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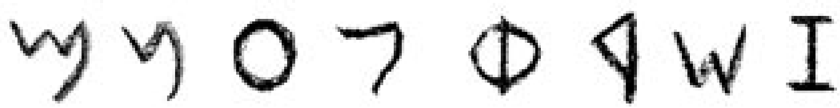

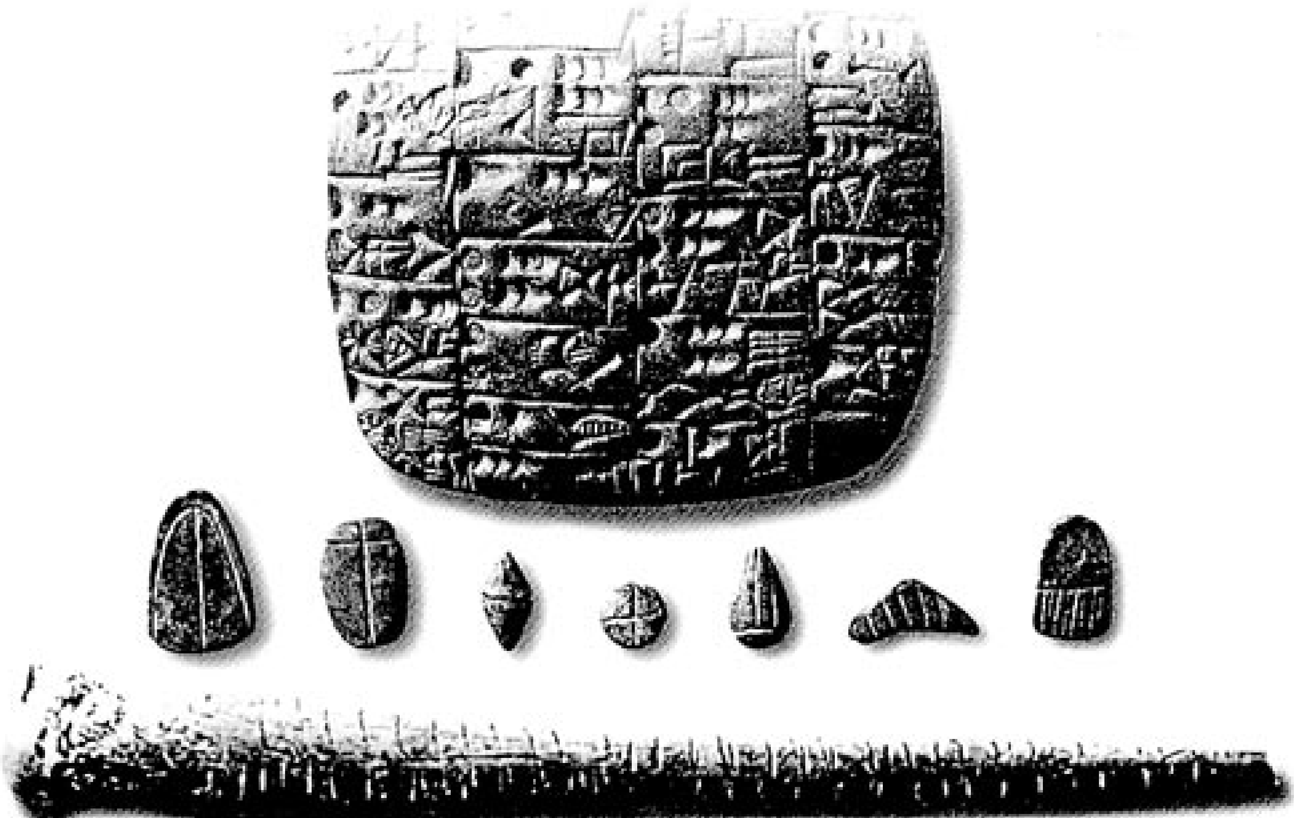

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THE SHAPE OF THINGS TO COME:

Development Cooperation in the 21st Century

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There is little doubt that development cooperation, as we have known it during the last five decades, is coming to an end, and now it is experiencing "an arduous transition" towards becoming "more diverse, flexible, focused and efficient." From this main thesis, the author then explores some possible avenues that development cooperation is likely to take as we enter the 21st century. The article looks at trends and motivations old and new, newly arising and newly emphasized themes, organizations as they transform into networks and coalitions, and funding, which is changing its sources and composition.

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INTRODUCTION

Development cooperation is undergoing an arduous transition. Decades-old habits, thought and practices are being discarded, while new ones are still in the making. Many development assistance organizations, most created in the three decades following World War II, are struggling to adapt to a vastly changed international context.

Implicit in the concept of development as it emerged following World War II was the notion that purposeful interventions could lead poor countries to achieve, in the span of one generation, the material standards of living that the industrialized West achieved in three generations or more, and without incurring the heavy social costs they had to pay or inflicted on others (primarily through colonialism). Financial and technical assistance by rich to poor countries was seen as a key instrument to reach this goal. Spurred in part by the Cold War, a great variety of development assistance agencies and programs were established in the following decades. However, starting in the late 1970s and throughout the 1980s the international context began to change rapidly.

Several trends and many fundamental changes have shaped a new international context. Their main implications for development finance and international cooperation are summarized in Table No. 1. New security concerns make it necessary to adapt institutional arrangements to a more complex, fluid and fragmented international context. Financial and economic interdependence requires increased cooperation and improvements in the capacity of actors in the international scene to cope with global, rapidly shifting and unstable economic and financial settings. Persistent inequalities between and within nations make it imperative to reduce extreme disparities in living standards and to protect the most vulnerable social groups, so as to maintain a reasonable degree of social cohesion.

Growing social demands, particularly in countries and regions that lack the capacity to satisfy them, are creating additional international tensions and require new initiatives to reduce poverty and improve the provision of basic social services. The renewed importance of culture, religion and ethics—questions largely ignored during the thoroughly secular decades of the development cooperation experiment—has made it necessary to incorporate non-material and value considerations into debates about development. The new salience of democratic governance, together with the variety of forms democracy is taking throughout the world, has raised the issue of how to establish a collective learning process to improve the prospects for democratic practices. Finally, the advent of the knowledge society has made it urgent to build bridges across the abyss separating countries with and without the capacity to generate and utilize modern science and technology.

Several interpretations have been offered to account for these trends and changes. The concept of a *fractured global order* has been proposed to characterize the new international context that is emerging at the close of the 20th century.[1] This inherently paradoxical order is the result of processes that are putting all of us in contact with each other throughout the planet, but at the same time are creating profound divisions and cleavages between and within social groups. Three partially overlapping domains

The fractured global order which is emerging at the close of the 20th century is inherently paradoxical: it is putting all of us in contact with each other throughout the planet, but at the same time creating profound divisions and cleavages between and within social groups.

Table 1—
TRENDS IN THE EMERGING FRACTURED GLOBAL ORDER AND THEIR IMPLICATIONS FOR INTERNATIONAL COOPERATION

International security in a post-bipolar world

Main implication: Need to adapt institutional arrangements to a more complex, fluid, fragmented context, in which a greater diversity of actors with different objectives deal with new security threats.

- Include additional state and especially non-state actors in international cooperation initiatives.
- Possibly expand the roles and responsibilities of supra-national bodies
- Strengthen existing and create new mechanisms to promote, monitor and follow up on international agreements and commitments.
- Launch new initiatives to deal with emerging threats to security (environmental disruptions, mass migrations, organized crime, terrorism and weapons proliferation, among others).
- Establish international law enforcement mechanisms to deal with transn ıtional security threats.

Economic and financial interdependence

Main implication: Need to improve capacity of all actors on the international scene to adjust more rapidly and effectively to a global, constantly evolving, and often unstable economic and financial context.

- Promote the adoption of standards and guidelines to foster economic and financial stability and coordinate national economic policies (financial regulation, trade liberalization, monetary and exchange rate policies, etc.)
- Move towards a more flexible, coherent network of international cooperation institutions with clearly identified constituencies and a better division of labor.
- Establish flexible, possibly temporary, spaces for dialogue, debate and agreement between transgovernmental, transcorporate and trans-associative networks.
- Explore systematically the varieties of market economies now in existence and the main lessons that can be derived from the way they work.

Persistent inequalities and economic uncertainty

Main implication: Need to address the inequalities both between and within nations, and to improve capacity of most vulnerable groups.

- Differentiate types of assistance by constituency and increase financial and technical cooperation with those groups that need it most and can benefit significantly.
- Complement development assistance initiatives with other policies that can have a great impact on the growth prospects of poor nations (for example, open markets of developed nations to products from poor countries).
- Devise mechanisms and instruments to promote private investments in poor countries and regions (for example, guarantee schemes, internationally agreed incentives).
- Establish and expand initiatives to assist small business, informal sector enterprises, ethnic minorities, women, the elderly and other excluded groups.

Social conditions

Main implication: Need to set and guarantee minimum standards of social conditions for all human beings, and explore new institutional arrangements at all levels (subnational, national, regional, international) to set and implement such standards.

- Devise social policies taking into account demographic considerations (age structures, expectations and needs of different social groups) to achieve standards of living compatible with human dignity.
- Promote idea that the state, the private sector and civil society organizations are jointly responsible for providing basic social services to the population, especially to the poor.
- Engage civil society organizations and business associations at local, national, regional and international levels in initiatives to improve social conditions.
- Devise initiatives and mechanisms to strengthen the social accountability of NGOs and the private sector.
- Given the threat of extensive and persistent unemployment, explore new institutional mechanisms to provide basic goods and services for those who do not have access to jobs.
- Incorporate social impact considerations into the design of economic development strategies and development assistance initiatives, rather than only compensating for negative impacts.
- Explore new financing mechanisms for social development (for example, trust funds to complement government expenditures on social services,

Table 1 (cont'd)—
TRENDS IN THE EMERGING FRACTURED GLOBAL ORDER AND THEIR IMPLICATIONS FOR INTERNATIONAL COOPERATION

debt relief and debt swaps for social purposes, reallocation and decentralization of public expenditures to allow citizen participation in decisions and monitoring of social expenditures).

Culture, religion and ethical concerns

Main implication: Need to design and establish institutions and mechanisms to construct bridges across cultures, religions and ethnic groups.

- Promote consideration and respect of cultural characteristics as integral parts of development.
- Foster international dialogue on preventing violent forms of cultural assertion including, in particular, representatives of religious institutions, ethnic minorities and grass-roots organizations from different cultures and civilizations.
- Work with mass-media representatives to better understand and find ways of dealing with the tensions between the processes of globalization and the reaffirmation of cultural identity.

Governance and democratic practices

Main implication: Need to establish collective learning process to improve governance structures at all levels, while respecting diversity of specific conditions prevailing in developing regions

- Agree on basic universal principles to guide search for legitimate and more effective forms of democratic governance that respect human rights, but that also take into account different historical and cultural circumstances.
- Establish mechanisms at the regional and international levels to monitor agreements and commitments regarding democratic governance.
- Create spaces to foster dialogue, debate and consensus among representatives of public and private sectors and civil society, linking these spaces to governmental decision-making at all levels.
- Explore and experiment with new governance structures and mechanisms at the international level to address global problems and development cooperation in particular.
- Strengthen accountability, transparency and the Rule of Law at the

international level for both industrialized and developing countries, private corporations and civil society organizations.

Knowledge explosion and knowledge divide

Main implication: Need to establish national and international cooperation mechanisms to address the growing "knowledge divide" between nations that have the capacity to generate and utilize modern science and technology and those which do not.

- Review and redefine concepts of development and progress from a knowledge perspective, focusing on importance of science and technology capabilities to improve living standards.
- Make S&T capacity building one of the key objectives of international development cooperation during the next several decades.
- Experiment with ways to make available on a more equitable basis the knowledge and financial resources needed for poor countries to take advantage of S&T advances with participation of government agencies, corporations and academic institutions from developed nations.
- Expand existing and create new institutional and financial mechanisms to support endogenous S&T capacity-building efforts in developing countries.
- Explore the "leapfrogging" potential of poor countries in specific fields of science and technology, particularly in those linked to improvements in social conditions (health, education, nutrition, environmental protection).
- Strengthen science and technology education in developing countries; utilize technological advances to make education more accessible and improve its content.

configure the fractured global order: the global, the networks and the local. Development cooperation works primarily in the domain of the networks, and its main task is to help bridge the fractures that are emerging and deepening in the global order. The rise of transgovernmental, transcorporate and transassociational networks, together with the vastly increased and complex interrelations between and within them, has made the context for development finance and international cooperation much more complex and difficult to deal with. As a consequence, the capacity to keep the unfavorable consequences of globalization in check—and exploit the opportunities offered by the fractured global order—will be an increasingly valuable asset for developing countries.

The current predicament of international development cooperation arises out of the combined impact of reductions in government allocations for Official Development Assistance (ODA) in the rich countries, the questioning of aid and its impact, and the new demands placed on the international cooperation system. The result is that the response capacity of development assistance organizations is being stretched to the limit. Their reaction has been marked by much confusion, reorganizations and counter-reorganizations, and operational changes that are often modified before they can yield results.

All of this calls for a new perspective on the restructuring of international cooperation for development during the next decades. Uncertainty and instability, paradox and ambiguity are configuring a turbulent field in which the transformation of development assistance is taking place. In such a situation there is no time for leisurely academic research aimed at improving organizational performance. It becomes necessary to learn while doing and to engage in real-time policy-oriented inquiries. Organizational structures, procedures and practices must be monitored, evaluated in light of results and adjusted as new circumstances emerge. Strategic planning needs to be integrated with day-to-day management to reduce lags in adaptive behavior, and the organization must become an inquiring and learning system. Such an exercise must begin with a reexamination of the reasons for engaging in development finance and international cooperation, which should guide the renewal of institutional arrangements in the international development community.

ENDURING AND CHANGING MOTIVATIONS

Any reassessment of the current situation and future prospects must begin with an examination of the reasons to engage in the broad range of activities that are included under the broad label of "international cooperation for development". Motivations for private firms and commercial banks to invest in the developing regions, for private foundations and individuals to support programs in developing countries, and for rich countries to provide financial and technical assistance to the poorer nations have changed over time.

The main motivation for investing in developing countries, or anywhere, has always been the desire to obtain the maximum possible returns over a specified period and subject to a determined level of risk. The globalization of financial markets has made the search for higher returns much more complex, and private investors now face a wide range of options for placing their investments worldwide.

Portfolio flows, which move quickly from one market to another in response to slight changes in perceptions about returns and risks, are now engaged in a global search for the highest possible profits. However, identifying the stocks, currencies, bonds, derivatives and other financial instruments with the optimal reward-risk combination for investors is a difficult task that requires highly specialized knowledge and information. Few investors have the capacity to analyze in detail the options available, and most rely on information and analysis services provided by rating agencies, consulting firms and investment advisers. This has given the largest and most visible of these organizations (Moody, Standard & Poor, Duff & Phelps) a significant influence on the direction of investment flows. This influence is heightened by what has been called the "herd mentality" of players in financial markets, which amplifies fluctuations and increases instability.

The contribution that portfolio flows can make to developing countries depends on the quality of domestic macroeconomic policies, the soundness of local financial institutions, and the stability of the economic and political system. Few developing countries have the capacity to absorb such short-term flows in large amounts without experiencing macroeconomic problems (e.g., local currency appreciation). As a result, the development impact of volatile and highly concentrated portfolio flows is likely to be rather small and temporary—except perhaps in a few developing nations—where such flows can provide significant balance-of-payments support.

Commercial banks lend to developing country governments and firms at rates that cover the interest paid on deposits, administrative costs, a "risk premium" and profits. The risk premium is charged because banks perceive a great probability that developing-country borrowers may default on their loans. In addition, when lending to sub-national governments, state enterprises and private firms, commercial banks often require a central-government guarantee to ensure repayment. Private bank loans to developing countries have followed boom-and-bust cycles, best exemplified by the lending binge of the 1970s and early 1980s (primarily to recycle petrodollars), which was followed by the debt crisis in the 1980s and another lending boom during the early 1990s. Similar considerations apply to the bonds issued by developing countries with the assistance of investment banks, usually located in the industrialized nations.

Provided that loan terms are reasonable and aligned with the activities to be financed, commercial bank lending can help developing country governments and firms with resources for investment projects, for covering temporary income shortfalls and for working capital. But this requires that borrowers be prudent and exercise restraint in their dealings with commercial bank lenders. Similar considerations apply to the issue of sovereign bonds, although the concerns here focus on the interest rates and on repayment periods.

Direct foreign investment seeks to obtain a continuous stream of profits over the long and medium terms, prompting firms to search for locations where they can reduce production and distribution costs for their products and services. While low labor costs remain a main attraction for many corporations to place their production facilities in developing countries, many other factors also play a role. The desire to secure access to natural resources such as hydrocarbons, minerals and land have been among the traditional motivations for firms to invest in the developing regions. Another motivation, added during the last decade, is the desire to secure access to genetic resources linked to biodiversity. Less stringent environmental regulations have also played a role in the location of some manufacturing activities, although pressure from stockholders and environmental groups has forced many investors in developing countries to pay greater attention to environmental conservation and pollution abatement. The availability of highly skilled labor has also emerged as a main motivation for high-technology firms to place their production and service facilities in a few developing areas (for example, electronic manufacturing in East Asia, software production in India and computer customer service facilities in Costa Rica).

With the globalization of product and service markets and the rise of strategic alliances between international firms, strategic positioning for global competition has also emerged as a main motivation for firms to invest in developing countries. This is particularly the case in certain fast-growing sectors of the world economy in which the leading corporations design their strategies at the global level (air travel, telecommunications, insurance, banking, software, capital goods, automotive, energy, electronic goods). Developing countries with large populations, particularly those with relatively stable and growing economies, have become places of choice and highly contested grounds for direct foreign investment.

Direct foreign investment can make significant contributions to development through increases in production and exports, creation of jobs and technology transfers. The potential benefits can be considerably enhanced by appropriate government policies to reduce possible negative impacts on the environment and possible abuse of local labor. However, because of the high mobility of international capital, many developing countries are competing with each other to attract foreign investment. Tax breaks and incentives are regularly offered to induce foreign investors to locate their plants and facilities, reducing government revenues. Environmental and labor regulations are frequently waived or even dismantled, having a negative impact on social conditions. In some cases these inducements are complemented with offers to provide the physical infrastructure (roads, ports, energy, water supply) required for the operation of the foreign plants, adding further strains on public finances.

The increased mobility of international capital, which can easily migrate to where it is treated more favorably, and the willingness of governments to outbid each other with tax and other incentives to attract foreign investors are undermining the capacity to generate public revenues. A sort of self-destroying "race to the bottom" is reducing the capacity of developing country governments to obtain revenues by taxing profits made by the holders of capital assets.

The motivations of *grant-giving foundations, philanthropic organizations and individuals include altruism*, international solidarity, religious proselytism and the desire to obtain social recognition. These flows are directed primarily to humanitarian relief, protection of human rights, health and family planning, education and nutrition programs for children, cultural activities, environmental conservation and building local capacity in a variety of fields. Because they are free from the constraints faced by bilateral aid agencies, international financial institutions and private firms, foundations can support more adventurous programs and experimental activities which official donors and private investors would find too risky or controversial. The funds channeled through grants may not be very large, but they can play a key strategic role in exploring new directions and testing programs that are later adopted by other organizations. In addition, private corporations occasionally contribute to development programs through grants, primarily with the purpose of improving their public image.

Motivations for *Official Development Assistance* (ODA) have changed in parallel with the evolution of development thinking and institutional arrangements for development cooperation. Altruism and generosity, as well as Cold War political interests, were the main reasons for launching the development cooperation experiment in the late 1940s, but over time a more varied range of motivations began to emerge. As motivations changed, conditions for access to financial and technical assistance were redefined. Political loyalty to one of the two opposing camps in the East/West confrontation gave way to conditions regarding tied purchases of goods and services, access to markets, changes in economic policies, institutional reforms, democratic practices, environmental conservation and respect for human rights. Cross-conditionality between development assistance agencies and

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Table 2—
MOTIVATIONS FOR OFFICIAL DEVELOPMENT ASSISTANCE

Strategic and security interests, which respond to geopolitical and military considerations of donor countries.

- At the national level, justifying aid to developing countries of specific geopolitical importance to the donor country.
- At regional level, considering the interests of regional alliances or treaties.

Political interests, which focus on obtaining political support for foreign and domestic policies.

- With foreign constituencies, through support to former colonies and areas with special historic and cultural ties to the donor, aid to obtain international political recognition and support.
- Centered on domestic constituencies—obtaining the support of immigrant lobbies and ethnic groups of foreign origin in the donor country.

Economic and commercial interests, which emphasize direct commercial and financial benefits to the donor country.

- Benefits may include export expansion, employment generation, support of domestic producers (through food aid), greater security for investments in developing countries, access to resources (oil, strategic minerals), access to a pool of highly qualified potential migrants (through fellowships) and creation of demand for exports in the future (through technology transfers).

Emergence of global problems, which concern both donor and recipient nations.

- Environmental sustainability has become a major concern of donors because global environmental threats affect developed countries directly (global warming, destruction of the ozone layer, loss of biodiversity, tropical deforestation).
- World population growth and imbalances, as well as health threats (AIDS, epidemics), are now seen as global problems requiring financial and technical assistance from donors.
- International cooperation and the support of donors is necessary to fight crime, drug traffic and terrorism on a global scale.

Altruism, ethical, humanitarian and religious concerns, which highlight the moral obligation of donor countries to assist the poor in developing countries.

- Alleviate human suffering and express solidarity with fellow human beings.
- Help to cope with natural and man-made disasters through humanitarian and emergency relief.
- Religious proselytism and desire to win converts to a particular faith.

Maintaining stability of the international system, which aims at securing a stable world order to foster the long-term interests of donor countries.

- Maintaining political stability by preventing and containing local and regional conflicts, and by promoting the spread of democracy (supporting peace-making and peace-keeping initiatives, monitoring and supervising elections, helping strengthen democratic practices and institutions).
- Ensuring world economic stability through policy reforms in developing countries, and through measures to avoid major disruptions of international finance and trade (provide funding to help defuse debt crisis, Mexican peso collapse, East Asian crisis).
- Maintaining social stability in the developing regions to prevent international migrations (programs to reduce population growth, combat poverty, promote human rights and improve the situation of women).
- Showing willingness of rich countries to accept responsibility for assisting the less fortunate in a global society.
- Helping developing countries to improve their participation in international agreements to make them more equitable, stable and effective.

multilateral institutions increased significantly, and private banks often conditioned their loans to developing-country governments on the adoption of policy reforms advocated by the IMF or the World Bank.

Table No. 2 presents a summary of the main motivations for providing development assistance.[2] There has been a gradual progression from narrowly defined notions of donor political and economic self-interest—complemented by moral concerns and altruistic motives —to broader conceptions of the common interest and the stability of the international system. However, self-interest still prevails, and political and commercial objectives continue to influence the levels and allocation of aid budgets, especially at a time when budgetary stringency is making it rather difficult even to maintain the level of development assistance in most industrialized nations.

Different motivations interact closely with each other, either as complements or as tradeoffs. In some cases, human rights concerns may override the purely economic or political interests of donors; in others, the opposite may be true. Development financing may be made conditional on adopting political reforms, as exemplified by the loans provided by the European Bank for Reconstruction and Development (EBRD), whose articles of agreement state the promotion of multiparty democracy as one of its objectives. Environmental and security preoccupations may also reinforce each other, as in the case of assistance to the countries of Eastern Europe and the former Soviet Union to upgrade their nuclear power installations and dismantle their nuclear missiles. In general, increased interdependence and the process of globalization, added to the multiple fractures that characterize the emerging world order, have made the political, economic and social stability of the international system a growing concern of donors.

Taking into account private flows, grants by foundations and individuals, and Official Development Assistance, the structure of financial flows to developing countries is now skewed in favor of highly concentrated and mobile private investments and not geared towards the long-term development finance needs of developing countries. Moreover, the vastly increased mobility of international capital limits the capacity of most developing country governments to tax capital flows and profits, making them face the need to increase taxes associated with labor incomes. This creates serious problems for maintaining a reasonable level of public expenditures, which should be commensurate with the growth of social demands, especially in the poorest countries. In terms of the fractured global order, the logic of financial capitalism in the domain of the global, operating through transgovernmental and transcorporate entities in the domain of the networks, does not often coincide with the interests of developing societies in the domain of the local.

From this perspective, a possible additional motivation for Official Development Assistance may be to compensate for the negative impact that financial globalization has on economic stability and on the preservation of social cohesion within developing countries and at the international level. However, the initiatives taken by the high-income industrialized nations in various international gatherings point clearly in an opposite direction. In addition to the rather weak support for ODA, developed country governments are actively promoting international agreements on foreign investment that would further tilt the balance in favor of international capital and against developing countries.

THE SHAPE OF THINGS TO COME

The combination of enduring and emerging motivations for development finance and international cooperation ensure that these activities will continue, although in a much changed way, during the coming decades. For the foreseeable future, private flows will continue to dominate financial transfers to developing regions, official development assistance will remain a peripheral concern for the rich countries, and philanthropic initiatives by individuals and foundations will increase moderately. However, as new themes, organizations and resource mobilization mechanisms emerge during the next decade, development cooperation will continue to experience an arduous transition towards more diverse, flexible, focused and efficient institutional arrangements, which will emerge in full view towards the middle of the second decade of the 21st century.

Clusters of themes

The wide variety of areas covered by the expanding field of international cooperation for development will cluster around several main themes, primarily as a result of the need to find common ground and identify shared interests among a large number of actors with diverse objectives. These clusters of themes will cut across organizational boundaries and will become the focus for initiatives involving government agencies, international institutions, foundations, private firms and civil society organizations. Among these main clusters of themes it is possible to identify:

- *Stabilizing the international financial and economic system* will require concerted action by governments, international institutions and private financial institutions. A main theme will be how to create conditions for *harmonizing interests of private investors and of developing countries*. Among other things, this requires designing national and international policy regimes to ensure that private financial flows contribute effectively to development objectives. Frequent references to a "new international financial architecture" by government officials and scholars during the later 1990s indicate that this theme will continue to attract widespread interest in years to come.
- *Addressing global and regional problems* that affect several countries will require increased collaboration between countries and adapting the way that national

Development cooperation will continue to experience an arduous transition towards more diverse, flexible, focused and efficient institutional arrangements, which will emerge in the 21st century.

sovereignty is exercised. Environmental deterioration and sustainable use of natural resources figure prominently in this cluster, which also includes issues such as international migration, the internationalization of organized crime and the spread of drug traffic.

- *Humanitarian assistance and emergency relief* to deal with natural and man-made disasters. When violent conflict within countries requires relief efforts, it will be necessary to intervene in the internal affairs of sovereign states and further modify prevailing conceptions of sovereignty. Several ethnic conflicts during the later 1990s prompted intervention by the United Nations, North Atlantic Treaty Organization, regional organizations and many non-governmental agencies throughout the world, suggesting this will continue as a major issue for international cooperation.
- *Providing technical and financial assistance to promote economic growth and social improvement* has been the main focus of traditional development cooperation. Specific future themes include such fields as agriculture, industry and energy, education, health, family planning and poverty reduction. As trade liberalization gains and many developing countries continue to fall behind because of weak productive and technical capacities, the need will emerge for a massive program of trade-related technical cooperation between rich and poor countries.[3]
- *Establishing and strengthening institutions* in developing countries, which include capacity-building for government social and economic policy-making, institutional reforms and strengthening democratic practices and institutions. These issues require long-term and flexible interventions, carefully designed to involve and empower developing-country partners in the public sector, the private sector and civil society.
- *Creating and consolidating science and technology capabilities* in developing regions, which will become a major cluster of development cooperation initiatives in the early 21st century. There will be growing support for establishing local research facilities and acquiring technologies in communications and information, environmental sustainability, biosciences and biotechnologies. Although this has been a recurring theme of developing countries for at least 30 years, particularly since the UN Conference on Science and Technology for Development held in Vienna in 1979, the growing and more visible role that science and technology now play in achieving

prosperity and improving standards of living has made this a high priority as we move into a new century.[4]

- *Preventing, limiting and resolving deadly conflict* between and within states. While conflict prevention has received increased attention in recent years, it will take some time before a broad and coherent set of initiatives is launched, primarily because of our inadequate understanding of the combination of factors that lead to violent conflict situations and of how to prevent the eruption of deadly violence. A series of reports by the Carnegie Commission on Preventing Deadly Conflict points out measures that could be taken to improve regional and global security.[5] In the meantime, efforts to limit, contain and resolve conflict will acquire greater importance to maintain the stability of the international system.
- *Embarking on a collective effort to redefine what we mean by development and progress* as we enter a new century and millennium. Widespread uneasiness with current conceptions of development, the challenges posed by different civilizational outlooks, and the new salience of value and spiritual concerns will all make it necessary to launch a joint cross-cultural effort to explore these important questions in the early years of the 21st century.

These clusters of themes will bring together different combinations of government agencies in developed and developing countries, private corporations, academic institutions, non-governmental organizations and other actors in the international development scene. While some large multilateral institutions and bilateral aid agencies may have a stake in several of these clusters, most development cooperation organizations will focus on just a few.

ORGANIZATIONS BECOMING NETWORKS

The effects of institutional inertia and the accumulated strains of incremental adaptations will prompt a major redesign of most international development organizations. Some have already embarked on this. In addition, attempts will be made to define a reasonable inter-institutional division of labor and to identify redundant and missing institutions. Although these attempts will be resisted by some senior officials in these organizations, the combined pressure of new demands and diminished resources will ultimately prevail and lead to a rationalization of organizational arrangements for development cooperation.

Development cooperation organizations will improve their efficiency, becoming more open and transparent, and their impact will be closely monitored and evaluated. Tighter conditions will be placed on intermediaries of development assistance (particularly NGOs) and on recipients, so as to ensure better accountability. Programs will become more focused, greater emphasis will be placed on decentralization and the delegation of responsibility, and entrepreneurship and the exercise of creative leadership will be rewarded. Information systems will acquire greater importance as ways to foster new styles of work and also as means

The effects of institutional inertia and the accumulated strains of incremental adaptations will prompt a major redesign of most international development organizations.

to retain organizational memory. Temporary programs and organizational structures, with clearly defined expiration dates, will gradually replace the permanent organizations that were the norm in previous decades. The more effective development assistance agencies will become learning organizations, but many will have to first become "unlearning organizations" to forget past practices and work habits. Those that fail to do this will either disappear or be reduced to irrelevance over the next two decades.

The development cooperation organizations of the future will adopt the form of *flexible networks focusing on specific themes*. They will join several institutions together in coalitions, although thematic networks will also emerge as subsets of large organizations. A prototype thematic network will consist of:

- A *Network focused on a specific theme* with a *Board* comprising representatives of government agencies from developed and developing countries, multilateral and bilateral assistance institutions, private corporations, foundations, academic institutions, non-governmental organizations and other entities with a stake in the specific theme of the Network. All Board members would have the same voting rights, and the task of the Board would be to decide on specific programs to be pursued by subsets of Network members. Each Network member will contribute an assessed amount (determined according to pre-established binding criteria) to cover the operating costs of the Network Secretariat.
- A small *Network Secretariat* whose only function is to help identify and launch programs of interest to particular subsets of the members of a Network focusing on a specific theme. It would be composed of a few staff on fixed-term contracts, would be supplemented by consultants, and would work largely through electronic mail and other forms of telecommunications to minimize overheads. It will be financed primarily by the assessed

contributions from the Network members, and should regularly submit proposals to the Network Board.

- *Several program teams*, comprising only members interested in each particular program. These are the fundamental building blocks of the Network. Launching of the program team will be decided by the Network Board based on proposals from the Secretariat defining terms of reference, duration, organization and financing arrangements. Participation in program teams will be voluntary and restricted to Network members. Participants will also have to agree on their financial contributions to the program and their respective voting rights.
- An *ad-hoc Program Board* will be established to supervise and evaluate the work of each Program Team, and a *Program Secretariat* will be established on a temporary basis to coordinate and execute program tasks. Both will be disbanded upon completion of the activities. Each program will have a clearly defined termination date. Several program teams will be operating at any time, and the Network Board will be responsible for assessing the overall progress of the various programs and the performance of the Network Secretariat and its staff.

There are already several entities that exhibit some of the characteristics described for the thematic networks and program teams. One is the Consultative Group on International Agricultural Research (CGIAR), which was established in 1971 jointly by the World Bank, several bilateral agencies and private foundations. In addition, in recent years a number of international secretariats focusing on specific issues (for example, micronutrients, tropical diseases, application of information technologies in Africa, AIDS prevention) have been created with the support of bilateral agencies, multilateral institutions and foundations. However, the participation of the private sector and civil society organizations in these initiatives has been rather limited, and some of these network-like organizations have inherited the limitations characteristic of their multilateral and bilateral supporters.

The United Nations Development Programme (UNDP) may be gradually moving in the direction of supporting programs of interest to particular combinations of donors and recipients, which would resemble the thematic network programs described above. As an indication of this shift, during the late 1990s and for the first time in the 40-year history of UNDP, non-core resources (over which individual donors can exert more control) exceeded core resources in the UNDP budget (which are allocated primarily according to criteria defined by the governing board representing all

UNDP members). The World Bank recently established five functional networks focusing on themes such as environmental sustainability, finance and private-sector development, human development and poverty reduction. There is still much confusion about the way these networks will interact with the various regional and country teams, as well as with technical departments. However, their creation signals the intention of focusing the World Bank's professional capacities more sharply, of cutting across regional and country boundaries, and of engaging other development organizations, all of this directed towards improving organizational learning.

Other thematic team initiatives include ones which have joined between two and five different types of organization in virtually every possible combination of private corporations and investors and private foundations; NGOs, academic institutions and individual professionals; international financial institutions, multilateral institutions and regional development banks; and bilateral donor agencies, developing country government agencies and semi-public institutions. The themes that such coalitions are working on include information technology, sustainable development, Internet access for schools, science and technology, environmental impact of transnational oil operations in one country, educational development in Africa, coordinating donor agencies in the Sahel and managing freshwater resources.

RESOURCES

Development financing arrangements will be renewed over the next decade or two, as the inadequacies of existing schemes become obvious and unbearable. The changes are likely to be gradual, and governmental aid budgets will continue to play a major role, particularly in some of the thematic clusters. At the same time, there will be a great deal of experimentation with new financing mechanisms, and some innovative schemes will be tried on a pilot scale.

The most successful of the institutional innovations in development finance of the last five decades has been the establishment of multilateral development banks. To finance their regular lending programs, they issue bonds, borrow from private capital markets on rather favorable terms and then lend those resources with a modest mark-up to developing countries at rates below what private markets would charge them. The distinction between "paid-in" and "subscribed" (or "callable") capital allows multilateral development banks to play a very efficient intermediation role between private capital markets and developing countries. Shareholders have only to pay in cash a fraction of their share of total subscribed capital, but are committed to contribute the full amount in the unlikely event that massive defaults from borrowers would threaten these institutions with bankruptcy.[6] This allows the multilateral banks to appear extremely conservative by maintaining a maximum of one-to-one gearing ratio between their subscribed capital and their obligations to bondholders, considerably reducing the cost of borrowing (even though they have a much larger gearing ratio between paid-in capital and outstanding bond obligations). In effect, this constitutes an intergovernmental guarantee scheme that has worked very well for more than five decades, partly because of the prudent financial management of multilateral development banks and because the preferred creditor status of these institutions ensures prompt and preferential payment by their borrowers.

Multilateral development banks and other development finance institutions are now exploring other types of guarantee schemes, particularly to reduce the risks of private investors in developing countries and transitional economies. Some of these involve guaranteeing sovereign bond issues with the condition of maintaining economic policies, securitizing existing developing country obligations, and the use of exotic financial instruments. There has also been much discussion about special funds to soften the financial conditions of loans to the poorer countries by reducing interest rates and by extending grace and repayment periods. Some of these initiatives will prove successful and will be launched during the next several years, expanding the range of options for development finance. In addition, investment banks are joining forces with multilateral institutions to raise investment capital in some specific sectors, particularly infrastructure. Private firms in the more advanced emerging economies that are able to attract private capital flows will also expand their access to the stock markets of industrialized nations, usually with the help of private investment bankers.

Some kind of automatic resource mobilization mechanism will be put in practice during the next two or three decades, at least on a pilot basis. The balance between the large potential benefits and the small costs of such schemes is too favorable for resistance to "international taxes" to hold up their implementation indefinitely. A great deal of work has been done on the feasibility of the "Tobin Tax" on international capital movements, and more recently a "Bit Tax" on international electronic commercial and financial transactions has been suggested. Although they are still a long way from becoming viable options, they have stimulated a great deal of interest and many negative reactions from developing-country governments and firms. Rather than a global tax system, such schemes are likely to be first tried on a limited basis, most likely involving voluntary agreements between private firms, government agencies, international institutions and civil society organizations at the regional level. Along similar lines, it would be interesting to explore the possibility of creating an international "Gene Tax", which would be levied on the profits made by international agricultural and pharmaceutical firms through the sale of products that incorporate genes from developing country-organisms.

Initiatives involving tradable permits are also on the table. The "Clean Development Mechanism" agreed at the Kyoto Conference of Parties to the United Nations Convention on Climate Change will allow developing countries to sell their unused carbon dioxide emissions rights to countries and firms that exceed their allowances. First operations under this mechanism began to be negotiatiated in 1998, with Costa Rica embarking on sale of about $20 million in emission offsets to private investors; many private firms in Canada, the United States and some European countries are organizing a market for tradable emissions permits on a pilot scale.

Debt swaps and debt forgiveness will also play an increasing role in development finance, especially for the poorest and highly indebted countries. In addition, the Pope has proposed that all debt of the poorest countries of the world be forgiven on the occasion of the Year 2000 Jubilee, and several religious organizations are actively lobbying their governments to support such an initiative. As a result, the Group of 7 highly industrialized countries agreed during 1998-1999 on several initiatives to forgive part of the debt that the poorest countries owe bilateral assistance agencies and international financial institutions.

Ideas are brewing for automatic resource mobilization by taxing international capital movements (Tobin Tax), international electronic commercial and financial transactions (Bit Tax), and profits made by international firms on products that incorporate genes from developing-country organisms (Gene Tax).

There are also discussions about the creation of regional and national trust funds with donations from private corporations, developed- and developing-country governments, foundations and wealthy individuals. A few regional trust funds for specific themes will be operating at modest level during the first two decades of the 21st century. "Counterpart Trust Funds," several of which were established in Latin America during the 1980s and 1990s with resources from bilateral debt swaps, provide small-scale examples of how regional trust funds could operate.

Wealthy businessmen and musicians are also becoming involved in international philanthropy to a growing extent. In the age of initial public offerings of shares of new high-technology firms and megamergers that make a few individuals incredibly rich, their example may draw still other wealthy persons to become more engaged in financing international development activities. Ted Turner's $1 billion gift to the United Nations, George Soros' hundreds of millions of dollars in contributions to Eastern European non-governmental and academic organizations, Bill Gates's establishment of two foundations endowed with more than US$17 billion, Elton John's donation of more than $100 million for the removal of landmines from royalties of his record in Lady Diana's memory, and the tens of millions of dollars raised by rock concerts to support causes as varied as famine relief in Africa and AIDS prevention point out that the role of private giving is likely to grow in the near future. Finally, there have also been proposals to establish lotteries to raise funds for international development activities. One such scheme links airline travel to card games and a lottery to raise funds for sustainable development initiatives in developing countries.

While private investment flows and developed country budget allocations will continue to dominate the development finance and international cooperation scene, new financial mechanisms involving combinations of private investment, multilateral and bilateral lending, grants from foundations and individuals, and income from trust funds will acquire a growing importance in the next two decades. Combined with new organizational arrangements and the identification of clusters of themes, these new financial resource mobilization schemes will radically alter the shape of development finance and international cooperation.

AN ARDUOUS TRANSITION

A former high-level United Nations official once referred to development assistance in the following terms:

"*An important experience, without precedent in modern history is coming to an end. It will have lasted much less than was expected. Born in the midst of contradictions, it dissipates in ambiguity. It means renouncing an ambitious but ill-conceived enterprise. Its original noble intentions have been progressively submerged by other considerations which, inevitably, have led to mutual recrimination and disillusion.*"

The official was Tibor Mende, and the year was 1972.[7] He was reflecting on the failure of development assistance to live up to the high expectations it had raised and the danger that it might become an instrument of a new form of colonialism. Neither the hopes nor the fears were fully realized, but the quote underscores that development assistance has long been kept under close scrutiny.

If the demise of the development cooperation experiment was prematurely announced in the early 1970s, might not the same have happened in the late-1990s? Probably not. In the first place, the transition from the 1960s to the 1970s did indeed see an "end" of sorts that signaled the full emergence of multilateral channels for development assistance and substantive changes in bilateral aid. Second, the magnitude, scope and intensity of changes accompanying the emergence of the fractured global order in the late 1980s and the 1990s are much greater than those at any time during the last half-century. While it may not end with a bang, but rather with a whimper (and maybe with lots of whining), there is little doubt that the development cooperation experiment, as we have known it during the last five decades, is coming to an end.

And yet, as motivations for private firms to invest in the developing world, for foundations, private philanthropy and religious groups to reach beyond their home bases, and for rich countries to help the poor nations endure, development cooperation will continue its arduous process of transformation and evolve in directions that will correspond more closely to the spirit of our times. Its main objective will be to bridge the multiple fractures that are defining the emerging global order. Although there are critics who see development assistance as widening rather than bridging these fractures, most of those concerned with improving the situation of the poor agree that development finance and international cooperation could play a significant and important role in the future. Therefore, it is not surprising that many proposals have already been put forward during the last few years to renew development cooperation.

Grant-making organizations, and private foundations in particular, have a special role to play in the renewal of international development cooperation. In contrast to international financial institutions, which have to be conservative to preserve their financial standing, and bilateral cooperation agencies, which are instruments of foreign policy, private foundations can take greater risks, engage more readily in experimental programs, choose more freely their areas of interest, support initiatives for relatively long periods without having to show immediate results, and operate in a flexible way without overbearing administrative or political constraints. They are also free from the private-sector need to show direct financial returns in the short term. Private foundations and development cooperation agencies that enjoy considerable autonomy—such as the Canadian International Development Research Centre (IDRC) and, to a lesser extent, the United Nations Development Program (UNDP) —have demonstrated throughout their history the capacity for leadership in areas considered too risky, politically charged or complex for the larger financial and technical cooperation institutions. In doing so, they have been the catalyst to major global efforts, such as the Green Revolution, contraceptive research, tropical-diseases research, science and technology policy, environmental conservation and conflict prevention.

We are living through a momentous period of human history in which reality is being reconfigured for all of us.[8] In different ways, and at different speeds, most societies are beginning to recognize that humanity is embarked on an uncertain transition towards something that cannot yet be visualized clearly. Advances in knowledge during the last four centuries, and particularly during the last five decades, have created remarkable opportunities for improving standards of living in ways that were not even dreamt of by our ancestors. But we need to devise new means for taking advantage of these opportunities for the benefit of all of humanity. In this special period of history, conceptual advances must proceed hand in hand with institutional experimentation. This suggests the need for carefully designed large-scale interventions or "institutional experiments" involving public, private, civil society, academic and international organizations to address the problems associated with the emergence of the fractured global order.

There is also a need for a concerted international effort to explore the meaning of development in the transition to a new century and a new millennium. Although there are prominent analysts who view cultural conflicts as inevitable and possibly violent, institutionalized dialogues between cultures and civilizations can help to peacefully redefine what we mean by development and progress, and to devise the ways of achieving them. They are also essential to help determine the direction of the initial steps toward the design of a new program to guide human efforts in the decades and maybe centuries to come.

Finally, it is clear that these new times require a new style of leadership, much more flexible and capable of adaptation than the leadership we have had during most of the 20th century. In order to cope with the uncertainties, unsettling features and anxieties of our time, as well as to take advantage of the extraordinary opportunities it offers, we need leaders who empower others and guide with a light touch; leaders prepared to restrain their ambition and advance collectively by sharing power; men and women of vision and practical imagination. They will be found among those that the late eminent social scientist Eric Trist described so well:

"We need flexible, resourceful, resilient people who can tolerate a lot of surprise and ambiguity emotionally while continuing to work on complex issues intellectually." ■

REFERENCES

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- See: Francisco Sagasti and Gonzalo Alcade, *Development Cooperation in a Fractured Global Order: An Arduous Transition*, Ottawa, IDRC, June 1999. That text, which includes many specific examples of new networks, is also available online at http://www.idrc.ca/books/focus.

NOTES

[1] Sagasti and Alcalde, *op. cit*; Francisco Sagasti, "International cooperation in a fractured global order", *Impact of Science on Society*, No. 155, (1989), pp. 207-211, and "The 1990s: decade of the emerging fractured global order", *UNITAR Newsletter* 1 (2) 1989, pp. 7-10.

[2] The table on motivations for development assistance has been adapted from reports on the prospects for official development assistance in the 1990s, prepared by Susan Ulbaek and Izumi Ohno, at the Strategic Planning Division of the World Bank in the late 1980s. See, in particular, Izumi Ohno's report *Donor's Aid Motives: Implications for Multilateral Concessional Aid*, Strategic Planning Division, the World Bank, May 1990.

[3] Rubens Ricupero, the Secretary General of the United Nations Conference on Trade and Development (UNCTAD), proposed such a program in a speech to the High Level Symposium on Trade and Development at the World Trade Organization in Geneva on March 17, 1999. See his article "Resolving the crisis of development", *South Letter* 3 (34) 1999, pp. 2-7.

[4] For example, Jeffrey Sachs has pointed out that "advances in science and technology not only lie at the core of long-term economic growth, but flourish on an intricate mix of social institutions—public and private, national and international." He argues that, to mobilize "global science and technology to address the crises of public health, agricultural productivity, environmental degradation and demographic stress", it will be necessary "that the wealthy governments enable the grossly underfinanced and underempowered United Nations institutions to become vibrant and active partners of human development". *The Economist*, August 16, 1999.

[5] See the Carnegie Commission on Preventing Deadly Conflict website at www.ccpdc.org.

[6] Paid-in capital represented 20 percent of the subscribed capital when the International Bank for Reconstruction and Development (IBRD), the regular lending arm of the World Bank, was established in the 1940s. Subsequent capital increases in which the paid-in component was lowered brought the ratio of paid-in to subscribed capital to about 6.5 percent in the early 1990s. In the early 1950s, IBRD management concentrated its efforts on obtaining a triple-A rating for its bonds, thereby ensuring good access and favorable borrowing terms to tap international capital markets. This helped to legitimize the multilateral development bank model for development finance and paved the way for the creation of the regional development banks.

[7] Tibor Mende, cited in Helan Jaworski, *Hacia nuevas formas de relación del Sur con el mundo*, Victoria-Gasteinz, Servicio Central de Publicaciones del Gobierno Vasco, 1994, p. 28.

[8] Elsewhere I have referred to the current period of history as "the transition to the post-Baconian age". See the working paper: *The twilight of the the Baconian age*, Lima, FORO Nacional/Internacional—AGENDA: Perú, November 1997, and the article "Development, knowledge and the Baconian age", *World Development*, 25 (10), 1997: 1561-1568.