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The Reality of Aid 1997–1998

An independent review
of development cooperation

Edited by Judith Randel and Tony German

AID AND DEVELOPMENT

Volume 10

The Reality of Aid 1997–1998

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**An independent review of development
cooperation**

Edited by Judith Randel and Tony German



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The Reality of Aid 1997/8

An Independent Review of Development Cooperation

EUROSTEP ICVA (An International Working Group of ICVA Members for the Reality of Aid Project)
Edited by Judith Randel and Tony German, Development Initiatives

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Contents

List of boxes and tables	v
The Reality of Aid Project	vii
Acknowledgements	viii
ICVA and Eurostep member organisations	ix
Participating agencies	x

Part I Current Issues and Key Themes

Introduction	3
Development cooperation in a changing world	4

Part II OECD country profiles

Australia	21
Austria*	29
Belgium*	35
Canada	42
Denmark*	49
Finland*	56
France*	62
Germany*	68
Ireland*	77
Italy*	84
Japan	92
Netherlands*	98
New Zealand	105
Norway	113
Portugal*	119
Spain*	124
Sweden*	131
Switzerland	137
United Kingdom*	144
United States	153
European Union	160
The EU and Africa	179

* EU Member States



Contents

Part III Perspectives from the South

International cooperation in Argentina	193
Western assistance to post-communist countries in Central and Eastern Europe	197
A comment on NGOs, ownership and participation in Ghana	205
Guatemala	208
Haiti	212
Breaking new ground in donor coordination in India	217
International cooperation with Latin America	222
Internal management in relation to Uganda's external debt	225
Gender equity in education in Zimbabwe	232

Part IV Aid Trends, Facts and Figures

World aid at a glance	243
World aid in 1995 and 1996	244
Trends in aid and development cooperation	247
The outlook for aid	258
Leadership on public and political opinion	261
Spending on public information and development education	266
Measuring and mainstreaming aid for poverty eradication	267
Approaches to gender in development cooperation	278
Humanitarian relief, conflict and emergencies	286
Trends in ODA through NGOs	293
Political responsibility and management of development cooperation	297
<i>Glossary</i>	303
<i>Exchange rates</i>	305
<i>Notes on data</i>	306

Boxes and tables

Boxes

1. Summary of main messages	5
2. The real extent of poverty	6
3. The growing role of Northern citizens in development cooperation	7
4. Removing barriers to self-empowerment	10
5. Gender, participation, access, and representation	11
6. One clear objective: Review of Australia's overseas aid programme	24
7. Australia's 1997/8 overseas aid budget at a glance	25
8. Examples of effective Australian aid	27
9. Effective aid from Denmark to Nepal Nari Bikash Sangh: MS-Nepal in partnership with a Nepali women's organisation	55
10. Examples of effective poverty reduction aid from Italy	90
11. Decentralised cooperation in Italy	91
12. What New Zealand's ODA is used for . . .	109
13. What Swiss ODA is used for . . .	143
14. Does UK give enough?	144
15. Tied aid (UK)	145
16. Clare Short on globalisation	149
17. Conclusions of the Court of Auditors' Evaluation of the Med Programme	167
18. Evaluation of ECHO by the European Court of Auditors	169
19. Reconciling data on CEE and NIS	198
20. Analogies with the Marshall Plan	198
21. Assistance to Bulgaria	199
22. Belarus	200
23. Bosnia and Hercegovina reconstruction plan	201
24. Soros's funding	203
25. The eradication of the creole pig: aid – in whose interests?	214
26. Debt swaps	223

Tables

1. Growth rates and aid levels in selected countries	26
2. Chosen sectors where country-strategies are completed	53
3. Regional distribution of German ODA 1996 and 1997	73
4. Bilateral technical and financial assistance (TZ and FZ) to basic education and health	73
5. Sector priorities, 1987 and 1995 compared	84
6. Italy's ODA allocations	85
7. Percentage distribution of bilateral and multilateral ODA for 1994–7	125
8. Three scenarios for the UK	150
9. Timetable to renegotiate EU–ACP relations	161
10. Lomé preferences versus the Generalised System of Preferences	163
11. Financial perspectives until 1999 of external action (EC budget) and estimates of appropriations for the European Development Fund	165
12. General budget: expenditure under the title of external actions	167
13. EU Member State aid agencies and European Commission Staff 1991–4	168
14. Origin of funding in Member States	171
15. EDF budget underutilisation	172
16. Policy and trends on multilateral allocations	173
17. Council Resolutions applying to the EC and Member States	174
18. Policy to implement Council resolutions	176



Boxes and Tables

19. Priorities and sources of international technical cooperation	193–4
20. Official net disbursements to the CEE countries and more advanced NIS	200
21. Official net development aid disbursements to CEE and more advanced NIS as percentage of GNP	202
22. Priorities for major donors	213
23. Total donor assistance to Haiti 1995–7, by sector	214
24. Debt service and interest payments	227
25. Loan balances by economic sector as at 30 June 1995	229
26. Completion rates: Grade 1 to Form VI, 1992	233
27. Inventory of donor funded projects with the Ministry of Higher Education	237
28. Real terms changes in ODA 1995 and 1996	248
29. Bilateral ODA commitments by sector, 1995	250
30. Official aid spending on public information and development education per head of population	253
31. The outlook for aid	258
32. Leadership on public and political opinion	261
33. Spending on public information and development education in US\$ millions	266
34. Current measures of aid for basic needs or direct poverty reduction as a percentage of total ODA	267
35. At a glance on mainstreaming attention to poverty reduction	273
36. Approaches to gender in development cooperation	278
37. Humanitarian relief, conflict and emergencies	286
38. Trends in ODA through NGOs	293
39. The political responsibility for OECD aid	297

The Reality of Aid project

The Reality of Aid is a collaborative, not-for-profit project of EUROSTEP and ICVA (the International Working Group of ICVA Members for the Reality of Aid Project). It aims to improve the quality of development cooperation and increase the quantity of development assistance in the interests of eradicating poverty.

Its objectives are:

- to produce reliable and well informed reports on the development cooperation performance of OECD DAC donors. This is based on reports written from the perspective of NGOs based in donor countries as well as perspectives on OECD development cooperation from recipient country NGOs;
- to increase knowledge and scrutiny of development cooperation; and
- to influence policy makers at national and international level to gear their policy and practice to reducing world poverty.

EUROSTEP

Established in 1990, European Solidarity Towards Equal Participation of People (Eurostep), is an international association of European non-governmental organisations working for justice and equal opportunities for people North and South. Eurostep seeks to improve the development cooperation policies and practices of the European Union and its Member States. It draws on the experiences of its members and its partners in the South in establishing its positions and messages and provides coordination in the approaches of its member organisations on policy at the European level.

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Established in 1962, the International Council of Voluntary Agencies (ICVA) has been an

independent, international association of non-governmental and not-for-profit organisations active in humanitarian assistance and sustainable development.

ICVA has provided a means for voluntary agency consultation and cooperation and has undertaken advocacy work on issues of common concern to its members. Without the collaboration and pivotal efforts of the ICVA Secretariat and its members since its inception, the Reality of Aid Project and the 1997/8 Reality of Aid Report would not have been possible. At the time of writing the 1997/8 Reality of Aid, ICVA's organisational structure and status were undergoing a fundamental review by its membership. An International Working Group of ICVA members will continue to collaborate with the Reality of Aid Project. These members of ICVA are identified in the full list of ICVA agencies overleaf.

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In 1997 ACTIONAID was the lead agency for ICVA and EUROSTEP on The Reality of Aid Project. ACTIONAID is an international development agency which works with some of the poorest communities to overcome poverty and secure lasting improvements in the quality of their lives. ACTIONAID's programmes reach over 3 million people in 20 countries in Africa, Asia and Latin America.

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Reality of Aid is an NGO publication, drawing on modest resources but every effort is made to ensure that the information used is accurate and that interpretation is fair. The views expressed are those of the individual chapter authors and do not necessarily reflect the views of EUROSTEP, ICVA, ACTIONAID, Development Initiatives, the Humanitarian Group for Social Development (Lebanon), UNDP or the Ford Foundation.

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Part I: Current Issues and Key Themes

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Introduction

Does development cooperation still have a meaning in an era of globalisation? Will foreign direct investment replace aid in the short term?

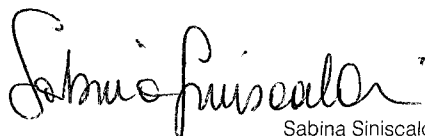
Some political and social leaders, and even members of the NGO community, think the global market will replace development cooperation very soon. Some people believe that such a market, provided for by the Uruguay Round and by the WTO, will ensure economic growth and development to all countries.

It would be easy to be mistaken in thinking that the market could replace development cooperation. In a world where poverty is growing, unemployment increasing and where conflict and insecurity affects the lives of more people, the search for alternative solutions to the development cooperation policies of the past 40 years – policies that have often missed their aims – is natural.

Globalisation characterises our times: an ineluctable process. Those who want to oppose it look like Don Quixote tilting at windmills. But it should not be taken for granted that this process automatically brings real benefits to people. In fact the evidence collected in *The Reality of Aid* shows that the global market is not addressing the problems of poverty and in many cases is a process that leads to increased inequalities and undermines the lives and security of wide sectors of population.

Over 3000 million people are living in poverty, if a poverty line of just over US\$ 2 a day is used. We face impoverishment in Africa, South Asia, Latin America, but also in industrialised countries: even where GNP has increased, the phenomenon of unemployment has not been halted; even where wealth has been augmented, large parts of society are excluded from its benefits.

Some time ago the *New York Times*, commenting on President Clinton's visit to South America, affirmed that supporting economic growth had been shown to be ineffective in improving people's standard of living. Wealth had increased but to the exclusive advantage of the elites. There was a rise in the sale of portable phones, but not in food; the gap between rich and poor had widened. It is evident that globalisation and the markets do not represent the solution.



Sabina Siniscalchi
Chair Eurostep

People's future demands alternative actions. First, there is a call for the state not to withdraw, but to be enabled to take effective, coherent action for the eradication of poverty and for sustainable development both nationally and globally.

Second, there is a need for international institutions to be given responsibility for the equitable management of global processes. Rules are needed to guarantee the welfare of citizens and the fundamental rights of present and future generations.


Third, governments must stick to the commitments made at UN conferences and enshrined in international conventions. Long negotiations, involving both heads of state and civil society, have identified principles and strategies that offer solutions to some of the most fundamental challenges faced by humanity. We must not waste all this effort. We must build on the intellectual and financial resources that have already been invested.

This is why *The Reality of Aid* wants governments to meet existing commitments, particularly on effective development cooperation.

In 1996 resources for development cooperation fell to their lowest ever level – just ¼ of 1% of the growing wealth of donor countries. New priorities are now on the donor countries' agenda. But are those priorities really the ones people want? Public opinion in donor countries strongly supports aid and many citizens make their own individual contributions through NGOs. This should be respected by donor governments, not ignored.

People understand that aid, when properly directed and well implemented, can improve the lives of the poor, prevent conflicts, enhance the status of women, protect natural resources and defend minorities. Its effectiveness will be multiplied if other government policies are made coherent with the aims of development cooperation. Such aid is in everyone's interest.

We do not fear globalisation. In fact we dream of a globalised world, where resources are equally distributed and education, health, jobs, shelter, human rights and freedom are guaranteed to all. Development cooperation has its part to play in achieving that.



Brian Tomlinson, International Working
Group of ICVA Members for *The Reality of Aid*

Development cooperation in a changing world

Mark Curtis, ACTIONAID*

Overview

Improved international development cooperation to eradicate poverty and promote poor people's basic rights is one of the greatest political priorities in the run-up to the millennium. This means a much greater commitment by Northern donors to high quality aid programmes that work in the interests of poor people. It also means recognising the importance of the wider economic and political context in which aid programmes operate, in order to improve the prospects for inclusive social and economic development.

With rising poverty around the globe – in both North and South – such development cooperation is not so much an option or a political choice for Northern actors. It is, rather, an obligation both morally and for reasons of self-interest: in an increasingly interdependent world where many issues can only be resolved internationally, Northern governments should regard development cooperation as an investment in their own futures.

Economic globalisation means that development cooperation between and among Northern and Southern countries should have a much higher priority in national and international politics where 'domestic' and 'foreign' issues are increasingly blurred. The eradication of poverty should be regarded as an international public good that promotes peace, security and environmental sustainability. The onus thus falls on everyone – individuals as well as governments – to take action.

The reality, however, is that Northern states and institutions are palpably failing to give priority to development cooperation. In 1997, aid levels continued to decline (see Trends chapter), a Multilateral Agreement on Investment risks stripping developing countries of control over foreign direct investment, and a positive effort to tackle debt relief, the Highly Indebted Poor Countries Debt Initiative, is not being

implemented as urgently and as thoroughly as is required.

Political will and leadership are simply lacking. At the same time, citizens' commitment to cooperation remains strong. Governments are thus not only failing to live up to their commitments, as this review demonstrates, but they are also betraying their own citizens' hopes for a future secure and prosperous world.

Introduction

In the five years since the first *Reality of Aid*, enormous changes have occurred across the globe which have affected aid and the debate on aid. The central role of the state in driving 'development' has been weakened. In the South, a number of repressive regimes have recently fallen; other states have collapsed or come near to collapse, particularly in the Great Lakes region of Africa. Donor and recipient governments and intergovernmental organisations, the main administrators of aid programmes, have come to see the state as a hindrance to development rather than a help. In the North, even parties of the left have increasingly espoused reductions in the role of the state and welfare spending.

At the same time, globalisation is transforming the international economy. Private financial flows to developing countries, smaller than total aid five years ago, have tripled and are now four times as large as aid flows. The private sector has even been seen by some as more efficient in delivering traditional state functions. But while market forces have facilitated a substantial increase in financial flows from developed to developing countries, they have also contributed to the dramatically increasing gap between the wealthy and the poor in the world.

Five years ago, many were still hoping for a large peace dividend and a benign new world order – such voices have since been muted. Despite a

Development cooperation in a changing world

Box 1 Summary of main messages

Aid can and does work. While developing countries and people in poverty must themselves lead the process, this requires high quality input from the donor. The international community should make high quality aid a priority. It also needs the right economic and political conditions in the recipient country, where states must give priority to the eradication of poverty and the protection of human rights, and where markets are regulated so that they contribute to these goals.

- Aid and development cooperation programmes should be guided by and reoriented towards clear goals: the eradication of poverty and promotion of equity and human rights.
- Governments must demonstrate a strategy for meeting existing commitments, including the 0.7% of GNP ODA target, the 20:20 compact, and the goals of the OECD DAC's Shaping the Twenty First Century.
- Governments must negotiate clear standards for the participation, access and representation of the organisations of civil society in policy dialogue. They must hear and take fully into account the voice of people in poverty.

Governments must show leadership in ensuring a coherent development strategy: policies in one area should not undermine those in another. All areas of government policy – not just aid – should promote sustainable development and human rights.

- Governments and citizens must respond to pressures of economic globalisation by promoting inclusive social and economic development. This means macroeconomic policies and trade and investment rules must give priority to generating and preserving sustainable livelihoods, equity, and human security, for both women and men.
- Governments must have a strong role in establishing and enforcing appropriate regulatory frameworks for private sector activity, particularly with respect to foreign direct investment.

With the transformations being brought about by globalisation, the future of development increasingly lies in international cooperation. This not only involves governments and multilateral institutions, but partnerships for social development between peoples and organisations in North and South. This requires the nurture of political constituencies and alliances for development.

drop of nearly US\$ 500,000 million in military spending between 1987 and 1995,¹ in the latter half of that period (1992–5) aid levels fell by 14% in real terms. The year 1996 saw aid fall by 4.2% in real terms, from \$58,800 million to \$55,100 million. At 0.25% of GNP in 1996, aid is at its lowest level since statistics began in 1950.²

Several factors explain the lack of support for aid: domestic budgets of donor countries are under pressure; factors such as private financial flows and debt relief seem more important; and economic globalisation and reductions in the role of the state appear to question the relevance of aid to development.³

Yet the case for aid that works to benefit poor people is very clear: poverty and inequality continue to worsen in specific regions and countries;⁴ many of the world's poorest countries are unable to attract other external resources and remain dependent on aid; as shown in opinion polls across the North, the public believes their governments have a clear moral duty to reduce poverty.

This report, having reviewed the past year, recognises that the process of globalisation requires creative strategies for tackling poverty. There are few tools available that can tackle it directly. This report argues that aid remains vital to help promote precisely this end. It is one



Development cooperation in a changing world

element of a potential development cooperation strategy covering trade, investment, governance, human rights and militarisation. Aid's success or failure must be judged in that wider context.

Quality aid works

Aid can and does work. While developing countries and people in poverty must themselves lead the process, this requires high quality input from the donor. The international community should make high quality aid a priority. It also needs the right economic and political conditions in the recipient country, where states must give priority to the eradication of poverty and the protection of human rights and where markets are regulated so that they contribute to these goals.

Donors need to focus aid on the eradication of poverty and the promotion of human rights. Aid policies also need to cohere with other policies that could otherwise undermine them, such as debt repayments or unfair trade. For recipients, such aid works when the economic and political environment is geared towards promoting the same objectives: the eradication of poverty and human rights. Growth must be an equitable process that works in the interest of people living in poverty and that does not exclude whole sections of the population on the grounds that wealth will eventually 'trickle down' to the poorest.

Such aid works. Multilateral and bilateral aid have leant substantial financial and technical support to developing countries' successes in increasing access to drinking water, falling infant and child mortality through inoculations and oral rehydration therapy, the spread of immunisation programmes, which have controlled smallpox, polio, diphtheria and measles, improvements in physical infrastructure and the introduction of new agricultural inputs to increase yields.⁵ The chapter for the United States this year shows, for example, that polio has been eradicated from the Western hemisphere with the help of US aid funding.

Box 2 The real extent of poverty

Most human beings at the end of the twentieth century live in poverty. The most widely-used estimate of the extent of absolute poverty is that of the World Bank. Its most recent figures state that 1300 million people live on less than US\$ 365 a year,⁶ or less than US\$ 1 a day.⁷ Even this seriously underestimates the extent of poverty. The UNDP reports that 80% of the world's population lives on about 15% of the world's total GNP. These figures suggest that about 4300 million people live on an annual average per capita income of around \$750, a little over \$2 a day.⁸

This has led one development academic to write that: 'In the poor countries of the world there are no administratively convenient "pockets of poverty". The poor form a majority. They are the peasants and the popular urban sectors. They are the people. The World Bank did not draw this conclusion, however. To do so would have led it to abandon its traditional approach to economic growth and "development"'.⁹ The World Bank's estimates instead lead it to regard the poor as a special, minority group.

Whether or not the poverty line is drawn at \$1 or \$2 a day, it still fails to capture aspects of human poverty that cannot easily be reduced to a dollar figure. Rather than measure poverty by income, the UNDP has introduced a human poverty index (HPI) which uses indicators that reflect the *conditions* in which people in poverty live: life expectancy, literacy, child nutrition, and access to health services and safe drinking water. The HPI was introduced by the UNDP Human Development Report 1997 to provide a complementary measurement of poverty to those traditionally using income.

Development cooperation in a changing world

The effectiveness of aid in eradicating poverty depends both on the quality of the donor aid programmes and on the capacity of recipient governments to use the aid wisely. A recent study for the US Overseas Development Council on aid to Africa concluded that the most important factor in the contribution of aid to African economies 'is the extent to which governments have the capacity to use it in the service of a coherent development strategy'. For too long, the study notes, 'donors have made inadequate efforts to build capacity within central state institutions, and they have adopted practices that actually undermine these capacities'. It adds that recipients in Africa 'have acted as if aid were a free resource and have not integrated aid into their own planning and budgeting exercises'. Recipient countries need to pursue policies that promote economic growth and poverty alleviation and donors should increase aid resources to such countries.¹⁰

Northern public support for development cooperation

The view that the public cares little about poverty, and that there are few votes in it, is plainly wrong. As *The Reality of Aid* reported last year, the public across the OECD is constantly supportive of the principle of helping those in need. In *Development Aid: Building for the Future with Public Support*,¹¹ a study of European public opinion of development aid, the European Commission demonstrated that 90% of the population viewed development issues as important. In addition, 83% of Europeans thought that the EU development budget should be increased. In countries with an ODA lower than 0.7% of GNP, more than 70% of the citizens believed that their government should increase its development aid budget.¹²

The European study also showed that the public lacks accurate information on aid – over 90% of people want to be better informed. This supports the conclusion of a 1995 Canadian report, which showed that public support for aid was considerably stronger when foreign aid is explained in terms of means and goals, rather than just as a budget item. This is also consistent with a 1995 US study, which found that both the public and some politicians were not well

informed and grossly overestimated the actual levels of aid¹³ (see Table 32 on Leadership on public and political opinion).

It is clear that people in donor countries attach importance both to volume and quality of aid, provided it is well spent. A much greater effort must be made by Northern donors to achieve high quality programmes that contribute to the eradication of poverty and to ensure that the public is much better informed about development cooperation.

Box 3 The growing role of Northern citizens in development cooperation

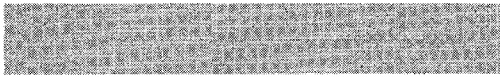
The wise politicians of the next century will be those who pay attention to the changing role of Northern citizens and their increasingly important role in development, as buyers of fair-trade goods and as ethical investors, as well as concerned voters.

In 1994, for example, consumers in Europe spent over 200 million ECU on fair-trade goods. This fair trade reached 800,000 families, or 5 million people, in developing countries.¹⁴ In the UK alone, nearly 400,000 people now buy fair-trade goods, two chains of ethical shops have recently been established, and around 300,000 people have savings or mortgages in ethical stock market funds.¹⁵

Clear goals

Aid and development cooperation programmes should be guided by and reoriented towards clear goals: the eradication of poverty and promotion of equity and human rights.

Development strategies, including aid programmes, should promote greater equality among people and countries. The share of income of the poorest fifth of the world's population now



Development cooperation in a changing world

stands at a mere 1.1%, compared with 2.3% in 1960.¹⁶ Raising people over a low income threshold does not constitute a real development strategy, especially when wealth and power are concentrated in fewer and fewer hands. Participation in society is about more than income. Gross inequalities – in opportunity, power, access to resources as well as income itself – are incompatible with a development process centred on people. Donors need to promote more equality, by showing clear political leadership and commitment to this aim.

To this end, aid programmes should be directed towards eradicating poverty and promoting human rights. This is particularly vital for women, who comprise 70% of people living in absolute poverty. Donors have made some progress towards focusing on poverty over the past few years. The World Bank's focus on poverty reduction as its 'overarching objective' over the past few years is one example. More recently, the British government has stated that the reduction of poverty is the first priority of its aid programmes. An independent commission established to review Australia's aid programme recommended strongly that poverty reduction through sustainable development become the 'one clear objective' of the Australian aid programme.¹⁷

But there is much more that could be done. While aid administrations devote a lot of rhetoric to poverty, most official aid simply does not reach people living in poverty. Only a small proportion is directly focused on poverty eradication and basic services (see the 'At a glance' section of this report); and there is little evidence that the rest of it reaches people living in poverty through 'trickle down' economic growth. Donors have not made substantial overall shifts in resources to the social sectors. This point is highlighted by Danish development minister Poul Nielson who notes that 'we must be better at focusing on poverty reduction when we prepare country programmes and design interventions. Our policies and guidelines must to a greater extent than today be reflected in the project documents'.¹⁸ (See Table 35 on Mainstreaming attention to poverty reduction)

Donors need to take greater steps to target their aid programmes towards the social sectors (see Table 34 on Measuring aid to direct poverty

reduction). Basic rights to health, education, food and employment continue to be denied to hundreds of millions of people. Investment in health and education is one of the most important determinants of human development, and of employment, productivity and economic competitiveness. At the same time, it is a vital determinant of welfare, income and social cohesion.

Government commitments

Governments must demonstrate a strategy for meeting existing commitments, including the 0.7% of GNP ODA target, the 20:20 compact, and the goals of the OECD DAC's Shaping the 21st Century.

Significant progress has been made at international summits in the 1990s to secure government commitments to a host of targets. Among these are the 1992 Earth Summit in Rio, the 1994 International Conference on Population and Development in Cairo, the 1995 World Conference on Women in Beijing, the 1995 Social Summit in Copenhagen, the Human Settlements Conference in Istanbul in 1996, the 1996 Food Summit in Rome, and the ill-fated Earth Summit II in New York in 1997. The tremendous effort that went into reaching agreement on commitments at each of these conferences must not be wasted. Non-governmental organisations and citizens must push governments to honour their commitments.

Shaping the 21st Century In *Shaping the 21st Century: the Contribution of Development Cooperation*, a number of specific targets agreed in UN Conferences were reconfirmed by DAC member countries. These include:

- a reduction by one-half in the proportion of people living in extreme poverty by 2015;
- universal primary education in all countries by 2015;
- demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;
- a reduction by two-thirds in the mortality rate for infants and children under age 5 and a



Development cooperation in a changing world

reduction by three-fourths in maternal mortality, all by 2015;

- access through the primary health care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than the year 2015; and
- the current implementation of national strategies for sustainable development in all countries by 2000.

These are worthy goals, and OECD governments should be applauded for recommitting themselves to them. Now, citizens, non-governmental organisations, and other civic organisations must put pressure on governments to demonstrate a strategy for meeting these commitments. A critical factor here is political leadership. All donor countries should show how they are going to reform their aid and other policies to achieve these goals.

As well as making significant shifts in resources towards these targets, donors need to work with recipients on building the targets into country assistance strategies. Measuring and monitoring progress towards these objectives is imperative and there need to be mechanisms for this. Interim steps towards the 2015 targets need to be established. The targets can be achieved only if there is a framework of mutual agreement and contractuality between the donor and the recipient. The efforts of both the donor and the recipient must be monitored. The role of the DAC in developing indicators of development progress and the establishment of an International Working Group towards this end are welcomed.

The 20:20 compact Increased social services to people living in poverty can only be assured if donors and recipient governments work together to achieve this objective. This requires a mutual understanding of the priorities in the use and objectives of aid. At the 1995 World Summit for Social Development, governments committed, on a voluntary basis, to the '20:20 compact', a principle proposed precisely for this purpose. This compact calls on donors to commit 20% of aid resources and on recipient governments to commit 20% of public expenditures to the provision of basic services.

At the same summit, NGOs endorsed a proposal which increased the share of social sector spending to 50%, with a focus on:

- the basic social services identified in the 20:20 compact, such as basic education and primary health care, nutrition programmes and safe water;
- support to income-generating activities for the poor in rural areas and the urban informal sector, including small-scale credit facilities; and
- strengthening social and civil organisations.

Donors should give priority in their aid programmes to countries whose governments make a mutual commitment to achieving the objectives in basic social services set out in the 20:20 compact: aid needs to focus on countries pursuing credible poverty-reduction strategies. They should also press international financial institutions to make structural adjustment loans conditional on government action to improve universal access to basic services.

Non-governmental organisations are committed to monitoring governments' progress towards Social Summit commitments. *Social Watch*,¹⁹ an annual digest of reports from national NGOs on their countries' human and social development initiatives was launched in 1996 to monitor such progress.

0.7% of GNP In 1969, the OECD DAC affirmed a needs-based target of 0.7% of donor countries' GNP for overseas development assistance. Since then, very few countries have met this goal. Despite declines in aid volumes over the past few years, the OECD DAC member countries, with the exception of the USA, continue to affirm their commitment to the 0.7% target for aid. The most recent reaffirmation of this commitment was made in June 1997 at the UN General Assembly Special Session (UNGASS).

Untied Aid Although there is as yet no collective commitment from donor governments to untie their aid, there is a strong case for countries to take unilateral steps to untie aid in favour of aid geared to poverty reduction. Many countries support untying in principle, but there is not yet much

Development cooperation in a changing world

evidence of progress. Currently, France is effectively blocking the prospects of reaching a multilateral agreement on untying. In the case of the UK, a recent report by the Overseas Development Administration showed that unilateral untying would be in the interests of the British economy. The British government has hitherto failed to take this step, although the new government has signalled its intent to end tied aid (see UK country chapter).

Box 4 Removing barriers to self-empowerment

The poor are completely capable of changing their own lives with their own efforts, provided barriers which are put around them by the existing system are removed. . . . If the bottom 50% of the world's population – the poor and the small producers – are allowed to bring out their productivity, ingenuity and creativity the world will be a better place for all. . . .

Let us all agree that we shall not accept any investment as development expenditure unless it touches the lives of that bottom 50%. I urge taxpayers in donor countries to make sure that their money directly benefits the bottom 50% in recipient countries.

Poverty has not been created by the poor. It is created by the institutions and policies we have built around us. Unless these are redesigned, and alternative institutions and policies are made, poverty will continue to flourish.²⁰

Professor Muhammad Yunus
founder of the Grameen Bank

Participation, access, representation

Governments must negotiate clear standards for the participation, access and representation of the organisations of civil society in policy dialogue. They must hear and take into account the voice of people in poverty.

The quality of participation is crucial to the quality of development cooperation. Often, however, little provision is made to consult with the beneficiaries or potential beneficiaries of programmes or with organisations already working in a particular sector. Under the current framework of EU development cooperation, for example, the objectives and design of EU-funded national development strategies are created almost exclusively by officials of the recipient government and the EU. Many bilateral programmes suffer from similar deficiencies. Aid programmes must incorporate broader participation in their design, implementation and evaluation, and this needs to be firmly built into country assistance strategies. Particular efforts are needed to promote the equal participation of women, which has proved essential to improving the quality of aid.

To foster greater participation, accountability and transparency, steps need to be taken to strengthen local and national organisations in the South, such as farmer associations, women's organisations, cooperatives, trade unions and human rights organisations. This will help increase their influence in policy decisions and their ability to access resources and secure their basic social and economic rights.

Governments should vastly improve their disclosure of information so that national development strategies, indicative programmes and financing agreements are in the public domain. Equally, it is essential to improve the transparency and accountability of multilateral institutions, like the World Bank, the International Monetary Fund and the World Trade Organisation.

The need for coherence

Governments must show leadership in ensuring a coherent development strategy: policies in one area should not undermine those in another. All areas of government policy – not just aid – should promote sustainable development and human rights.

Aid is only one part of the relationship between developed and developing countries. International trade, investment, conflict prevention and debt

Development cooperation in a changing world

Box 5 Gender, participation, access and representation

What does 'development' mean if women, more than half the world's population, are not involved in development planning processes on equal terms with men? Equality between women and men is more than a matter of justice. It was made clear at the Beijing Women's Conference of 1995 that there can be no real development unless the realities of women as well as men are taken into account in analysis, policy, and particularly in programme delivery. Women and men must be given equal opportunity to participate and benefit from the development process.

As Ghita Sen, an Indian economist, explains,

A gender perspective means recognising that women stand at the crossroads between production and reproduction, between economic activity, and the care of human beings, and therefore between economic growth and human development.

Women's involvement and empowerment in development programmes should be an explicit goal of development cooperation.

One very neglected aspect of this concerns emergency responses, the majority of which have ignored the special needs of women, missed opportunities to strengthen their position, ignored women's own resources and characteristics and disregarded the long-term social rehabilitation needs of the communities they serve.

A second aspect concerns the negative impact on women of macro-economic policies and programmes. As women are usually concentrated in the most vulnerable and least organised industries, and they often have sole responsibility for child care, women and their children have been disproportionately affected by some structural adjustment policies which have had the effect of lowering labour standards and cutting basic social services.

relief are far more important for determining the opportunities for equitable human development in an era of globalisation. Arms exports, environmental policy and foreign policy generally are also critical factors. For aid to promote poverty reduction and human rights, it needs to be seen as part of a mix of policies that ensures a coherent overall development strategy.

As two Dutch writers, Max van den Berg and Bram van Ojik, note:

What is the point in, say, using aid money to support indigenous peoples in sustainable forest management if commercial operators can at the same time fell all the timber they want and export it to the hardwood-consuming rich countries? . . . The important thing is understanding that development cooperation has more to do with supporting rights and claims than with economic growth, modernisation and the simple transfer of resources.²¹

There are numerous examples of Northern states pursuing inconsistent policies. This is the case with trade policy, where the efforts of developing countries to increase exports have been undermined by unfair trade rules and practices of Northern governments. Such contradictions are found in the European Union's (EU) Common Agricultural Policy (CAP), which, through direct payments to farmers and food dumping, artificially reduces the world market price, while at the same time the EU is financially supporting efforts to achieve food security in developing countries. A recent example is the dumping of subsidised EU beef in southern Africa while supporting the development of communal cattle farming. Through such inconsistencies, and the intransigence of some members in removing trade barriers for Southern produce entering Europe, the EU has systematically undermined food producers in the South.

The whole area of arms exports policy of some donor governments is rife with 'incoherence' – aid cannot be used effectively in reducing



Development cooperation in a changing world

poverty in regions torn apart by conflict. An obvious case is highlighted in the chapter on Switzerland. Swiss aircraft have been used against partially Swiss-funded Burmese refugee camps. This is but one example of the way in which Northern governments fail to take responsibility for their part in undermining development efforts by fuelling conflicts in developing countries.

Similarly, some donors' espoused commitment to support human rights is often backed by little action: consistent human rights abusers such as China, Indonesia and Israel²² have been among the largest recipients of aid from DAC members.

There has been progress in promoting more coherent policies in some countries. Foreign ministries are increasingly concerned with issues that were previously seen as narrow development questions, such as human rights, peacekeeping and environmental issues. Some Northern countries – for example, Denmark, the Netherlands and the UK – have undergone or are undergoing reforms either of development cooperation policy itself or the structure within which aid and development policy are linked to other areas of government policy. In June 1997, the EU Development Council adopted a resolution on coherence, which, among other things, calls for a yearly report by the EU Commission on the issue of coherence. NGOs will monitor closely further developments of such initiatives.

The Highly Indebted Poor Countries Debt Initiative

A key area where policies have been catastrophically incoherent concerns the debt burden carried by so many developing countries. Increased and uncontrolled bilateral, multilateral, and commercial lending in the mid-1980s brought many developing countries to the point of bankruptcy. The results of the loans made available in the latter half of the 1980s and 1990s for debt servicing and structural adjustment support have been doubtful.²³ While some developing countries did indeed increase their exports of primary products, due to lower prices and increased competition, their debt burdens remain. Indeed, total debt outstanding for developing countries increased from \$1132,000 million in 1986 (at the peak of the debt crisis) to \$2177,000 million in

1996, a 92.2% increase.²⁴ Most of the Severely Indebted Low Income Countries (SILICs) are in sub-Saharan Africa (SSA). In 1995, 30 of the 48 countries in SSA were classified as 'severely indebted'.²⁵ For some African debtors almost all the debt service is paid to international financial institutions (IFIs), which would not, in the past, reschedule or cancel any portion of their loans. Highly indebted countries have had to take new loans, often from bilateral donors, to repay the old loans. Debt to the IFIs of 20 out of 29 SILICs exceeded 100% of exports.²⁶

The international community has now recognised that a resolution of the debt problem is essential, particularly in sub-Saharan Africa. Following a commitment at the 1996 Group of Seven (G7) summit meeting in Halifax, the Highly Indebted Poor Countries (HIPC) Debt Initiative was launched at the World Bank/IMF Annual General Meeting in October. The central aim of the initiative is to enable the world's poorest countries to achieve a sustainable debt level within a period of six years and so remove the need for rescheduling. There are 41 HIPC countries, all part of the SILIC group, characterised by disproportionately large multilateral debt service payments.

In April 1997, creditors decided upon an accelerated debt relief deal for Uganda, the 'best pupil in the HIPC class' (see the chapter on Uganda). As the first beneficiary of the initiative it was originally expecting to receive US\$ 338 million debt relief in 1997 in what was described as 'exceptional treatment' by the World Bank and IMF. Unfortunately, despite these promises, the member governments of the World Bank could not agree to an accelerated timetable. As a result, this debt relief payment has been postponed until April 1998.²⁷ Losses resulting from the delay are calculated by the Ugandan government at an estimated \$35 to \$40 million.

The prospects for other countries still in the pipeline are worse. Bolivia, the other textbook case for the HIPC initiative, will probably be the only other country that will receive comprehensive debt relief before the year 2000.²⁸

Extensive and timely debt relief would enable HIPCs to allocate more of their scarce resources to social and human development.²⁹ The inflexible framework of the initiative, and the minimalist

Development cooperation in a changing world

approach of some of the key G7 creditors, threatens to make ineffective what could be an effective instrument in combatting world poverty, at a total cost that is lower than current annual aid flows to SILICs.

Inclusive social development

Governments and citizens must respond to pressures of economic globalisation by promoting inclusive social and economic development. This means macroeconomic policies and trade and investment rules must give priority to generating and preserving sustainable livelihoods, equity, and human security for all, both women and men.

There is much evidence that the global deregulation of markets and unfettered structural adjustment have, in some regions of the world, increased inequality, social exclusion and poverty levels. Rapid liberalisation has often destroyed rural livelihoods and food security. Intensified global competition, combined with moves to deregulate labour markets, is also exerting downward pressure on labour standards.

Currently, even though most governments and institutions have recognised the need for broad-based growth, the process of globalisation means that promoting economic growth through liberalisation and deregulation of markets has become the dominant model for 'development'.

However, evidence suggests that this form of economic growth does not necessarily lead to a reduction in poverty, and can increase it. Even the International Monetary Fund has recognised a growing polarisation among developing countries, noting:

There has also been a sharp decline in upward mobility of developing countries within the international distribution of average per capita incomes and an increased tendency for countries to become polarized into high- and low-income clusters. (. . .) Simply put, over the

past 30 years, the vast majority of developing countries – 84 out of 108 – have either stayed in the lower-income quintile or fallen into that quintile from a relatively higher position. Moreover, there are now fewer middle-income countries, and upward mobility of countries seems to have fallen over time. (. . .) The forces of polarization seem to have become stronger since the early 1980s.³⁰

The devastating conclusion that economic growth in an era of deregulation and globalisation has created greater poverty and inequity rather than less calls for a thorough analysis of the effects of economic globalisation and the policies that have been implemented with the aim of lifting developing countries out of poverty. The UNDP notes that 'economic growth explains only about half of poverty reduction. The rest depends on good policy to harness the growth for poverty reduction.'³¹

If development cooperation is to be effective it must go beyond an approach that bolts aid and safety nets onto this flawed macro-economic framework. Instead, development cooperation needs to aim consistently to encourage more inclusive patterns of growth which put equity and poverty reduction at the core of the development process. Development cooperation must be about social and political change that promotes human-centred development.

An example of successful human-centred development is found in the Indian state of Kerala. According to analyst Govindan Parayil,

Kerala has shown that, despite tremendous odds, it was able to eliminate acute poverty and deprivation without attaining rapid growth in per capita GNP as is 'expected' of all economic development models/theories.³²

Kerala's success is due to a number of factors including meaningful land reforms, promoting high literacy (especially among women) through free and universal primary education and developing



Development cooperation in a changing world

social movements through the establishment of a civil society to promote environmental conservation. Promoting peoples' rights, reducing inequalities and mobilising workers and farmers all also played a role. Kerala has by no means succeeded in eradicating all poverty, and there are question marks over the degree to which it can sustain these achievements. Nevertheless, the fact is that these real gains have not been achieved by following the model currently being pushed on most countries of the South.

Private financial flows

The State must have a strong role in establishing and enforcing appropriate regulatory frameworks for private sector activity, particularly with respect to foreign direct investment.

In the past five years, there has been a tremendous surge of international private financial flows. In 1996, private financial flows to developing countries reached \$234,000 million – over four times greater than aid flows of \$55,000 million.³³ Only five years ago, total private financial flows were less than total aid flows. These private flows have since tripled, and are now over four times greater than total aid flows of \$55,000 million.

An increase in long-term and strategically directed foreign direct investment is of course welcome by many developing countries. However, private flows continue to be heavily concentrated in a small number of countries – in 1996 the top 12 out of 108 developing countries received 73% of private capital flows in 1996, while countries in sub-Saharan Africa received only 4.8%.³⁴ Such concentration of financial flows is likely to exacerbate international inequalities and reinforce the marginalisation of large areas of the globe.

With declining aid levels and increasing private financial flows, agencies such as the UNDP, the World Bank, and some bilateral donors, are increasingly looking to private financial flows to act as key resources for poverty reduction and development. While private capital may be directed towards poverty eradication in limited circumstances, the increase in private flows to developing countries should not be seen as replacing declining aid flows or public budgets. As the DAC has stated, aid and private finance are 'two very different types of flows'.

Private financial flows like foreign direct

investment (FDI) are not at all focused on poverty reduction or social needs. As the DAC notes, 'private resources generally do not flow directly to some key sectors of priority need, such as health and education', social infrastructure, or the protection of the environment. Poverty often remains widespread in countries that have received large amounts of FDI as investment and growth have tended to be concentrated on a few urban areas.³⁵

Also, domestic policies adopted by developing countries to attract FDI can often undermine the prospects for the reduction of poverty. The DAC notes that 'an attractive business environment for investors in general is the first prerequisite' for attracting FDI.³⁶ But this climate may include low taxation for foreign companies, easy profit repatriations and equal treatment of foreign and domestic firms.

The DAC concludes that the continuation of the trend of increasing private flows, on the one hand, and declining aid, on the other: 'casts a shadow on the credibility of a development partnerships strategy based upon goals that will require the greatest progress among the poorest people and the poorest countries. The continuation of those trends could have grave consequences'.³⁷

The Multilateral Agreement on Investment

Such a shadow has certainly been cast by the OECD/WTO negotiation of an agreement to liberalise investment rules. The OECD members are currently negotiating a multilateral agreement on investment (MAI), which would essentially prevent national governments from imposing trade-related restrictions on investment and would guarantee generally free entry into countries for foreign investors, and full national treatment for established investments and high standards of investment protection. The completed agreement, set for May 1998, will be presented to non-OECD countries for ratification, without prior consultation.

The MAI is expected to become *the* standard for investment policies in the globalising world economy, establishing a 'level playing field' for global business in all countries. However, in its present state, the MAI does not fit the development needs of developing countries, or efforts to direct investment towards supporting more



Development cooperation in a changing world

equitable growth and human development.

The agreement's key principles of 'national treatment' and 'non-discrimination' would require governments to give the same or better benefits to foreign investors as they give to national businesses. Protection of, for instance, small and medium sized enterprises of national origin against multinational foreign investors would be prohibited, as would some government initiatives to promote skills development in the workforce. And while the MAI is clear on the rights ascribed to foreign investors, it says very little about their obligations, in terms of meeting social and environmental standards.

Such an agreement would be a step backwards for developing countries trying to direct their economies towards more equitable growth and human development. As the East Asian economies have so clearly demonstrated, some control of foreign investment is vital to nurture domestic capacity and allow local enterprises to become more competitive.

Martin Khor, of the Third World Network in Malaysia, explains:

Malaysia has a sophisticated system of combining liberalisation with regulation in a policy mix that can be fine-tuned and altered according to the country's economic conditions and development needs. . . . From this experience, it is clear that developing countries need to maintain the right and option to regulate investments and have their own policy on foreign investment, instead of an international investment regime that would remove those rights. Giving total freedom and rights to foreign firms and foreigners will lead to the disappearance of many local enterprises, unemployment and greater profit outflows.³⁸

The experience of the East Asian newly-industrialising economies has demonstrated that the state needs to play a much greater role in the development process than is currently fashionable. This is not to suggest that the East Asian

model can or should be replicated by all developing countries. The reality is that development works best in different ways in different situations. This involves a different mix of the state, the market and civil society in different situations, where the balance varies according to the specific national and local development context. The need to achieve a balance has, in a welcome move, been admitted in the World Bank's latest World Development Report (1997).³⁹

It is with these qualifications in mind that the international community should help to attract the necessary foreign investment to the world's poorest countries. Technical assistance should also be provided to developing countries to strengthen their capacity to negotiate investment agreements that promote emerging industries, guarantee minimum labour and environmental standards, while encouraging foreign investment in a fashion that promotes sustainable development and global competitiveness.⁴⁰ Aid used in this way is likely to work in the interests of the poor; the danger is that, otherwise, foreign investment will be used simply to promote growth that exacerbates poverty and inequity.

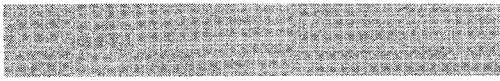
The need for international cooperation

With the transformations being brought about by globalisation, the future of development increasingly lies in international cooperation. This not only involves governments and multilateral institutions, but partnerships for social development between peoples and organisations in North and South. This requires the nurture of political constituencies and alliances for development.

International development cooperation will have to change in order to meet the new challenges of the next century. As the DAC has pointed out: 'we do not have the option of preserving the status quo in development cooperation in a changing world.'⁴¹

How should the international development cooperation community respond to the following four key trends?

- Governments and multilateral institutions are no longer playing an exclusive role in development;



Development cooperation in a changing world

- market-driven policies are continuing to predominate around the globe;
- citizens in North and South, often grouped in NGOs, are becoming more active participants in an increasingly vibrant civil society; and
- poverty is continuing to rise in the North (the emergence of a 'Global South'). Over 100 million people live below the income poverty line (set at half the individual median income), 5 million are homeless and 37 million unemployed, in Northern industrial countries.⁴²

There is a need to develop real and equal partnerships in the international cooperation effort. Jean-Martin Tschaptchet, coordinator of SOS Grass-roots in Africa, an African NGO, has noted the existence of 'poor partners' attitudes' in Africa. He argues that Africans need to cast off previous attitudes to aid and now 'should welcome technical cooperation as a supplement, not as a substitute to national efforts to achieve national prosperity'.⁴³

But it is Northern actors above all who need to face the issue of partnerships squarely. Some people have been very critical of how partnerships might work in practice, and real power continues to rest with the funder.⁴⁴ Mustafa Barghouti, founder of a large medical voluntary movement in Palestine, asks 'whether it is truly possible to establish relations on an equal footing between a funder and a recipient. Can one honestly speak of partnerships in this context?'⁴⁵

Many forward-looking analysts see the trend in development cooperation needing to move away from patronage, charity and predetermined development models towards genuinely cooperative relationships.⁴⁶ This partly involves shifting control of resources to Southern partners in a context where the latter's needs determine development priorities. Yet development is about much more than securing resources.

Indeed, some believe that increasing the overall pool of resources is not necessarily a good idea in the absence of fundamental reform of the governance structures of recipients, development cooperation institutions and of international society more generally.

Increasing global interdependence brought about by globalisation means that poverty, social

exclusion and personal insecurity in both North and South are the result of the same international processes. Some argue that globalisation offers real opportunities to the poorest countries. Yet the governance gap means that the increasing influence of private capital and transnational corporations over the international and local economies is undermining democratic control over resources and political processes.

Many NGOs are increasingly working to promote sustainable human development through helping to forge an ethic of global citizenship.⁴⁷ At the heart of this is the belief that human beings are the agents of change and that people must define their own development. Global citizenship seeks to nurture collective action, linking people in the North and South, for the good of the planet. NGOs have a central role to play in this, providing resources, helping to build capacity among partners and helping to generate informed public opinion.

In the South, new social movements are challenging state and corporate power and practising and advocating people-centred development.⁴⁸ In the North, internationalist NGOs, often with a long history of working in development, are increasingly influential politically, communicating 'Southern realities' to Northern publics.

The Northern and Southern actors are linking up in networks and in joint policy and advocacy campaigns. The trend is towards what one Southern writer has called 'the establishment of a trans-geographical coalition of people who believe in social justice, equity and democracy in order to influence the [development] process'.⁴⁹ Such coalitions are likely to involve groups concerned with issues ranging from human rights to development to the environment, from the domestic to the international. They are building a real constituency for change. Key concerns about governance underpin the activities of all groups irrespective of their often 'narrow' focus. The building-blocks of this relationship between Northern and Southern partners are 'solidarity, mutual respect and a fair distribution of tasks'.⁵⁰

Notes

- * ACTIONAID, as lead agency for The Reality of Aid Project,