from richer parts of the world towards poorer parts of the world on the basis of democratically developed and designed development pacts.* To give greater importance to a multilateral approach, the development pacts have to be based on a longer term vision and approved by parliaments in the recipient countries. In such a construct bilateral donors ought to provide budget support to those countries which have concluded such pacts. Such a procedure would avoid that national and international donors go behind the back of national decision making and returns the spending authority, control and accountability to the recipient country (Herfkens 1999). In countries where the development pact is not fulfilled or violated, as *observed by nationals in these countries* and *acknowledged by a system of international arbitration*, bilateral and multilateral development aid could be closer monitored (ter Wengel 1999). However, the monitoring should not be undertaken by the donor agency itself, but by groups of other aid recipient countries in a similar vein, as the American aid under the Marshall Plan to Europe after the Second World War was monitored by the European countries themselves (the forerunner of the OECD). A question remains how people in industrialised countries could contribute towards improved development aid. Private groups in the industrialized countries can be stimulated to support private groups in developing countries supplemented by government funds, if the political consensus allows for that. This would mean for example support by groups in industrialized countries for women groups, children's foundations, trade unions, landless labourers etc. in developing countries, in order to increase the voices of ordinary people. International Institutions should, through support and through normative standard setting allow that institutions for participation and democracy can and do function.

The suggested shift from many bilateral interventions to a more global unified system of transferring resources implies also that development aid should be part of a more fully integrated system of global governance. In that respect, it should be noted that development aid has not been able to provide buffers against economic shocks and against the social consequences of these shocks. For some countries, because the amount was too small, and for other countries because aid acted procyclically and stiffled domestic decision making. A clearer distinction between aid to absorb economic shocks (and the social consequences of these economic shocks) and aid to increase capacity for poverty reduction and growth is therefore needed. This calls for an improved set of global and regional institutions as lenders of last resort and for another set of institutions to provide aid and to channel private flows in order to build up capacity in macroeconomic policy making, and to increase investment in infrastructure, investment in human capital and investment in institutions of conflict management. The latter are not only needed to give greater chance to a more democratic process, but also can strengthen a more balanced development. There are institutional problems striving for greater global integration, building a strong nation state and accepting political participation, as maximizing all three objectives is logically not possible. One of the challenges to get out of such incompatibility is to acknowledge individuals and workers rights to improve their living situation, which would call for transformation of the current system of development aid towards a rights based system of global taxation and global social expenditures. This is admittedly a far reaching goal, but nevertheless a goal which needs to be considered when reflecting upon the Assessing Aid Report. As observed by Tinbergen (in UNDP 1994), "The idealists of today often turn out to be the realists of tomorrow".

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