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**Thinking Beyond Foreign Affairs:  
Institutional Choices for Global Challenges\***

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## Introduction

Globalization in its various dimensions has drawn the world closer together. More and more policy challenges today stretch across borders and constitute what economists and international relations scholars have begun to call “global public goods”.<sup>1</sup> Even the most powerful nations find that they can no longer ensure the well-being of their local constituencies through national policy actions alone. The availability of such public goods as “financial stability”, communicable disease control, climate stability, food safety, or even law and order increasingly depends on, and calls for, cross-border cooperation and engagement abroad. These and other similar goods have become global, interlocked across national borders.

Yet, many global public goods, which national constituencies may want to enjoy, are at present severely underprovided, presenting themselves not as a good with positive utility for people’s and countries’ well-being but as “bads”—e.g. as the risk of global warming, financial crises with contagion effects that strike indiscriminately, new and resurgent infectious diseases, international terrorism, or loss of biodiversity with as yet unknown consequences. The world seems to become entangled in ever-deeper ways in a web of crises and political turmoil.

Evidently, there is a need for policymaking to adjust more fully to the new contemporary realities. Adjustment is needed not only in the policy instruments employed and in the policy process followed. This challenge has not gone unnoticed. In effect, many policy reforms have already been initiated; and many more policy proposals have been tabled for further debate in various policy review reports exploring the need for a reform of foreign policy and a new diplomacy.<sup>2</sup>

These studies demonstrate that it may not be so much foreign affairs as such that requires change. In fact, many of the conventional foreign affairs concerns still remain important today; they may, sometimes, have even become more important. Rather, it may be important to build a new strand of international relations activities, with its own underpinning rationales and policy processes and mechanisms—international cooperation for global public goods provision in enlightened national self-interest.

The purpose of this paper is to present an overview of some of the policy reforms that have in the recent past been launched in the “foreign” affairs area and to assess in which direction they are heading. The discussion shows that many initiatives are clearly geared towards global public goods provision. They either aim at protecting the country

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<sup>1</sup>“Global public goods” are defined as goods (things or policy conditions) that have border and often also generation-transgressing benefits and costs. They are goods in the global public domain, affecting more than one group of countries and potentially all people. Moreover, many of these goods cannot be produced through domestic policy actions and economic activity alone. They depend on cross-border cooperation, i.e. on policy harmonization behind national borders or on joint, international-level action. In other words, many global public goods are not only public in consumption but also public in their production. For recent studies on the issue, see, for example, Ferroni and Mody 2002; Kaul, Grunberg and Stern 1999, Kaul, Conceicao, Le Goulven and Mendoza 2003; Sandler 2001.

<sup>2</sup> See, among others Hocking 1999; Riordan 2003; Cooper, English and Thakur 2002.

against undesirable cross-border spill-ins (e.g. environmental pollution or contagious diseases), or they are seeking cooperation with other actors abroad in order to undertake concerted efforts to create—and burden-share the costs of—a desired global public good, such as an improved international financial architecture or a global gene pool.

The discussion will proceed in seven steps, with each step focusing on a particular set of policy reform measures that could allow nation states to address more effectively and efficiently today’s major global challenges. The concluding section of the paper draws out the policy messages emanating from the earlier discussion and re-groups the policy options discussed before, distinguishing between those that might be immediately do-able and those that may warrant further study and policy debate.

The overall conclusion is that we are facing a new era of public policymaking. National borders are still strong and important, and will probably remain so. To the extent that borders continue to matter, foreign affairs exist and require policy attention and action. However, to the extent that borders have indeed become porous, the project “globalization” would now have to enter into a next, second phase. So far, it has in large measure been aimed at opening up borders, notably in the economic and social policy fields. Many environmental issues have never respected national borders to begin with. Increased openness now calls for placing international cooperation at the center of what so far were essentially domestic issues and integrating the latter issues more systematically with the country’s “foreign” policy, or better, the new policy for international cooperation for global public goods provision.

## **Policy Process Reforms to Meet Global Challenges: An Overview**

The discussion in this section refers to policy process reforms that are already underway; and it also lists proposals for further, complementary reforms suggested in the literature. The term “policy process” refers to the approach taken to addressing a policy challenge and the institutions or machinery put in place to deal with them.

Focusing on these process issues, the recently implemented or currently discussed reform measures in the area of “foreign” affairs can be grouped in the following way.

### *1 Adding Issue Focus: The Appointment of Issue Ambassadors*

The international relations of countries have traditionally been organized primarily along geographic lines, notably according to countries and regions. Within countries, a predominant organization principle has often been that of economic sectors and that of geography, with the nation state territory usually being sub-divided into various sub-national jurisdictions. All these groupings remain important. However, the list of topics on national and international policy agendas reveals a growing concern with certain global issues, which, in many instances, have global public goods character. This probably explains why some of the recent policy reform initiatives seem to be aimed at providing an added issue focus to international cooperation activities. This trend is, for

example, evident from such measures as global environmental issues, international trade of HIV/AIDS control.

**Table 1: Issue ambassadors appointed by select countries**

<b>Country</b>	<b>Ambassador for..</b>
The Netherlands	Human rights
Australia China Sweden	Disarmament issues
Australia Canada Japan Sweden	Global environmental issues
United States	HIV/AIDS
Japan	International economic affairs
Japan	Civil society
United States	War crime issues
Republic of Korea	International economy and trade
Republic of Korea	International and strategic affairs

Source: Compiled by the authors from data collected on foreign affairs websites of the countries concerned

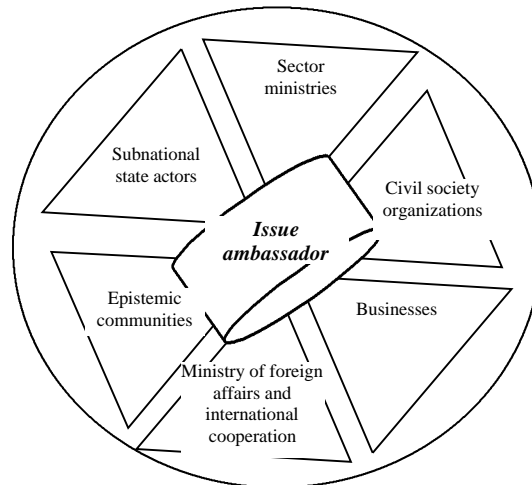
Table 1 presents examples of countries that have chosen to appoint issue ambassadors, together with the issues to which the ambassadors have been assigned. The number of such appointments is rising. Furthermore, it is becoming a widespread practice for countries to appoint ambassadors as head or deputy head of their delegations to international conferences. Some countries are also appointing junior ministers or secretaries of state to particular issue areas. For example, France has a minister for sustainable development and Sweden has a secretary of state covering international development cooperation (or aid), human rights and asylum questions.

In addition, more and more ministries of foreign affairs are creating “global affairs” departments, reflecting the list of global challenges to which the country accords particular policy priority. Such departments can today be found in most industrial countries, and more and more so, also in developing countries.

The reason for the added issue focus is that global public goods typically require inputs from a multitude of economic sectors, at several politico-administrative levels, at home and abroad, and by several actor groups. Moreover, public goods, and global public goods, are goods in the public domain, often affecting a wide range of stakeholders. Thus, appointing issue ambassadors and ministers and creating issue-focused units with the authority and responsibility to bundle all required inputs, are obvious and effective policy responses to the growing number of global public good challenges. This holds true, in particular, in issue areas that pose basic policy dilemmas and choices, such as the global environmental issues. However, there is also a growing trend towards bringing

global issues, which were so far perceived as primarily technical in nature (e.g. international finance and trade), more into the political orbit. The reason might be that the publicness and globalness of these goods (regimes) has increased: They touch the life of an ever-larger number of people across the world. See figure 1 for a graphical illustration.

**Figure 1: The issue ambassador**



## *2 Enhancing Inter-agency Coordination: The Importance of Matrix Management*

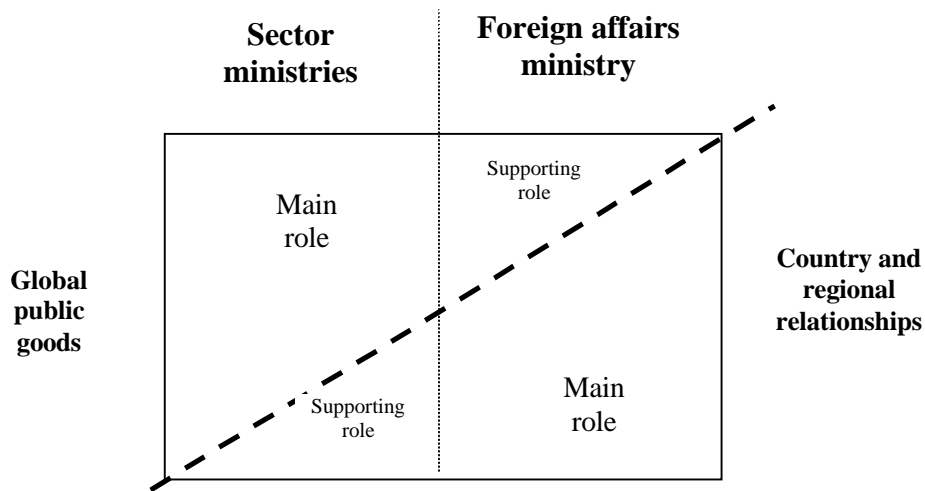
The above-mentioned policy reforms raise the question of how to envision the division of responsibilities between today’s ministries of foreign affairs (MoFAs) and other concerned governmental agencies in the future. If MoFAs are upgrading their expertise in various global issue areas, how do they relate to the work undertaken by the government agencies that have traditionally dealt with these issues, e.g. the ministries of health?

Examining the organizational charts of national technical ministries or those of various sub-national government entities, such as municipalities, it appears that many of these bodies have created international relations units and are actively involved in cross-border activities, notably at the professional-technical level. Recognizing that in a way “foreign affairs” has migrated into technical government agencies and formerly essentially domestic issues into MoFAs, some countries have given thought to how to organize collaboration between the two sets of public policy actors so as to avoid overlap and duplication and foster synergies between the different areas of work and competency.

Figure 2 below illustrates the matrix management approach suggested in a foreign policy review study undertaken by the Netherlands in 1995. In brief, according to this study, matrix management is aimed at enhancing coordination between sector ministries and the Ministry of Foreign Affairs. It is intended to create synergy between the knowledge of, and experience with, a country or region, which typically resides more in

MoFAs, and the knowledge of, and practical-political experience with, subjects and themes, which is, typically, to be found more in technical (line or sector) agencies.

**Figure 2: A possible redistribution of ministerial responsibilities for providing global public goods**



Source: Adapted from Netherlands Ministry of Foreign Affairs 1995.

Better inter-agency coordination is also a strong recommendation in several other policy review studies. (See, for example Council on Foreign Relations 2001 and Smith 1999). Evidently, matrix management and enhanced inter-agency coordination along these lines would also support the effectiveness of the measures discussed in point 1 above, notably that of the role of issue ambassador.

### *3 Emphasizing Results: The Importance of Incentives and Contracts*

Just like private goods (e.g. a car or a loaf of bread), public goods, including global public goods actually need to be produced in order to exist. For example, reducing greenhouse gas emissions requires not just concern, not just the forging of an international agreement but, most importantly, the implementation of the agreement. In a world of open borders and large volumes of cross-border economic activities problems must be resolved wherever they exist, lest their ill-effects travel and adversely affect the well-being of people even in distant places. Policy intentions and commitments are important. Yet, what ultimately counts is actual policy change.

To facilitate getting to the desired good and produce tangible results, a number of new policy principles and practices have emerged.

### 3.1 Getting the incentives right

In a world of vast socio-economic disparities, preferences for global public goods vary; and so does the capacity of countries to meet their commitments under various treaties. Thus, if a nation, let us say, Germany, prefers certain global public goods that other countries do not value as highly, it may be worthwhile for the “demanding” country to offer an incentive (e.g. in the form of financial support) to the “supplying” country that would need to make a national policy adjustment in order for a certain global public good to be more adequately provided. Within the environmental area, this practice is sometimes referred to as “victim pays”. However, countries may offer incentives not only when they are affected by negative cross-border externalities but also when they like another nation to generate more positive externalities (e.g. those that could result from a harmonization of legal frameworks or other norms and standards). This constitutes a “beneficiary pays” scenario.

The main consideration for a country’s decision whether to invest and how much to invest in correcting a global public “bad” or producing a desired good should be whether this investment promises a relatively high rate of return, and thus, an enhancement of national welfare and well-being. Put differently, efficiency considerations should be at the center of the decision.<sup>3</sup> International cooperation in support of global public goods is, in most instances, probably not perceived as having intrinsic value. Therefore, it will happen and be successful only to the extent that it makes economic sense for all concerned parties—the parties on the demand side and on the supply side of the international bargain.

Sometimes it is also desirable for a country to ask another nation to undertake certain policy changes that the demanding country could claim as contributions towards its own commitments under an international agreement. For example, country ‘x’ could ask country ‘y’ to implement a pollution reduction scheme, against adequate payment, which country ‘x’ can claim as a credit towards its environmental targets. In fact, a number of countries have started exploring such off-setting arrangements. International cooperation along these lines constitutes a form of trade between countries in developmental services. Just as in the earlier case, its success very much depends on getting the “prices” right, or in other words, on the demanding country’s offering effective incentives to the supplying country. Without such incentives, desired results are likely to remain elusive goals.

Sometimes, it is best to leave the determination of the right incentive (or price of cooperation) to markets or market-based mechanisms. This no doubt explains the growing interest and the rising number of pilot initiatives aimed at creating new markets (e.g. for pollution permit trading) and developing prices for new type of goods (e.g. genetic material from a global gene pool such as the Multilateral System of the International Treaty on Plant Genetic Resources for Food and Agriculture).

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<sup>3</sup> See, for a more detailed discussion on the issue of financing global public goods, Kaul and Le Goulven 2003a.

Thus, when it comes to global public goods financing often does not mean just “paying a bill” or “making a transfer”. Rather, it means effectively incentivizing international cooperation. And financing global public goods also does not mean just governmental expenditures but also private financing (as the example of the above-mentioned International Treaty illustrates).

### 3.2 Making clear and firm contractual arrangements

In instances where countries trade global public good-related services, it would be only to be expected that they formulate—and sign—contracts, precisely specifying what is being traded and the conditions of the exchange. This would also apply to situations, where countries pool efforts in order, for example, to share the costs of producing a particular (intermediate) global public good, such as pharmaceutical knowledge that is required in order to effectively control or eradicate a global communicable disease. In this case, an incentive might have to be provided to a private corporation or research institute; and in order to do this, a policy partnership, such as the Global Alliance for Vaccines and Immunisation (GAVI) or the Medicines for Malaria Venture (MMV) might have to be formed—for a specified and time-bound period.

Some of the recently formed global policy partnerships have begun to work based on such contractual arrangements: focused on getting their mandated task completed within expected time limits and within specified cost frameworks, outsourcing as and if desirable, to private actors part of their assigned tasks. Such partnerships seem to be appropriate especially where circumscribed corrective action has to be undertaken to reduce a global public “bad”.

## 4 *Facilitating Fiscal Coherence and Transparency: The Desirability of a Consolidated International Relations Budget*

To the extent that more governmental actors become involved in across-the-border activities, it would be desirable to establish a consolidated budget listing all expenditures of a country that are to support activities abroad.

With this purpose in mind, the aforementioned foreign policy review study of the Netherlands (1995) proposes a so-called “homogenous” budget, listing all relevant types of expenditure, including for example, expenditures on embassies abroad, official development assistance (ODA), emergency assistance, and spending on global challenges. The last category of expenditures is suggested to be programmed jointly by representatives of the Ministry of Foreign Affairs and the concerned technical agencies.

In many countries, however, it is at present difficult to determine, which agency pays for which type of international relations activity. Yet, this matter is now beginning to be addressed. For example, France plans a re-organization of its budgetary pattern to clarify which governmental entity is expected to finance which type of expenditure. (See, for example France, Sénat 2002). Similarly, the Carlucci report (Council on Foreign

Relations 2001) suggests various measures, including the annual presentation of an integrated national security budget that would allow Congress and the general public to gain a more comprehensive picture and clearer understanding of the current pattern of expenditures abroad. As the report underlines (*ibid.*, p. 17): “Today, there is no policy document that guides and explains the linkages and trade-offs between the different policies and instruments of diplomacy, intelligence, defense, and international economics, and the budgetary decisions”.

### *5 Recognizing the Dual Agenda of Operational International Cooperation: Aid and Global Public Goods*

Today, global public goods initiatives are not only often perceived and approached as a “foreign” affairs matter. They are also often confounded with development assistance or aid activities. It has been estimated that some 30% of official development assistance funds at present are already flowing into global public good-related purposes. (See, for example, Kaul and Le Goulven 2003a; Sweden Ministry of Foreign Affairs 2001 and World Bank 2001)

A systematic and explicit differentiation would however be desirable, because confounding the various international relation agendas, and notably, the aid and global public goods agenda, has been shown to be ultimately detrimental to each one of them (Kaul and Le Goulven 2003a). ODA resources are limited. Diverting funds out of the ODA envelop for global public good purposes risks an under-financing of development in poor countries. Without a basic development floor, however, developing countries are often unable to internalize their cross-border externalities, i.e. any negative spillovers into the global public domain that emanate from their jurisdiction. Clearly, lack of development can impede, or even reverse, global public good provision. Just think of the threat of resurgent diseases.

At the same time, poor countries are not necessarily the pivotal actors in terms of addressing some of the major global challenges, such as climate stability or financial stability. Richer countries may be the key actors—and despite their income status, expect proper payment for global public good services they are expected to provide in the interest of a particular country (e.g. in the form of an off-setting environmental arrangement) or in the interest of the wider international community (as, for example, in the case of biodiversity conservation). Also, the provision of global public goods does sometimes not only require country-level interventions but may also call for international-level action, such as the provision of incentives to pharmaceutical corporations or research institutes mentioned earlier.

Furthermore, lack of global public goods, such as medical knowledge, can hamper aid effectiveness. Challenges such as that of HIV/AIDS control could not be met through action alone in developing countries, even with the best of efforts. An important complement must be efficient global pharmaceutical knowledge management.

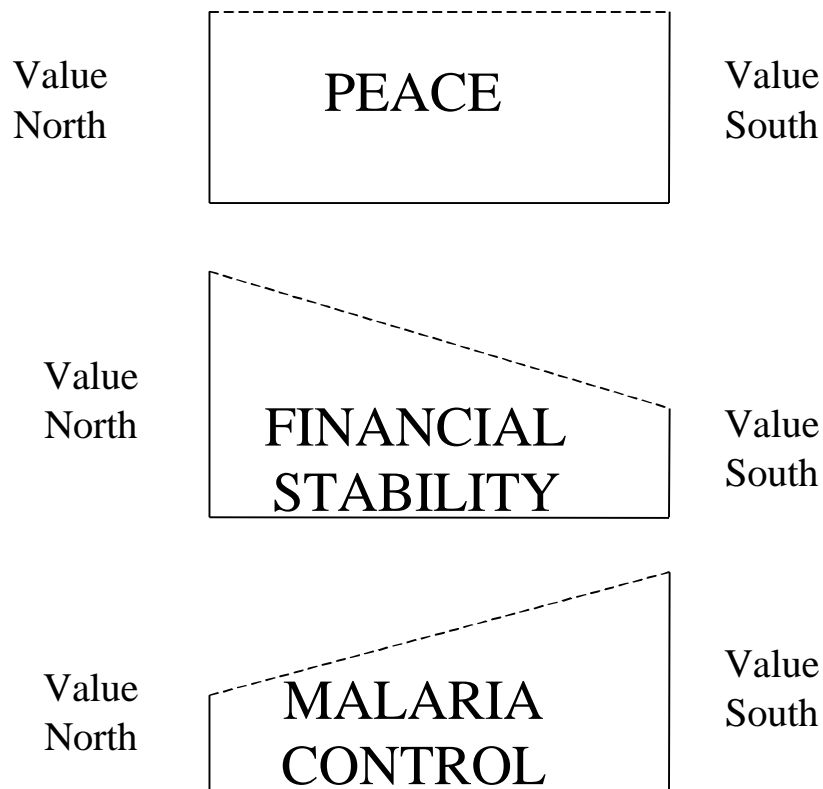
Thus, it is important clearly to distinguish between aid and global public good provision, in the interest of both. Yet at the same time, it is also important to create synergies between the two strands of international cooperation.

### 5.1 Identifying the differences

A simple guideline for a clearer differentiation would be to distinguish between the following three types of goods (see also figure 3):

1. Global public goods that are in the mutual interest of all countries,
2. Global public goods that primarily benefit richer countries; and
3. Global public goods that primarily interest developing countries.

**Figure 3: The (assumed) value attached to select global public goods by different countries**



In the case of “1”, it would probably be appropriate to envision a 50:50 formula—meeting half the costs from ODA resources and the other half from non-ODA resources, e.g. the budgetary allocations of the concerned technical government agency or from a separate “global issue” account maintained for example, by the Ministry of Foreign Affairs.

In the case of “2”, the full cost should be met from non-ODA financing, because the benefits of cooperation primarily accrues to one set of the countries; and in the case of “3”, the use of ODA would be justified, because now the benefits mainly accrue to developing countries. Thus, international cooperation may not be motivated by altruism, moral or ethical considerations, but by self-interest.

## 5.2 Developing the synergies

Yet, differentiating more clearly between global public good provision and aid must not lead to both strands being pursued in isolation from each other. While many differences exist between them, there are also synergies to develop and benefit from. Therefore, for example, today's aid agencies should stay involved and collaborate with other concerned government agencies or private providers in all the three cases listed in figure 3:

- To start with case 3 in figure 3, here aid agencies could assist developing countries in identifying the global public goods issues that are critical to their national development and poverty reduction, and also in strengthening the countries' capacity to negotiate effective and efficient policy solutions to enhancing the provision of these goods. In fact, some technical assistance is already being provided for this purpose but much more is needed.<sup>4</sup>
- In case 2, aid agencies, national and international ones, could assist developing countries in seeing new “trading” opportunities, e.g. along the lines of the Prototype Carbon Fund (<http://prototypecarbonfund.org>). This fund helps developing countries in developing their capacity to identify and certify new products in the area of carbon sequestration that they could offer to the international community, state and private actors.
- In case 1, where the distribution of the good's net-benefits is relatively even, aid agencies could, depending on the good under consideration, undertake development assistance activities similar to those mentioned in the two forgoing points.

By implication, the issue ambassadors suggested in point 1 above, would not only have to facilitate linkages between different economic sectors, foreign affairs and technical ministries, or levels of government. They would also need to ensure that the necessary differences and synergies are being developed between global public good

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<sup>4</sup> A noteworthy multilateral example is the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries ([http://if.wto.org/glance\\_e.htm](http://if.wto.org/glance_e.htm))

provision and development assistance programmes. Creating these linkages also involves matrix management of the type discussed in point 2.

In the interest of benefiting from economies of scope and tapping existing operational experience and expertise, it would also be worth considering, whether the operational arm (as opposed to the policy arm) of the present development assistance agencies should expand their operational competence and “product line” so as to also serve other government agencies, which might increasingly become involved in international cooperation, to implement various international commitments. This would, for example, call for new expertise in such areas as “new market creation” (e.g. to facilitate pollution permit trading) or “pooling public policy incentives” (e.g. to encourage pharmaceutical companies to undertake R&D on certain, hitherto neglected global health issues).

#### *6 Promoting enhanced publicness of decision-making: the importance of multi-stakeholder consultations*

Globalization has, in recent years, been accompanied by a growth in global civil society organizations and by increasing involvement of these organizations, *the public*, in international intergovernmental conferences and the debates on global issues. There has been a trend towards more multi-stakeholder dialogues. However, the format of this dialogue is often still unclear and the rules of procedure uncertain (see, for example, Edwards and Zadek 2003). Nevertheless, a demand for more participatory decision-making on global public goods issues definitely exists.

In addition, as the number of global issues increases and the volume of international agreements expands, national legislatures find themselves more and more confronted with policy decisions that were made outside and come to them for translation into national law (see, for example, Martin 2000). Not surprisingly, several of the recent foreign policy review studies emphasize the importance of more publicness in public policymaking, including more public—consultative and transparent—diplomacy, nationally and internationally (e.g. Council on Foreign Relations 2001; Netherlands 1995; France Ministry of Foreign Affairs and Ministry of the Economy, Finance and Industry 2002; Sweden Parliamentary Commission on Swedish Policy for Global Development 2002; IPU 2001).<sup>5</sup>

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<sup>5</sup> Many stakeholder groups do not just seek a role in the politics part of global public goods provision but also in its production part, i.e. in the implementation of international cooperation agreements. Therefore, figure 1 above also depicts the role of issue ambassador as involving close consultation and collaboration with various segments of the public, including the general public and its representatives, the legislators.

## Policy Conclusion and Next Steps

How to interpret the foregoing examples of ongoing and proposed reforms in the process of national public policymaking? And how to take the reform process forward? This section will address these two questions in turn.

*1 Expanding the rationale for international cooperation: adding global public goods provision as a new and separate strand of countries' international relations policy*

As the foregoing discussion has shown, examining current realities and recent policy reforms through the lens of global public goods allows discerning a pattern and sense of direction in what would otherwise just be a loose string of highly diverse change measures.

Accordingly, it appears to be useful to recognize global public goods as a new, added challenge of international cooperation—a challenge that has its own logic and requires its own set of modalities. As discussed, the provision of global public goods cannot, if it is to be effective and efficient, merely employ the tools of defense and national border security. No fence could be high enough to prevent many of today's global public “bads” from entering a country. Besides, fence building would run counter the whole project of globalization.

Global public goods provision can in most instances also not succeed by employing strategies of rivalry or competition, which are often pursued when countries seek to win political allies over to their side or to secure market shares and other economic opportunities for national constituencies. To the contrary, the challenge to meet is often to bring the other parties on board and secure their cooperation—not to drive them away or take their place.

Moreover, compassion with others, the motivation for aid, is not what should guide international cooperation for the provision of global public goods. Rather equity (a fair bargain) should be but the byproduct of a primarily efficiency-driven agreement to cooperate.

Clearly, optimal global public goods provision follows its own rationale, and a rationale that is quite different from that of other international relations activities. Therefore, it would be important and desirable to establish global public goods provision as a new, added and separate strand of countries' international relations policy.

*2 Possible Next Steps*

Policy reforms have to be designed, agreed-upon, implemented and sustained. Hence, it would be desirable for countries that would like to move forward on the issue of rethinking foreign affairs and diplomacy to review catalogues of possible reform

measures so as to determine on which of the policy options they would like to act immediately, and which ones to study and debate further.

Of course, possible next steps depend on where a country stands at present. Yet, in some countries, the areas in which *direct action might be possible*, could, for example, include such as:

- Appointment of issue ambassadors;
- Creation of global issue units in MoFAs;
- Encouragement of matrix management to foster coordination and cooperation between the Ministry of Foreign Affairs and the concerned technical government agencies;
- More systematic consultations with concerned national non-state actors;
- Regular briefings and more systematic involvement of national legislators in international cooperation activities;
- Renaming of the Ministry of Foreign Affairs to Ministry of Foreign Affairs and International Cooperation; and
- Creation of a technical agency dealing with the operational aspects of both development assistance and global public goods provision.

Issues that may require *further study and policy debate* could, for example, include such as:

- A comprehensive listing and review of all expenditures concerning international relations activities as a basis for rethinking budgetary policies and practices; and importantly,
- Development of the professional competencies required to implement the various reform steps.

As regards the last point, it would be important to revisit both the training of diplomats and that of today's development professionals. The diplomats of the future would probably be required to possess besides their general diplomatic skills, such competencies as: technical expertise in global issue areas; ability for public consultations and outreach to stakeholder groups; familiarity with the strategic aspects of win-win strategies; and thinking in cross-border cooperation and acting as a bridge between the outside and the domestic sphere.

Turning to the development professionals (including aid agencies professionals), whose responsibilities would mainly lie on the implementation (production) side of global public goods provision, the challenge in terms of human resource development would, in particular, pertain to such aspects as: acquisition of the technical knowledge and skills to use new operational modalities, such as property rights and new markets or international-level policy incentive schemes (e.g. R&D incentives); identifying global public goods of potentially high social returns to the home country; assessing the costs of under-provision of various global public goods, the costs of possible corrective actions, and likely net-benefits to be generated by these actions; design and monitoring of contracts for international trade in global public good services; or the management of

issue accounts (as opposed to the management of the country accounts that are typical of the aid modality).

Change in well-institutionalized practices is always uncomfortable and burdensome. However, considering the list of the measures suggested here, the additional effort required in order to enhance the provision of global public goods seems to be minute compared to the costs that a business-as-usual strategy would imply—i.e. compared to the costs of a world caught in a downward spiral of a growing number of global crises and conflicts.

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