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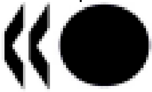

Sustainable Development

ROUND TABLE ON SUSTAINABLE DEVELOPMENT

OFFICIAL DEVELOPMENT ASSISTANCE AND FOREIGN DIRECT INVESTMENT: IMPROVING THE SYNERGIES

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This document is a background paper for the OECD Round Table on Sustainable Development, which has as its theme "Improving the Synergies between Official Development Assistance and Foreign Direct Investment to Developing Countries". The meeting will take place at OECD Headquarters, 2, rue André Pascal, 75016 Paris on 1 March 2001, starting at 9.30.

The views expressed do not necessarily represent those of the OECD or any of its Member countries.

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Introduction

International economic development remains an urgent global need. During the Millennium Summit, the UN Secretary-General put it bluntly: "the central challenge we face today is to ensure that globalisation becomes a positive force for all the world's people, instead of leaving billions of them behind in squalor".[1] Since then, many countries have signed up to the Millennium Development Goals and, not surprisingly, it has become commonplace to hear that development should be one of the defining features of the World Summit on Sustainable Development (WSSD). Indeed, at the heart of the still putative agenda for the Johannesburg summit is an ongoing attempt to focus developed-world efforts on improving the development prospects of developing countries.

There are a number of mechanisms that can foster international economic development. This paper considers two of these: Official Development Assistance (ODA) and Foreign Direct Investment (FDI). In the context of declining aid flows, the central question posed by this paper is whether it is possible to make up the difference by relying on private investment. The paper concludes that, for most developing countries, private investment alone is insufficient and that synergies between ODA and FDI need to be improved. Some ideas for achieving this are offered.

Official Development Assistance

In the ten years since Rio, progress has been made in improving the prospects of developing countries.[2] Inequality between the developed and the developing world has gradually begun to decline. At the beginning of the 1990s, for instance, the average real income in the countries containing the richest fifth of the world's population was eighteen times more than in those countries comprising the poorest fifth. At the close of the decade, the disparity had contracted to fourteen.[3]

Encouraging though this is, the statistics on human development globally still make for depressing reading. Currently, 1.2 billion people live on less than one U.S. dollar per day and a further 1.6 billion on less than two. More than one billion people therefore cannot meet even the most basic consumption requirements, and some 840 million people on the planet are severely malnourished.[4] Nearly one billion adults are illiterate and more than 260 million school-aged children do not attend any form of schooling. Worse still, more than 250 million of them work as child labourers. Emphasising the link between the environment and development, some 60 percent of the world's poorest people live in ecologically vulnerable areas. Furthermore, nearly three million people per year die from air pollution, and more than five million die of diarrhoeal disease caused by unsafe water supplies.[5]

The imperative to address these kinds of development problems is frequently cast in moral terms. There are, however, more utilitarian and self-interested reasons. The rising incidence of cross-border disease contagion, regional instability, environmental degradation and civil strife are all caused or exacerbated by poverty and have very real and direct implications for the developed world. At the same time, the tensions generated by the deterioration of 'ecological services' (like access to water or fish resources) may act as a catalyst for population displacement and may further worsen the poverty spiral. Poverty, combined with the collapse of governance as the events of 11 September 2001 showed all too clearly, can be a catalyst for international terrorism and other crimes such as narco-trafficking and money laundering. All of these issues impinge on the daily lives of those in the developed world and provide a justification, not only to help others, but also, by extension, to help themselves.

In 1969, the Pearson Commission, called on the industrialised countries to provide 0.7 percent of their gross national product as official development assistance. More recently, many developed countries re-affirmed this target through the Millennium Development Goals.[6] The Zedillo Report on Financing for Development, which is designed to prepare the ground for the Monterrey Conference on Financing for

Development, concluded that the "inescapable bottom line is that much more funding is needed for official development assistance." In this context, the same report called on developed countries to "implement the aid target of 0.7 percent of GNP."[7] Indeed, the Zedillo Report concludes that the Pearson target is one on which the 22 OECD DAC members have essentially reneged for nearly 30 years. It is hard to disagree. Only five of the DAC membership actually achieved the Pearson target in 2000. The United States disbursed 0.1 percent of GNP the lowest GNP/ODA ratio of any OECD DAC member. Two of the other major G-7 economies, Germany and Japan, gave just 0.26 percent and 0.35 percent respectively in 1999 and 0.27 percent and 0.28 percent in 2000.[8] More specifically, in 1992 the year of the Rio Summit, ODA amounted to $60.8 billion.[9] In 2000, the same figure was US$53.7 billion, representing a fall of 7 percent in real terms.[10]

If every country contributed 0.7 percent of their gross national product as ODA, nearly US$160 billion would be released.[11] Certainly, if the DAC membership was prepared to pay this additional US$115 billion in the form of ODA and meet the Pearson Commission's targets, it might be possible to pay for a number of global public goods. This, in turn, would undoubtedly assist in what the Zedillo Report calls the "take-off of developing countries".[12] The reality is, however, that there is little prospect of even a majority of the DAC membership meeting the Pearson commitments any time soon.

ODA Trends

A closer examination of the direction some of the funding from the larger donors is flowing indicates that the actual recipients of significant levels of assistance are relatively limited. The top three recipients (Israel, Russia and Egypt) of U.S. assistance in 1999, for instance, accounted for nearly one third of all US assistance that year. The sums provided (US$1.1 billion, US$905 million and US$845 million respectively dwarfed the contributions made to the fourth and fifth placed recipient countries, Ukraine and Bosnia-Herzegovina, which received US$229 and US$218 million respectively.[13]

There are also serious questions about the directions in which ODA flows. Currently, very little ODA actually reaches the poorest countries. In 1999 and 2000, for instance, only 0.10 percent of the average GNP of the 22 members of the OECD DAC actually found its way to low income countries and a mere 0.05 percent flowed to the least developed countries.[14] Indeed, over the past decade, a number of DAC members introduced assessments of aid effectiveness which concluded that ODA was working effectively for certain countries, but not others. The consequences were significant. Many least developed economies suffered cuts in ODA flows of nearly 25 percent over the period and seven African countries lost more than half of their ODA support.[15] Compounding this problem has been an apparent decline in interest by donor countries in assistance for environmental protection and basic social services. When taken together these two areas accounted for less than 12 percent of all ODA in 1999.[16]

Another question frequently raised about donors relates to the effectiveness and quality of the assistance provided. Studies have suggested that a considerable proportion of development assistance provided by many of the G-7 and middle-sized DAC economies acts primarily as a foreign and commercial policy lever. Similarly, the use of export credit agencies, particularly by G-7 members, has been controversial because of their environmental and social impacts. The allocation and quality of assistance provided by many, if not all, of the smaller donor countries, on the other hand, is generally believed to be shaped by concern for the development needs of recipients.[17]

In the context of declining aid flows of dubious development effectiveness, there are also signs that some of the most generous countries appear to be having second thoughts. The new government in Denmark, for instance, is making cuts to its ODA, which currently stands at over 1 percent of GNP.[18]

Against this background, it is also worth noting that even existing aid flows are increasingly premised on the establishment of effective governance and economic management by developing countries and the emergence of, for instance, a range of effective national sectorally-based strategies (eg for health or education).[19] The stringent requirements spelt out in the recent WHO Commission on Macroeconomics and Health, for instance, make it clear that there is nothing automatic about continued flows of development assistance.[20] In short, aid disbursements depend on significant policy and institutional improvements in developing countries.

The political reality that ODA is limited and in decline has already begun to filter into international discussions on the subject. The draft text for the Monterrey Financing for Development Ministerial statement, for instance, is an insipid document, which merely recognises that "a substantial increase in ODA and other resources will be required if developing countries are to achieve the internationally agreed development goals and objectives." Significantly, it does not endorse the Pearson Commission targets, nor does it offer any support for UN Secretary-General Kofi Annan's call for doubling ODA from $US50 billion to $US100 billion per year.[21]

The traditional response to facilitating growth in developing countries (i.e. development assistance), particularly when it is under intense pressure, appears unlikely therefore to deliver on the scale or at the speed that is required to improve conditions in developing countries. Consequently, pinning international hopes on development with an increase in taxpayers' funds seems increasingly improbable. How can governments then intervene swiftly and effectively for the better?

Foreign Direct Investment

One of the transmission mechanisms, which may help improve the dismal situation described earlier, is private investment. Empirical research of inter-country differences in growth rates suggests that there is a strong relationship between high investment rates and strong growth.[22] Furthermore, many of the most important decisions that will affect the fate of the world's forests, oceans, freshwater, and climate – and determine the development prospects of billions of people – are already being made by trans-national corporations and investors. Indeed, the OECD Guidelines for multinational enterprises (MNEs) acknowledge this precise point and support the potential for positive contributions to societies in which MNEs operate.[23]

There is an enormous literature on the benefits that FDI confers on the recipient country. The main aspects can be summarised as follows:[24]

- *Capital*: FDI brings in financial resources and these are more stable and easier to service than commercial debt or portfolio investments.
- *Skills:* FDI can attract and support the transference of managerial skills and advanced technical know-how. Improved and adaptable skills and new organisational techniques and management practices can yield competitive benefits for developing country economies as well as help sustain employment as economic and technological conditions change.
- *Technology:* Highly prized by developing economies, particularly when modern technologies are not available in the absence of FDI. Technology can also assist in raising the efficiency with which existing technologies are used and may spawn the establishment of local Research and Development facilities.
- *Market access*: FDI through the activities of trans-nationals can provide improved access to export markets both for goods and services that are already produced in developing countries, helping them switch from domestic-only production to international markets. Export expansion offers multiplier benefits in terms of technological learning, realisation of economies of scale, competitive stimulus and market intelligence.

- *Environment*: foreign companies investing in developing countries are frequently leaders in the development of clean technologies and modern environmental management systems. They can employ such mechanism in the developing countries in which they operate. Spillovers of technologies and management experience and skills can enhance environmental management in local companies within the industries where foreign investment is present

There is no doubt that FDI is sought by developing countries as a means of complementing levels of domestic investment, as well as securing economy-wide efficiency gains through the transfer of management know-how, technology, business practice, access to foreign markets, increased employment opportunities, and enhanced living and environmental standards.

The raw figures are striking, particularly when set against the increasingly anaemic ODA data. At the time of the Rio Conference in 1992, FDI flows to developing countries stood at around US$36 billion. By 1999, this figure had more than quadrupled to nearly US$160 billion.[25] Buttressing this evidence, a study of the ASEAN-5 economies concluded that FDI played a "significant role" in augmenting growth. Using a simple growth-accounting framework, the analysis demonstrated that FDI directly accounted for between 4 and 20 percent of GDP growth between 1987 and 1997. Moreover, the same study noted that FDI flows were stabilising factors during the Asian financial crisis.[26] Systematic analysis undertaken by the World Bank and UNCTAD also indicates that the impact of FDI is, broadly speaking, positive. FDI to developing countries is either neutral (i.e. one dollar of FDI leads to investment growth of one dollar) or of the 'crowding in' variety (i.e. total investment increases by more than the additional dollar of FDI).[27]

FDI Trends

It is also important to acknowledge that, while the overall FDI figures are large, a small number of developing countries are attracting the lion's share of investment. Seventy-five percent of all global FDI flows go to developed countries, the remaining 25 percent is unevenly spread, with relatively little trickling down to the least developed economies. In 1998, for instance, the entire African continent received barely 1 percent of global flows.[28] Indeed, in 1999, sub-Saharan African countries received nearly 65 percent of all their net external finance from ODA.[29] There has also been a tendency to favour particular countries with FDI flows. Ten middle-income developing countries, for instance, accounted for nearly 80 percent of all FDI received by developing countries in the past decade. China alone has swallowed up US$321 billion or 45 percent of all of the investment flowing to the Asian region since 1990. This has significant implications for the wider region.[30]

It may also be worth reflecting on the longer historical perspective of FDI flows. In 1914, at the end of what has been described as a 'previous phase of globalisation,' nearly 40 percent of western European FDI flows found their way to Latin America, Asia and Africa. In the 1990s, less than half that amount found its way to those regions. In short, western European FDI flows were more globally oriented at the beginning of the last century than at its close. [31]

In a bid to ensure a better spread of FDI flows, many developing countries have undertaken reform programmes designed to attract ongoing and expanded external investment. The need to address potentially long-standing structural weakness, which can effect the long-term stability of flows, is important, and the sequencing of reforms remains critical. The experience of Argentina is salutary. Argentina opened itself to foreign capital and received enormous inflows of direct investment – almost US$80 billion from 1991 to 2000. Foreign companies invested heavily in oil, telecommunications, and banking industries. But the resulting economic gains were ultimately offset by long-standing weaknesses, including, chronic government deficits, tax evasion, a weak entrepreneurial class and an uncompetitive wage structure, all of which led to the catastrophic events of late last year.

At the other extreme are those developing countries that consciously strive to attract foreign investment, but fail to do so. The Kyrgyz Republic is a case in point. It was the first CIS member to join the WTO. It was also the first former Soviet Republic to initiate broad-based efforts to re-vamp its bureaucracy, implement competition and tax policies favourable to foreign investors and install policies designed to encourage domestic savings and strengthen the local infrastructure. This was not sufficient. FDI flows since independence have been limited. In the absence of any natural resource wealth and the negligible and poor consumer market, investors flocked to the neighbouring Central Asian Republics which have yet to join the WTO and have not undertaken anywhere near the same level of reform as the Kyrgyz Republic. Thus, less than 10 percent of total FDI flows directed at the Central Asian region went to the Kyrgyz Republic. Uzbekistan, Kazakhstan and Turkmenistan attracted nearly 85 percent of all FDI flows to the region with war-torn Tajikistan absorbing the remainder.

In sum, FDI flows can supplement domestic financial resources for development and add directly or indirectly to domestic investment in developing countries. They bring in much needed foreign exchange that improve a host country's balance of payments. There is also evidence that FDI flows are generally neutral and can 'crowd in' further investment. It is not surprising then that most developing countries regard FDI as critically important to their national development strategies. Nevertheless, while all developing countries try to attract FDI, such inflows are unevenly distributed. Furthermore, despite its rapid growth, the extent of investment in developing country markets has been insufficient to meet demand: an estimated 3.5 billion people world-wide, for instance, still do not have access to basic infrastructure services.

Box 1.

Land degradation is a severe problem in the Ethiopian highlands where soil erosion has been estimated to average 42 tonnes per hectare. At the same time, this region is one of growing significance for the country's nascent coffee growing sector. In 1997-98 foreign investors expressed interest in working with local authorities in the region to develop coffee production. The problem remained, however, the unsustainability of land management practices. In a bid to encourage private sector engagement, the Norwegian and Swiss Development Agencies provided technical assistance to help improve the sustainable management of agriculture in the region. Additionally, legal assistance was provided to improve the land registration process, a factor identified by the private company as critical for its long-term strategy. As a direct consequence of the technical assistance, which helped improve the sustainability of the yield and agricultural techniques, the company has now invested heavily in the region. Coffee production for export began in 2000.[1]

Against this background, it may be possible to argue that declining aid flows are compensated in part by relatively greater private investment flows as has happened in a minority of middle-income developing countries. Low-income developing and least developed countries, however, have been *unable* to benefit from private capital flows as they continue to be relatively unattractive to investors. As a consequence, these countries are becoming increasingly dependent on aid, and reductions in the provisions of public capital flows have a concomitantly negative effect on these countries. Indeed, it is worth emphasising that for these countries an increase in ODA funding is an urgent and pressing need.

1. For more details see, Pender, J. Gebrenedhin, B, Benin, S and Ehui, S., (2001) *Strategies for Sustainable Agricultural Development in the Ethiopian Highlands*, American Journal of Agricultural Economics 83 (5), pp. 1231-1240 and Pender, J., Place, F., and Ehui, S., (1999) *Degradation and Conservation of Resources in the East African Highlands* EPTD Discussion Paper 41, IFPRI, Washington.

In short, the answer to the question posed at the beginning of this paper, whether FDI can fill the gaps created by declining aid flows, is highly qualified. Given declining ODA funds, it becomes imperative to improve their quality such that they can leverage and stabilise FDI flows.

Creating Synergies Between ODA and FDI

There is an enormous literature on ways to improve the effectiveness of FDI flows to developing countries. One idea has been to improve the synergies between such flows and ODA. There is evidence that carefully targeted development assistance may assist in leveraging FDI flows and creating a virtuous circle of increasing savings and investment. Most significantly, such a situation can be created when ODA is used to buttress or develop institutions and policies in developing countries. This helps create a favourable environment for (domestic) savings, (domestic and foreign) investment and growth. More specifically, ODA funds can be used to support those areas considered important to investors in determining investment decisions. Some donor and recipient countries have been working for some time along these lines, though for many DAC members, practical implementation has been relatively recent. Boxes 1 and 2 provide practical examples of the development of synergies between FDI and ODA.

Box 2.
The case of the N4 toll road between South Africa and Mozambique is a good illustration of what can be achieved when investors and ODA agencies work together. The N4 toll road was a significant component of a major economic development initiative called the "Maputo Corridor programme." At the heart of the corridor was the need for a 440km strong road link connecting Maputo with Johannesburg. Both Governments sought private capital to fund these projects. At first, private financing was difficult to secure. The tendering process was unclear, legal mechanisms were opaque, land ownership questions surrounding the road link were of concern and most importantly, private investors doubted the effectiveness of the co-ordination efforts of the two countries involved. To facilitate private sector interest, the Danish Development Agency and the World Bank provided modest funding for the requisite technical advice in designing the framework structures required, including in particular the establishment of a bi-national Implementation Authority which developed the most attractive investment alternative. This has been identified as the "central reason" behind the scheme's success. Following the establishment of the bi-national commission and transparent and reliable tendering procedures, private investors provided *all* of the requisite funding for the road link and, indeed for the wider rehabilitation of the rail link between the two cities.[2]

Another approach being pioneered by some donors and, in particular, the World Bank is the concept of *output-based aid*. Donor countries and developing countries are increasingly interested in using this mechanism where, inter alia, "quasi-contracts" are established between government agencies and the private sector to deliver specific services. The responsibility for the delivery of such services is thus transferred to private investors/providers. In contrast with the more traditional approaches to ODA delivery, this mechanism begins at the outset with a definition of objectives and specifies expected performance in terms of very clear outputs (or outcomes), rather than focussing on inputs.[32] The relatively recent experience with such schemes has provided important insights into output-based approaches as a way of improving the delivery of services, while at the same time better targeting government and donor funds. More generally, schemes for private participation in infrastructure, aimed at mobilising private incentives for innovation and efficiency in the delivery of services have expanded considerably with broadly positive results. Research undertaken recently, for instance, suggests that this approach has yielded significant welfare effects. At the same time, however, the benefits of leveraging

2. Sader, F., (2000) *Attracting Foreign Direct Investment into Infrastructure: Why is it so Difficult?* Occasional Paper 12, World Bank, Washington, pp. 90-100.

private investment and its effects on distribution are sensitive to the way in which contracts are conceived and the pace and extent of market structures and policy reforms.[33]

When considering whether/how ODA policies might help generate FDI flows, one of the issues to consider is: what are the main impediments the private sector perceives in host countries, which could be affected by such judicious policies?

Judging from the World Bank's survey of business attitudes on investment decisions[34] and the more recent World Business Council on Sustainable Development paper (WBCSD)[35] on a similar theme, the main issues include:

- Corporate governance (corruption, transparency);
- Social and economic stability;
- Transparent and reliable administrative processes;
- Fair taxation and competition policies; and
- Socio-economic issues (including human rights and security).

Mozambique is a specific example of a country which, following the conclusion of its civil war, consciously focussed its reform programme on many of the issues identified in the two surveys cited above. Working with the UK Department for International Development and the Portuguese Development Agency, Mozambique has enjoyed considerable success. There has been a six-fold increase in FDI since 1994, much of it directly attributable to the efforts made by the government to respond to the concerns of foreign investors about governance, transparency issues and domestic macro-economic policies.[36]

Many other developing country governments already try to address the kinds of issues identified by the World Bank and WBCSD through their domestic reform programmes. More specifically, many seek to adhere to a range of codes and standards which are internationally recognised as indicators of good practice for responsible and transparent behaviour in the financial and corporate sectors (see Annex for an outline of the 12 Key Standards for Sound Financial Systems). The implementation of these codes can certainly persuade investors that the environment is supportive for FDI flows, though companies continue to have concerns about the relevance of some of these codes to implementation and practice on the ground.[37] At the same time, from the perspective of developing countries, such activities require considerable resources and technical knowledge to implement and this may be another area for ODA Agencies to consider supporting in a bid to leverage FDI.

Conclusion

Traditional approaches to aid and spending have often failed to yield sustained improvements in economic development, particularly for the least developed economies. Similarly, FDI flows are too unevenly spread to allow one to conclude that such a mechanism alone can fill the gap created by declining ODA levels. Thus, in a world of declining aid budgets, an increasingly critical question for developing countries and donor countries is how to leverage private financing with public resources. Internationally, there is increased understanding that good framework conditions can help attract and retain FDI flows. At the same time, there is also evidence that the use of ODA in a consciously targeted manner to try and attract and retain such flows may improve the efficiency and effectiveness of such forms of assistance.

The Monterey Conference on Financing for Development and the WSSD will ensure that the issue of declining ODA flows will again be at centre stage. The central question posed by this paper was whether it was possible to make up the difference by relying on private investment. For most developing countries, the conclusion is that private investment flows are insufficient and synergies between the ODA and FDI need to be improved.

Against this background there are some modest, but potentially workable ideas in addition to those proposed by WBCSD, which may help improve the synergies between ODA and FDI:

- *Information Sharing:* between companies working in a developing country and the ODA agencies considering releasing funds in support of a particular economic sector. One area of interest to ODA agencies, for instance, may be information (shorn of its commercial sensitivity), which can give them a better sense of the real state of the economy (e.g. the relationship between the formal and informal economy); and

- *Formalised Dialogue:* Is there scope for a formalised dialogue (as opposed to simply information sharing) between ODA agencies and businesses? One idea might be to have this exchange occur at regular intervals on several levels, i.e. sub-national, national, sub regional, regional etc. Such discussions should involve all layers of staff involved-not simply at the political level, but also at the on-the-ground working level.

- *Incentives*: Is it possible for OECD countries to make use of investment guarantee schemes, and other public programmes to support the activities of companies prepared to invest in *least developed economies*? Such a proposal could be narrowly focussed on specific sectors of need (e.g. human capital building etc).

ANNEX: LIST OF THE 12 KEY STANDARDS FOR SOUND FINANCIAL SYSTEMS

Macroeconomic policy and data transparency

Code of Good Practices on Transparency in Monetary and Financial Policies (IMF): www.imf.org
Code of Good Practices on Fiscal Transparency (IMF): www.imf.org
Special Data Dissemination Standard (SDDS)/General Data Dissemination System (GDDS): www.imf.org

Institutional and market infrastructure

Principles and Guidelines for Effective Insolvency and Creditor Rights Systems: www.worldbank.org
Principles of Corporate Governance (OECD): www.oecd.org
International Accounting Standards (IASB): www.iasb.org.uk
International Standards on Auditing (IFAC): www.ifac.org
Core Principles for Systemic Important Payment Systems (CPSS): www.bis.org
The Forty Recommendations of the Financial Action Task Force on Money Laundering (FAFT): www.oecd.org/fatf

Financial regulation and supervision

Core Principles for Effective Banking Supervision (BCBS): www.bis.org
Objectives and Principles of Securities Regulation (IOSCO): www.iosco.org
Insurance Core Principles (IAIS): www.iaisweb.org

NOTES

1 United Nations Secretary-General (2000) *Report to the Millennium Assembly*, United Nations, New York.

2 OECD (2001a) *The DAC Guidelines on Poverty Reduction*, OECD, Paris.

3 The 1960 and 1990 figures are derived from The United Nations Council for Trade and Development (1996) *Report on Least Developed Countries*, United Nations, New York. The 1999 figure has been estimated by the author using adjusted World Bank (2000) data. Figures cited are based on a comparison of purchasing power parity. The results are comparable to (though lower than) other analyses, e.g. DFID (2000) *Eliminating World Poverty: Making Globalisation Work for the Poor, White Paper*, UK DFID, London. (also: http://www.globalisation.gov.uk).

4 OECD (2001b*), The DAC Journal: Development Co-operation 2000 Report*, OECD, Paris.

5 United Nations Development Programme (1999) *Human Development Report*, UNDP, New York.

6 See http://www.un.org/News/Press/docs/2001/pi1380.doc.htm. .

7 High Level Panel on Financing for Development (2001) *High Level Panel Report on Financing for Development*, United Nations, New York, June.

8 OECD (2001b and 2002 forthcoming). Only Norway, the Netherlands, Sweden and Denmark met the 0.7 percent target in 1999. Luxembourg joined this group in 2000.

9 OECD (2002) *The DAC Journal: Development Co-operation 2001 Report,* OECD, Paris (forthcoming).

10 idem.

11 Author's calculations adjusted to current prices and exchange rates, based on data from OECD (idem).

12 High Level Panel on Financing for Development (ibid)

13 OECD (2001b).

14 Low income countries are those with a per capita income of US$760 or less in 1998. Least developed countries are countries on the UN's 2000 list of that name.

15 Executive Committee on Economic and Social Affairs of the United Nations Secretariat (2001) *Towards a New Aid Compact* (ECESA/01/1), United Nations, New York, 20 June, table 3. See also http://www.un.org/esa/coordination/ecesa/ec-statm.htm.

16 Commission for Sustainable Development (2001) *Financial Flows Statistics*, United Nations Department of Economics and Social Affairs, Background Paper Number 19, April.

17 Hjertholm, P., and White, H., (2000) *Survey of Foreign Aid: History Trends and Allocation,* Institute of Economics, University of Copenhagen, Discussion Paper, March.

18 Ironically, while the cuts proposed by Denmark are not insignificant, they will still easily meet the 0.7 percent target and are still likely to remain among the top three ODA providers in the OECD DAC.

19 A useful summary of the main issues is contained in OECD (2001) *ODA Demand and Supply: Current Perspectives* (DCD/DAC(2001)29/REV2.

20 WHO (2001) *Macroeconomics and Health: Investing in Health for Economic Development*, WHO, Geneva.

21 A final unedited version of the Monterey Consensus is available at http://www.un.org/ffd.

22 See for instance, UNCTAD (1999) *Foreign Direct Investment and the Challenge of Development*, United Nations, New York and the seminal analysis by Barro, R.J. and X., Salai-I-Martin (1995) *Economic Growth*, New York, McGraw Hill.

23 The Guidelines are part of a broader OECD investment instrument: the Declaration on International Investment and Multinational Enterprises. The Recommendations contained in the Guidelines' text provide guidance on appropriate business conduct across the full range of MNE activities. They are supported by implementation procedures in the participating countries, which comprise all 30 OECD member countries, and three non-Member countries (Argentina, Brazil and Chile). Further information can be found in OECD (2001) *The OECD Guidelines for Multinational Enterprises*, OECD, Paris. The Guidelines can be accessed at the following site: http://www.oecd.org/pdf/M000015000/M00015419.pdf.

24 See, in particular, OECD (2002) *Benefits and Costs of FDI for Development* (forthcoming) which provides a comprehensive and up-to-date survey of the evidence.

25 The figures cited are drawn from UNCTAD (1996) *Report on Least Developed Countries,* United Nations, New York. and IMF (2000) *World Economic Outlook*, Washington MF (2000).

26 Fan, X., and Dickie, P.M., (2000) *The Contribution of Foreign Direct Investment to Growth and Stability,* ASEAN Economic Bulletin, December.

27 The general consensus in the academic literature is that, while 'crowding out' cannot be ruled out, this does not appear to be a common feature of investment patterns in most developing countries. UNCTAD's (1999) results should be used with caution, however. The variables used, as the report acknowledges, are far from perfect (e.g. FDI flows underestimate the total value of investment of foreign affiliates), there are secondary effects which are impossible to quantify and there remains no consensus on which methodology to apply in such analyses.

28 UNCTAD (1999).

29 World Bank (2000) Global Development Finance, World Bank, Washington.

30 idem.

31 Madison, A., (1995) *Monitoring the World Economy 1820-1992*, OECD, Paris (table 3.30). Please note, in this example, "western Europe" comprises the UK, France, Germany, Belgium, the Netherlands and Switzerland.

32 For a summary of the principles and concepts behind output-based aid see Brook, P.J and Petrie, M., (eds) (2002) *Contracting for Public Services: Output-Based Aid and its Applications,* World Bank, Washington

33 Some of the opportunities and challenges thrown up by this approach are explored in some detail in OECD (1999) *Performance Contracting: Lessons from Performance Contracting Case Studies and A Framwork for Public Sector Performance Contracting,* OECD PUMA, Paris.

34 World Bank (1997) *World Development Report*, World Bank, Washington and www1.worldbank.org/beext/part_ii_csai_Maina_WBES.htm

35 WBCSD (2002) *Improving Synergy Flows Between ODA and FDI to Developing Countries: A Business Perspective*, Paper prepared for OECD Round Table on Sustainable Development (available at http://www.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-document-21-nodirectorate-no-21-8909-21,FF.html).

36 DFID (ibid) see chapter four, Harnessing Private Finance (para 157) and Brook, P.J and Petrie, M., (eds) (2002) *Contracting for Public Services: Output-Based Aid and its Applications,* World Bank, Washington.

37 World Bank (1997, ibid).