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**PART EIGHT:**

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*The economic base*

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## *The cost of achieving the goals for children*

### **In brief**

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The cost of reaching the survival and development goals for children by the year 2000 cannot be calculated precisely, but they are not exorbitant. Clearly additional resources are called for, probably of the magnitude of \$20 billion per year over the course of the decade. The major portion of this must be generated by the developing countries themselves, but perhaps \$4 billion to \$6 billion per year will have to come from external aid. Revitalizing growth in developing countries and debt relief are important conditions for the former, while a restructuring of current aid patterns can go along way towards providing the latter. The resource mobilization that has taken place to achieve Universal Child Immunization (UCI) is an example of what can be done.

There is no doubt that additional resources are needed to reach the survival, protection, and development goals for children spelled out in other chapters of this Sourcebook. From a global perspective, however, the quantity of resources needed can only be estimated and expressed in rough orders of magnitude. Studies to estimate the cost of reaching development goals are under way at various institutions: at UNDP in relation to human development, at the World Bank concerning poverty reduction, at UNESCO and UNICEF concerning education, and at the Child Survival Task Force concerning health goals. Within a year or two, when the results of all these studies are known, firmer estimates on the cost of reaching the goals for children will be possible.

Global estimates will, however, continue to have their limitations because there are so many different country circumstances and approaches to reach the goals. Health, nutrition, education, and water and sanitation programmes in different countries may reach the same broad objectives with considerable variation in cost. Costs vary because conditions in each country are so different, because wage levels vary widely, and

because different techniques or different approaches may be used as, for example, in the use of shallow wells and hand-pumps rather than deep tube wells to provide rural water supply. Costs can also vary through increased efficiency as, in the case of education programmes, through increasing class size where appropriate or reducing the number of dropouts, or as a result of well-executed integrated programmes which combine health, nutrition, and education interventions.

Nevertheless, it is important to have even rough estimates of the total cost of meeting the proposed goals for the 1990s in order to judge the feasibility of such a grand design for children.

Cost of primary  
health care  
interventions

The various figures provided in the chapters on health in this Sourcebook, when added together as though they were separate, vertical interventions, come close to \$4 billion a year. In concrete circumstances, these are not and should not be separate programmes, but are rather part of a comprehensive primary health care (PHC) approach in which infrastructure costs are more or less common to several programmes and there are synergistic effects such as, for example, the effect of measles immunization on reducing deaths due to both diarrhoea and pneumonia. Also, in some cases, the figures discussed represent total costs for reaching the goal, including what is already being done by the health system.

A recent study prepared by Abt Associates for the Task Force for Child Survival has calculated the additional costs of achieving the goals elaborated in the Task Force's Talloires Declaration of 1988 (and subsequently modified in the 1990 Affirmation of Bangkok). These correspond roughly to the health goals discussed here. Abt Associates' tally of their cost estimates for each separate goal comes to a total for the decade of \$33.4 billion, which if divided evenly over the ten years would be \$3.4 billion per year. In an attempt to allow for the synergistic effect of the interventions when applied in a comprehensive package, Abt also applied a model which further reduced the decade cost estimate to \$18 billion, or an average of \$1.8 billion per year. The model is somewhat idealistic because those interventions which reduce mortality rates at the lowest cost are applied first and it assumes that "least cost" techniques are available to all countries alike. It provides, however, a rough estimate of the cost of attaining the health goals at some point between \$1.8 billion and \$3.4 billion per year.

These estimates are additional to the estimated \$15 billion to \$20 billion cost of continuing what parents, governments, and donor agencies in developing countries already provide by way of children's health care. The conclusions of these cost estimates is that a doubling of total national expenditures should bring the health goals for the decade well within the realm of possibility. Most of these resources will have to be generated within the countries themselves, but some part, perhaps a quarter to a third,

will need to be provided from external sources, especially for low-income and Least Developed Countries.

Education costs

As indicated in the chapter entitled "Basic Education: An Overview," a study prepared for UNICEF and UNESCO by Colclough and Lewin as background documentation for the Jomtien World Conference on Education for All estimated that to provide primary schooling for all children educational expenditures over the decade in the 72 low- and middle-income developing countries will need to be roughly doubled by adding to the current budgets an amount in the order of \$5 billion per year or \$50 billion over the decade. Most of these additional resources will have to be generated in the countries themselves, although in some countries, especially in sub-Saharan Africa, external resources need to be increased considerably to reach education for all. These additional resources for developing countries have been estimated at \$800 million to \$1.5 billion per year.

Water and sanitation costs

The chapter on Water and Sanitation indicates that total coverage by the year 2000 may cost as much as \$35 billion per year during the 1990s. However, 80 per cent of the currently unserved population, mostly the rural poor and those living in urban shanty towns, could be reached by focusing only on the low-cost (and some intermediate) technologies at a cost of roughly \$10 billion annually. No doubt investment in other intermediate and high-cost technologies will also need to be made during the decade, but for purposes of estimating the resources necessary for meeting basic human needs and reducing deaths and illnesses from water borne and fecally transmitted diseases, this figure of \$10 billion is a more realistic financial target. Again, the external component of this might be estimated at \$2 billion to \$3 billion. (External support to this sector during the 1980s is now estimated at roughly \$3 billion per year, though much of this was for high cost systems.)

Nutrition costs

Estimates of costs for programmes to eliminate severe and moderate malnutrition are difficult to give for the reasons that malnutrition is often the consequence of adverse social and economic conditions of the household and of the region where the household lives. Poverty reduction together with changed social and economic conditions may be the best nutrition programme in many instances. However, it has been shown that effective nutritional education and health programmes, together with effective monitoring, can reduce malnutrition considerably even in the absence of rapid social and economic progress. Extrapolating on the basis of costs of some successful nutrition programmes, this Sourcebook has indicated that

the amount of \$2 billion to \$3 billion a year might serve as a rough estimate for overall costs of reaching this goal.

In addition, elimination of iodine deficiency disorders has been estimated to cost \$80 million per year, elimination of vitamin A deficiency \$20 million, and the reduction of iron deficiency anaemia an annual \$25 million.

If the various global cost estimates are taken together, the following picture of the annual costs required emerges:

**Additional annual costs to reach the decade goals for children**  
(US\$billions – 1990 prices)

	Total	External component
Health goals	1.8 - 3.4	0.6 - 0.9
Education goals	5.0 - 6.0	0.8 - 1.5
Water & sanitation goals	8.0 -10.0	2.0 - 3.0
Nutrition goals	2.0 - 3.0	0.4 - 0.7
Total:	16.8 -22.4	3.8 - 6.1

One may say, then, with a whole series of caveats, that the attainment of the goals for children in the 1990s will require an additional annual investment in the order of magnitude of \$20 billion and an external support of \$4 to 6 billion. How is this to be provided?

What modest amounts can do

The experience of immunization expansion in the 1980s shows the catalytic power of relatively modest additions of external support when combined with local efforts and resources. A rough estimate is that total expenditure on immunization has reached about \$600 million per year in all developing countries. Of this, roughly \$100 million has been provided by international and bilateral agencies, primarily for support of vaccines, cold-chain equipment and other components requiring foreign exchange. In some countries, primarily in Least Developed Countries of sub-Saharan Africa and elsewhere, more general support for expansion has been provided. Thus support per child immunized has varied widely, from about 20 cents in China to \$1 in India to \$2-\$3 in sub-Saharan Africa.

All this has been provided to fit in with national programmes and needs and adapted to specific context of each country. But it has encouraged and made possible the dramatic expansion of immunization throughout the developing world, from an average coverage of 10-20 per cent in 1980 to over 70 per cent today. And the estimated result is that 2 million fewer children under 5 years of age are dying each year from vaccine preventable diseases.

The international challenge

A substantial part of the cost of meeting the proposed goals for children in developing countries will have to be met by the countries themselves, as is the case with the existing expenditures on education, health, water and sanitation, and nutrition. The international community can, however, greatly contribute to financing the costs of the goals in two ways.

First and most importantly, by providing developing countries with a favourable policy environment, with opportunities and with support to develop themselves quickly and to grow rapidly. Financing programmes to meet the goals for children in a fast growing economy is much easier to accomplish than in a stagnating economy. The most rapid progress in human development in general has, for example, been made in fast growing countries like South Korea and Thailand. However, growth alone is not sufficient. As UNDP's Human Development Report 1990 has recently shown, some countries with rather high growth rates and high levels of per capita income have been doing much worse, while some countries with a low growth rate managed, with appropriate investments, to keep up a respectable profile of human development.

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**Financing programmes to meet the goals for children in a fast growing economy is much easier to accomplish than in a stagnating economy.**

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Making growth possible

A second way for the international community to support the goals for child survival and development is to provide more concessionary resources specifically for such programmes. This does not necessarily imply a major increase in aid resources. Because, at present, only a small fraction of aid, bilateral or multilateral, goes to basic health and education, much can be achieved by a restructuring within aid allocations.

For the developing countries as a whole, even allowing for new loans, negative resource transfers arising from interest payments and amortization of debt amounted to some \$52 billion annually in both 1988 and 1989. Some countries managed to offset this debt-induced haemorrhage of resources with infusions of private capital and Official Development Assistance (ODA) grants to augment the new loans. Still, total aggregate net transfers remained negative with some \$10 billion leaving developing world economies in 1988 and 1989, compared to a net inflow of \$60 billion to \$80 billion during the early 1980s.

While most developing countries have tried to protect their outlay on human resource development from the budgetary inroads made by their growing debt repayment obligations, some social goals have had to be sacrificed. Many countries have struggled to keep human resource expen-

ditures constant as a percentage of non-debt expenditure. Unfortunately, per capita expenditure on human goals has dropped considerably as the share of non-debt expenditure itself diminished and as government income languished in the wake of the economic recession, failing to grow and keep pace with population growth.

Debt relief can take into account the need to manoeuvre and expand expenditures targeted for human development goals, especially in Africa and the poorer Latin American countries. Specific measures and approaches to facilitate this are outlined in the following chapter on Debt Relief.

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**If half of the additional 2 per cent real annual increase in development assistance anticipated over the course of the 1990s were allocated to health, education, and water and sanitation, the amount going to these sectors would nearly double over the course of the decade.**

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Debt relief in itself will not be a pancea for all ills. On the contrary, reducing the debt service without other changes internationally and nationally would perhaps provide some temporary relief but not sustainable progress.

Countries must also be able to continue to earn their needed foreign resources on the international markets, from which they are often barred through trade-restrictive measures and through unequal competition in the form of heavily subsidised markets and products (as in the case of farm subsidies by virtually all industrialized countries).

Restructuring aid allocations in the 1990s

Present perspectives on the growth of aid in the 1990s among countries belonging to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) are for an increase of about 2 per cent per year in real terms or perhaps 25 per cent over the whole decade. Although larger increases should obviously not be ruled out, they certainly cannot be counted on.

Thus an increase in aid to basic services for children must come primarily from restructuring within aid. Although such restructuring is never painless, two facts make it possible to increase very considerably the new resources for basic education, PHC, water and sanitation and nutrition. One is that the *share* of aid going to the social sectors fell by 25 percent from 1979 to 1988. The second is that the share of health sector aid going to PHC and nutrition, the share of education aid going to basic education, and the share of water and sanitation aid going to low-cost water and sanitation is relatively small, as the following table indicates:

**Bilateral Flows of Official Development Assistance (ODA)**  
(Average for 1986/87)

Health and population as % of total ODA	5
Primary health as % of all health*	27
Education as % of total ODA	11
Primary education as % of all education*	7
Water, sanitation and other amenities as % of total ODA	6
Rural water supply & sanitation as % of all water/sanitation*	19

*Source: OECD/DAC 1989*

\* Figures based on detailed sector reporting from OECD Credit Reporting System Data Base which covers bilateral technical assistance only partially.

It appears from these figures that PHC, primary education and rural water and sanitation, together constitute about 3 percent of all bilateral ODA, which is slightly more than the amount by which such aid has been forecast to increase in real terms over the coming decade.

Some calculations may illustrate the importance of aid restructuring in relation to the additional external resources (\$4 billion to \$6 billion) needed to support the goals as identified in the first part of this chapter.

- If aid to the social sectors were restored to the proportions they enjoyed in 1979, this would lead to an increase of about 25 percent in resources to these sectors.
- If, say, half of the approximately 2 per cent real annual increase in development assistance anticipated over the course of the 1990s were allocated to health, education, and water and sanitation, the amount going to these sectors would nearly double over the course of the decade.
- If donors and recipients were agreeable to a modest restructuring of aid within each sector, it would be possible to double the proportion of aid going to PHC, basic education, and low cost water and sanitation in about two years, simply by devoting the predicted 2 per cent annual increase in ODA to these activities.

Willingness by developing countries to accept and a commitment by as many donor governments as possible to explore and implement such a restructuring of aid over the 1990s, with 1992-93 as the target date for having the new structure in place, would go a long way to assuring the external resources needed to achieve the goals for children in the 1990s. Such a commitment by individual donors would provide an appropriate parallel to the restructuring of national resources required of developing countries to achieve the goals. And it should be emphasized that individual donors can commit themselves to such restructuring without waiting for the consensus of all.

Clearly, then, cost is not the major obstacle to achieving the proposed goals for children in the 1990s. Political decisions and political commitment on a global scale to remove some of the barriers to growth in developing countries and some significant but reasonable shifts in allocations of both national resources and international aid are required. What better occasion than that of the World Summit for Children for such commitments to occur?

Two subjects related to the cost of achieving the goals for children in the 1990s deserve further elaboration: debt relief and the "peace dividend". These are discussed in the following and concluding chapters.

Further reading

*Development Cooperation in the 1990s*. Efforts and policies of the members of the Development Assistance Committee. Organization for Economic Cooperation and Development (OECD). 1989.

"Costing of the Talloires Child Survival Goals". Report to the Task Force on Child Survival. Abt Associates, 1990.

*Educating All the Children: The Economic Challenge for the 1990s*, by Christopher Colclough and Keith Lewin. World Conference on Education for All. 1990.

*Eliminating Social Distance between North and South: Cost-effective Goals for the 1990s*, by Mahesh S. Patel. UNICEF Staff Working Paper Number 5, 1989.

*Human Development Report 1990*. United Nations Development Programme (UNDP) and Oxford University Press, New York and Oxford.

## *Debt relief and child survival*

### **In brief**

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Developing countries will need to mobilize additional resources if they are to speed up the implementation of the child survival and development revolution (CSDR) in the coming decade. This comes at a time when the developing countries' burden of debt servicing, relative to Gross Domestic Product (GDP), is running at up to four times the amount of GDP being devoted to health expenditures and about double the percentage of GDP currently being invested in education.

Third World export earnings are heavily mortgaged to debt service payments. There is an absence of new private loans in most debt-distressed countries, and aid levels are stagnating. The resultant economic squeeze has made it difficult to impossible for even the most well-meaning governments to safeguard, much less expand, their social programmes for children. For many debt-distressed developing economies, especially those of sub-Saharan Africa and Latin America, the inevitable consequences are a decline in the value of their most precious resource, the nation's human capital, and a time lock on future growth.

If today's children are not to inherit this unwelcome burden, debt relief has to be seen not as an end in itself but as a socially acceptable instrument linked to ongoing efforts to foster human and social development for children and adults alike. UNICEF and the Inter-American Development Bank have already proposed a scheme to allow debt reduction to finance increased social spending.

Generally speaking, credit in itself is a positive aspect of development finance. However, in an international context, debt becomes a problem, when it can no longer be serviced or when the servicing of the debt puts such a large claim on domestic and foreign resources that future growth is hampered. That is today's dilemma. The debt problem can only be resolved by a co-ordinated international approach in which debtor countries, banks

## Debt service and expenditure on education and health as a percentage of GDP (1987)

	Debt Service	Education Expenditure	Health Expenditure
Low- and middle- income developing countries	4.5%	2.5%	1.1%
Highly indebted developing countries	4.3%	1.9%	1.2%

*Source: World Bank. World Development Report 1989*

and multilateral institutions, and creditor countries co-operate in a determined bid to break free of this vicious circle of debt servicing at the expense of debtor nations' prospects for future growth.

Most poor countries (especially African) are mainly indebted to "official creditors" (multilateral and bilateral donor agencies or governments), while the indebtedness of other countries stems largely from borrowings from private institutions. According to the International Monetary Fund (IMF), the percentage of all debts owed to official creditors in 1988 was 40 per cent. However, in sub-Saharan Africa the figure was 70 per cent whereas in the mostly Latin American "Highly Indebted Countries" it was "only" 28 per cent, though rising.

Both Latin America, with its largely private debt, and Africa, with a predominantly public debt, face high debt-servicing obligations that have resulted in negative resource transfers, a process that has to be reversed as a matter of priority in any solution to the debt crisis. To put it in perspective, resource transfers for the U.S. Marshall Plan of assistance to Western Europe after the Second World War totalled some 2 per cent of U.S. GNP for four years. Current transfers from the developing countries have been proportionately double that of the Marshall Plan, and have already been sustained eight years in the case of Latin America and six years in the case of Africa.

Debt reduction  
proposals

In October 1985, the then U.S. Treasury Secretary, James Baker, called for new private lending on a voluntary basis to help developing country economies grow while continuing to service their old debts. His appeal fell on deaf ears. Between 1985 and 1989, only a handful of voluntary loans

were made to heavily indebted countries. Almost all lending was involuntary (i.e. rescheduling with accumulation of interest payment on old debts). Scarcely any new money was made available. As a consequence, negative resource transfers became even bigger relative to GNP (see table).

### Total debt service as a percentage of GNP\*

	1980	1982	1985	1988	1989
All Developing Countries	3.7	4.6	5.1	5.0	5.2
Latin America & Caribbean	5.5	6.8	6.1	5.4	5.5
Sub-Saharan Africa	2.4	3.1	5.1	5.3	7.0

Source: World Bank: 1989/90 Debt Tables

\* This figure provides the gross outflow which does not take into account flows of new loans or new investments.

Various new debt-reduction proposals have since been made, calling for a decrease in the amount of actual debt; a decrease in the interest rate; a new or extended grace period (without accumulating interest during the grace period); or, a mix of all three. Of these, the two best known are the Toronto Proposal, a product of the Group of 7 meeting held there in June 1988, and the Brady Plan, named after the current U.S. Secretary of the Treasury, a proposal to stimulate private debt reduction, which in March 1989 replaced the Baker Plan.

The Toronto Proposal focuses on debt obligations to official bilateral sources by the low-income (mainly African) countries. It offers creditor countries the choice between a reduction of one third in the principal, a 50 per cent reduction in interest payment (or a 3.5 per cent reduction in the interest rate, whichever is lower), or stretching repayments over 25 years with a grace period of at least 14 years.

#### Problems of sub-Saharan Africa

Much of Africa's debt is owed to official creditors. It involves debt-servicing payments that, were it not for continuous rescheduling arrangements, would exceed export earnings. The frequent calls on debt rescheduling (mostly to the Paris Club of creditors) has meant that national administrations resort more and more to "crisis" management control at the expense of regular economic policy-making, with finance ministry priorities dominating national decision-making.

The negative outflow of resources continues to grow annually, while by the end of 1989, only 12 African countries, according to the World Bank,

had rescheduled their debts with the Paris Club under the terms of the Toronto Proposal. It is hard to imagine that this was the intention of the world leaders of the Group of 7 when they announced their debt relief proposals in Toronto two years ago.

Various estimates have been made as to how much debt reduction is needed to finance a minimum level of imports and to stimulate economic growth and social progress in sub-Saharan Africa. In 1988, the Advisory Group on Financial Flows for Africa, an international banking group established by the United Nations Secretary General, reported a financing gap of at least \$5 billion per annum for the coming years to offset the drop in external resources. The same year, UNCTAD's Trade and Development Report, setting a higher target, said that achieving a 3 per cent annual per capita income and consumption growth rate would require an annual inflow of \$3 billion at the beginning of the decade, rising to \$10 billion at the end.

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**The debt problem can only be resolved by a co-ordinated international approach in which debtor countries, banks and multilateral institutions, and creditor countries co-operate in a determined bid to break free of this vicious circle of debt servicing at the expense of debtor nations' prospects for future growth.**

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In order to achieve a GDP growth rate of 4 to 5 per cent, according to the World Bank report ("Sub-Saharan Africa from Crisis to Sustainable Growth"), net official development assistance (ODA) would have to double from \$11 billion in 1986 to \$22 billion by the year 2000 (all at 1990 dollar values).

Whatever form is eventually chosen, debt relief measures should improve the net resource flow to sub-Saharan countries immediately. The decisions for such actions should be based upon economic and social analysis of the country. The decisions of the Paris Club should, therefore, be subordinated to decisions made at consultative group meetings and roundtables.

In this context, a solution must be found to reverse a situation that since 1985 has made the IMF a net receiver of funds from sub-Saharan Africa. This would imply different lending policies and intelligent solutions to the increasing problem of countries in arrears.

Key principles that could have a major bearing on shaping the solutions to the debt problems of sub-Saharan Africa include the following:

- All debt relief measures to be geared to immediate reduction of debt-service payments and a flow of new resources;
- Official and unofficial forms of discussion on debt relief such as the Paris Club, IMF drawings, bilateral assistance to be merged;

The situation in  
Latin America

- Official debt discussions to be based on the capacity of the countries and their abilities to provide essential social services to their populations;
- Debt to multilateral organizations to be regarded as negotiable.

The Brady Plan recognized the need to reduce the debt of middle-income debtor countries, most of which are in Latin America, as the main way to reduce large negative net resource transfers. Creditors and debtor governments are in agreement on this and, as a result of the Brady Plan, discussions between industrial and developing countries have become far more pragmatic.

The issues under review include how much debt reduction is required in different countries; whether existing mechanisms, in the context of the Brady Plan, are sufficient to achieve the required debt reduction quickly enough; how the Brady mechanisms can be further developed and improved; whether other measures should be taken to encourage the required debt reduction.

It is a given that required levels of debt and debt-service reduction need to be linked to the needs of individual debtor countries to command sufficient resources (both in domestic savings and foreign capital) to grow at a reasonable rate.

Latin America, with a 2 per cent population growth rate, would need to increase GDP by more than 2 per cent a year just to maintain living standards and, preferably, by more than 4 per cent if living standards were to improve. By contrast, Latin American GDP grew by an average of only 1.3 per cent a year during the 1980s, leading to a decline of 8 per cent in per capita product for the region, with its implied severe social cost for the region as a whole, and in particular for the most vulnerable groups.

Other elements include the need to provide sufficient incentive for debtor countries to continue their ongoing efforts towards pursuing macro-economic stabilization and other desirable structural reforms despite difficult external and internal circumstances, including the increasing reluctance of commercial banks to provide any new money to highly indebted countries.

Estimates vary as to the level of debt reduction and debt-service reduction required to help restore sustainable growth in the highly indebted countries. According to the World Bank, a 30 per cent net reduction in debt service on medium-term and long-term bank debt across all such countries would be required to achieve 4.5 per cent growth in the coming years. UNCTAD has calculated that restored growth in the 15 highly indebted countries would require a minimum reduction of their debt to commercial banks equivalent to 36 per cent of their medium-term and long-term debt

to such creditors. Other estimates suggest the need for higher debt and debt-service reduction. SELA (Sistema Economico Latinoamericano), for example, estimated in early 1990 that one of the conditions for Latin American and Caribbean countries to restore growth to their 1961-80 level would be, on average, a 75 per cent reduction of debt servicing to private creditors.

## Conclusions

The Toronto and Brady initiatives are important in recognizing the urgent need for debt reduction, in both low-income and heavily indebted developing countries.

It is, however, necessary to ensure that levels of debt reduction and new funding should be consistent with minimum levels of growth. Higher levels of debt reduction than are likely to be forthcoming under the existing initiatives are urgently required. For sub-Saharan African countries, one valuable step would be for the three options (reduction of principal, reduction of interest payments, and stretching out of repayments), suggested in the framework of the Toronto agreement, to be simultaneously implemented by all bilateral official creditors, rather than having each creditor nation implement one of the options. Such a measure would significantly increase the relief for sub-Saharan nations.

In the case of the heavily indebted countries, particularly in Latin America, it is also clearly necessary to achieve far greater debt reduction than is likely to take place in the present context of the Brady Plan. Changes in regulatory and fiscal incentives of creditor nations are an important way to encourage commercial banks to accept debt reduction. In particular, for Europe and Canada, tax relief should continue to be given at the time of provisioning. But it should be maintained only if, within a limited time period (e.g. three years), the commercial bank accepted debt or debt-service reduction at least equivalent to the amount of provisioning being accepted for tax concessions.

Recently, the United Kingdom has begun to move towards the provision of some limited tax advantages for operations implying debt/debt service reduction. These tax changes, which affect the timing of tax relief on uncollectible debt, would encourage debt reduction, without implying additional costs to industrial countries' taxpayers.

Other regulatory changes should also be made. It is very encouraging, for example, that U.S. regulatory authorities have been flexible in accepting that discount bonds (as in the case of Mexico) do not imply an up-front loss for banks; similar regulatory treatment that would reduce, eliminate, or phase timing of losses for banks—particularly in the U.S.A.—could provide valuable regulatory incentive for debt/debt-service reduction.

In the case of heavily indebted countries where commercial creditors have been willing to reduce or forgive debt, it would seem logical for official

Keeping human  
development a  
central issue

(bilateral) creditors to follow their lead and reduce or forgive debt as well. Alternatively, that proportion of debt could be converted to local currency to be spent on projects in the environmental or social fields.

The latter option would complement the UNICEF/Inter-American Development Bank initiative on Debt Relief for Social Investment in Latin America. When funded, this proposal would allow debt reduction to finance increased social spending, which has suffered so much in Latin America during the 1980s. Additional funds advanced by the industrial nations to the Latin American and Caribbean governments could be used by the recipients to buy back their own debts, with the debt being serviced in local currency for social or environmental spending in programmes to be monitored by the Inter-American Development Bank and UNICEF.

More generally, the various debt reduction proposals have some important implications. Any meaningful solution to the debt problem will result in more international management either by a new international financial organization or by increased activities of the IMF, the World Bank, and the Regional Development Banks, reducing the voluntary character of present proposals. This implies that the debt reduction and growth potentiality of any debtor country has to be judged against its economic and social infrastructure as well as against its investment pattern.

It is important, therefore, that the debate which started with Adjustment with a Human Face continue. With the likely increased involvement of the international financial agencies in debt reduction strategies, it is essential that the concern for human development, which is gradually gaining momentum, continue to be a central issue, especially when large amounts of debt reduction are negotiated.

The UNICEF initiative of Debt Relief for Child Survival (DRCS) has a special function in the debate on debt reduction and concern for human development. The primary focus of DRCS is to put the concern for human development at a central point in the development debate, by emphasizing the need for human development as an integral part of the development strategy.

One possibility of DRCS is especially relevant in Latin America: to generate additional resources through the use of local currency counterpart funds discussed earlier with reference to the Debt Relief for Social Investment scheme in Latin America. (Caution is necessary, however. Local currency counterpart funding of the debt swap should not result in overall additional government expenditure, since this would fuel inflation. Government expenditure can increase, of course, if taxes or external grants are increased).

In the African case, emphasis should continue to be placed on donations of privately owned debt, which has a very low market value, in

exchange for a limited number of programmes. However, when it is intended to capture a large part of the private debt market in Africa, it would make sense to set up a co-operative framework between the various organizations, creditor governments, and debtor countries, as discussed earlier. Such an orderly arrangement would avoid isolated attempts to "swap" fractions of the face value of donated debt into project finance of different organizations.

What is needed is a reasonable shift (and not an increase) in total government expenditure towards human investment. Governments in creditor countries could instruct their regulators and tax authorities to take a joint and co-operative stand regarding donations of African and other low-income country debt. Given the political interest for Africa, only in this way can a proposal for reduction of private debts stand a chance of success.

Further reading

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"Debt—The Unwanted Heritage of Today's Children," by S. Griffith-Jones and R. van der Hoeven. A UNICEF briefing paper. June. 1990.

## *Children and the peace dividend*

### **In brief**

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**The thaw in international relations has opened up new possibilities for countries to do more for children — their own first of all — but also for industrial countries to help developing countries achieve the decade goals for children and for developing countries to devote less of their national budgets to armaments and more to meeting basic human needs.**

In 1982, when cold war rhetoric and regional conflicts were heightening international tensions and world military expenditure was soaring, the UNICEF Executive Board issued an appeal to the special session of the General Assembly devoted to disarmament. Noting that "the waste of technical, financial, human and natural resources for armaments to the detriment of solving urgent social and economic problems, particularly of developing countries, appears intolerable against the background of hardships and suffering of children in most developing countries," the Board urged a reduction of expenditure on armaments so that "a portion of the savings can be channelled through national or multinational programmes towards meeting the minimum requirements of children everywhere — adequate nutrition, safe water, primary health care and suitable education."

Eight years later what then seemed a futile appeal now appears to have been prescient. The thaw in international tensions and the reduction in levels of conflict around the world has made a reduction in expenditure on armaments not only possible, but likely. In 1989 military expenditures in the USSR fell by an estimated 6 per cent, the equivalent of \$20 billion, and the United States is also cutting its military budget, perhaps by as much as 10 per cent over the next four years. The growth in arms expenditure by developing countries also appears to be lessening. UNICEF's most recent Executive Board in April 1990 noted this remarkable change in world affairs and recalling its 1982 resolution, called upon all States of the international community, as they reduce military expenditure, to consider how they could channel part of the resources released to support actions to reach the goals set for children in the 1990s.

## Competing claims

Around the world many claimants have already come forward for their share of the "peace dividend". The restructuring of national expenditure patterns away from military toward other uses is not a simple matter. Capital for creation of new industries or for retooling those formerly devoted to armaments, renewal of national infrastructure, greater attention to environmental concerns including the "cleanup" of earlier contamination and disposal of hazardous wastes, retraining and relocation of soldiers and workers from armaments industries to peaceful occupations, redressing domestic inequities neglected in times of defense priority, and many other domestic needs make it difficult to envisage a huge share of the peace dividend either being transferred from developed to developing countries or being redirected to all the needy social programmes within developing countries.

## The amounts involved

Yet the amounts needed for meeting the basic needs of children over the coming decade are paltry compared to the sums heretofore devoted to military expenditures and now no longer required for them. The world spent an estimated one trillion dollars (\$1,000 billion) on arms and armaments in 1989 with the military budgets of industrial nations accounting for over 80 per cent of this amount.

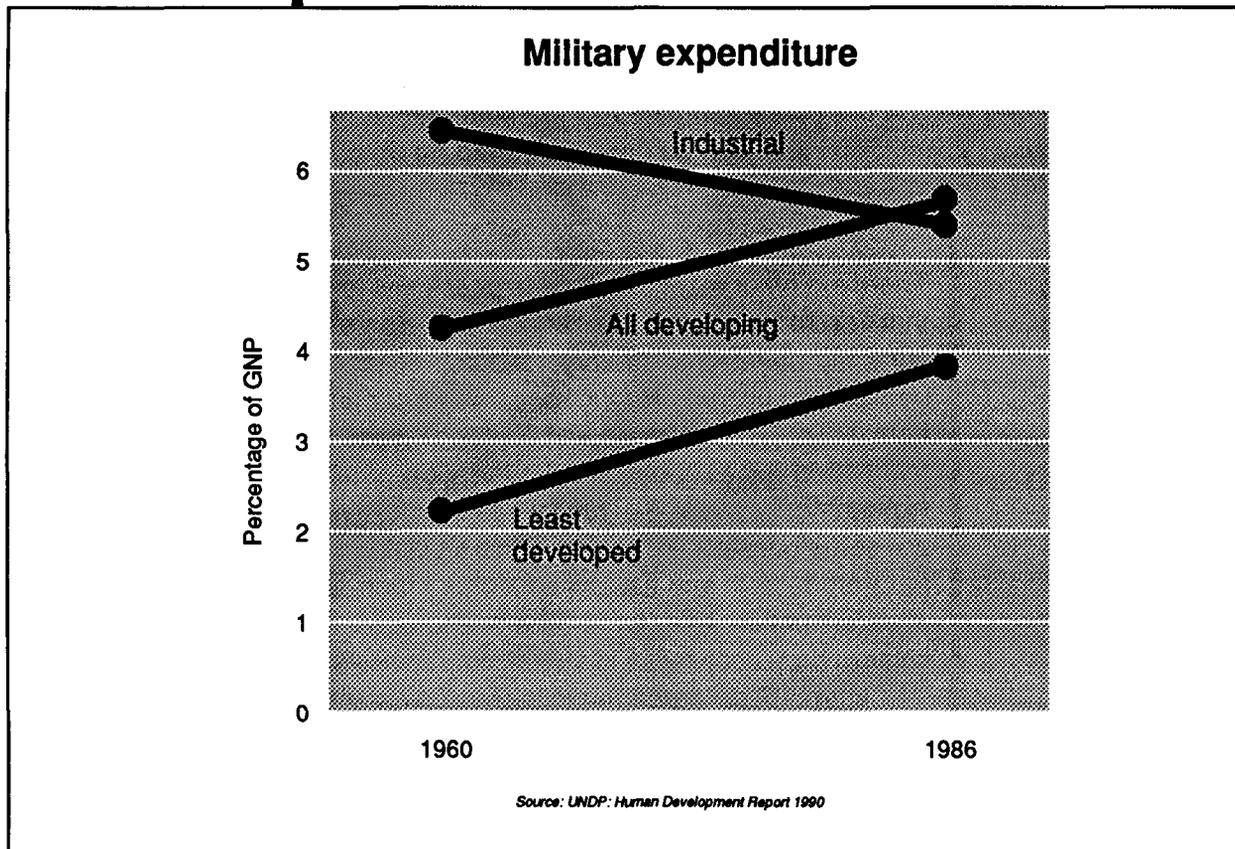
It is in developing countries, however, that the greatest acceleration in military expenditure has taken place over the past thirty years, as the following table indicates:

Region	Military expenditure				
	Billions of 1984 dollars		Percentage of GNP		Annual percentage growth
	1960	1986	1960	1986	1960-86
World	342	825	6.0	5.4	3.4
Industrial countries	321	666	6.3	5.4	2.9
Developing countries	24	159	4.2	5.5	7.5
Least Developed Countries	0.5	3.4	2.1	3.8	7.5

Source: UNDP, Human Development Report 1990

According to UNDP, over 25 developing countries spend more on the military than on education and health, sometimes more than twice as much, have several times more soldiers than teachers, and spend around 6 per cent or more of their GNP on defence. Arms imports by developing countries skyrocketed from \$1.1 billion in 1960 to nearly \$35 billion by 1987, or three-quarters of the global arms trade. Military debt is more than a third of the

debt for many large developing countries. "Obviously," says the *Human Development Report 1990*, "the poverty of the people of the developing world has been no barrier to the affluence of their armies." (See graph)



To the degree that the lessening of global tensions can be reflected in a lessening of regional and local tensions, a reduction in the almost \$200 billion spent by developing country on armaments is also a possibility.

The beneficiaries of each country's peace dividend can and should be primarily the children of that country. Industrial countries, however, should also be able to provide some additional assistance for children in the developing world.

As indicated in previous chapters of this Sourcebook, it would cost something on the order of an additional \$20 billion per year to meet the goals for children in the 1990s. Developing countries themselves could provide most of this if they could be relieved of the heavy burden of debt, reduce their military expenditures and resume adequate rates of economic growth, as already stated. Some additional external assistance will be necessary, however, especially for the Least Developed Countries.

There is no doubt that the resources could be made available if the political climate made it possible to release them. As the World Bank notes in its recently published 1990 *World Development Report*, a cut of only 10 per cent in military spending by the countries of the North Atlantic Treaty Organization would pay for a doubling of current aid, not only for children but for all sectors.

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Be creative

There are other ways of using the peace dividend to benefit children, ones that need not be tagged as "foreign aid". Some of the \$100 billion per year currently devoted to military research could be redirected to research benefitting children. Health research on subjects of benefit to children in both industrial and developing countries, such as the "children's vaccine" mentioned in the chapter on immunization, research to combat deaths due to pneumonia, malaria or tuberculosis, or a low cost vaccine against AIDS are some possible examples. Others would include research to improve food production and assure household food security without the use of environmentally harmful fertilizers and pesticides or research to make solar energy accessible to low-income families.

International agreements to develop portions of the earth that are part of mankind's common patrimony, such as the sea bed or Antarctica, and devote the returns to improving the welfare of children throughout the planet would be another worthy use of funds liberated by reduced spending on armaments.

The opportunity now facing mankind is of a kind that arises at very few stages in history. Heads of State assembled at the World Summit for Children can create a new international climate, one that makes possible what seemed impossible only a few years ago.

Further reading

*Human Development Report 1990*. United Nations Development Programme. Oxford University Press. 1990.

*POVERTY: World Development Report 1990*. The World Bank. Oxford University Press. 1990.

*World Military and Social Expenditures 1989*, by Ruth Leger Sivard, Washington, D.C. World Priorities. 1989.