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The Reality of Aid 2000

An independent review of poverty reduction and development assistance

Edited by Judith Randel, Tony German and Deborah Ewing

AID AND DEVELOPMENT

Volume 12

The Reality of Aid 2000

An independent review of poverty reduction and development assistance

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2000

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An Independent Review of Poverty Reduction and Development Assistance

The Reality of Aid Project

Edited by Judith Randel, Tony German
and Deborah Ewing
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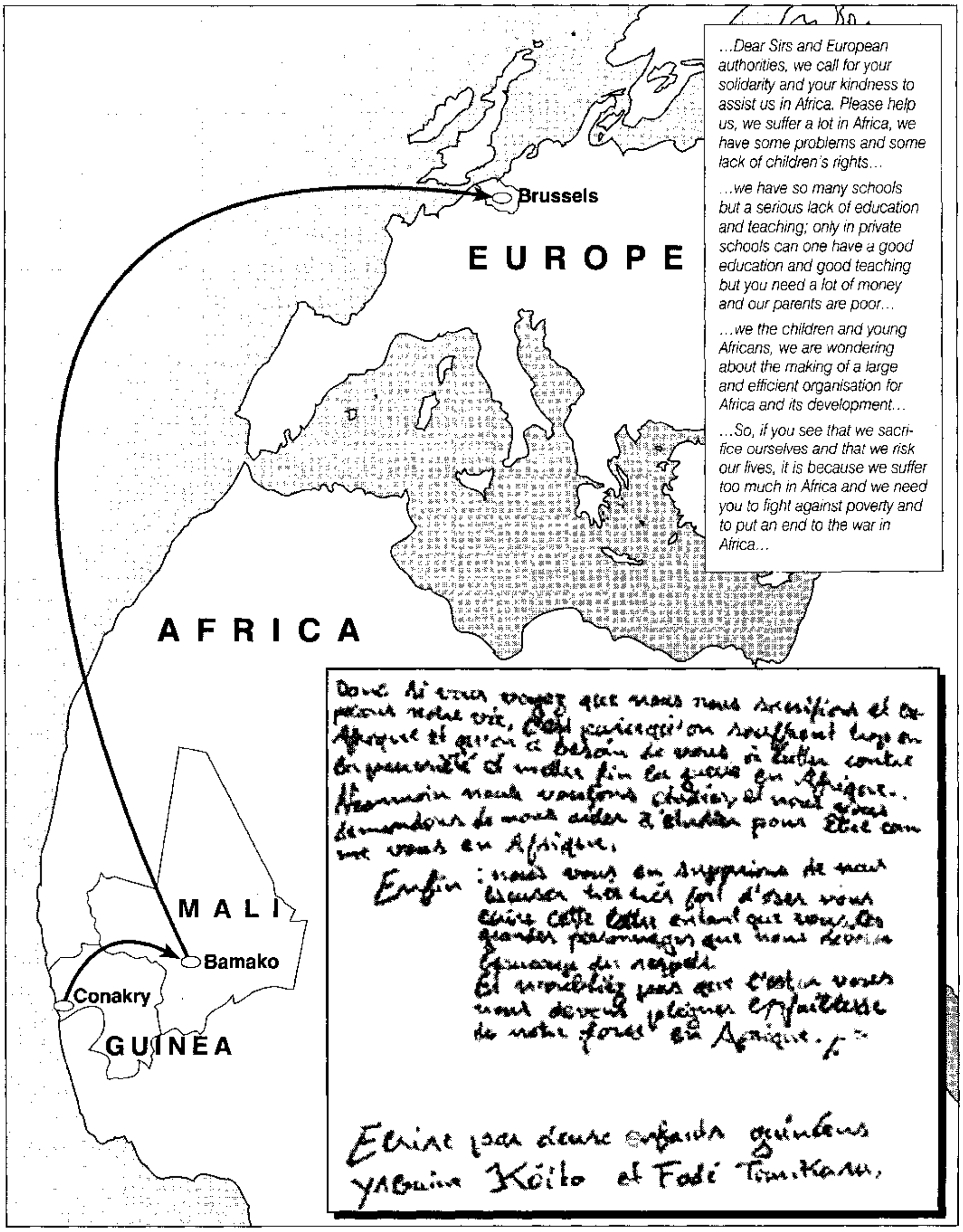
The Reality of Aid is funded by the participating NGOs and by a generous grant from the Ford Foundation. We would like to thank the many people who have supported the work of The Reality of Aid. In particular we would like to thank the Ford Foundation, the Development Cooperation Directorate of the Organisation for Economic Co-operation and Development (OECD) and the many individuals in governments, aid agencies and the research community who have generously contributed their knowledge and advice.

A detail from the letter written by Yaguine Koita, 15, and Fodé Tounkara, 16, who froze to death in the landing gear of a plane in August 1999, in an attempt to reach Europe and seek help for the children and young people of Africa. The two stowaways from Guninea lost consciousness without losing hold of their letter appealing to European leaders. Extracts from their plea are also inset



Foreword

The tragic deaths of Yaguine Koita and Fodé Tounkara in August 1999 moved the hearts and surely the consciences of people around the world who read of their desperate journey to escape hardships in Guinea, West Africa (see detail from their handwritten letter, opposite). They did not, however, move many budget lines. Perhaps we should not expect otherwise: crises in Angola, Somalia and Central America have cost thousands of lives in the past year without provoking essential shifts in the volume and nature of aid. That the financial crisis in Asia generated such a swift and significant response indicates that aid continues to be more of a political than a humanitarian tool.

The World Bank has declared the Asian crisis over but its social impact, both within and beyond the region, is deepening. Worldwide, poverty is getting worse, despite economic recovery and growth in some areas. Some countries have fallen two decades behind in development; and, even in the richest countries, the poorest people are becoming poorer.

Most major agencies have conceded that the previous, growth-driven model of aid and development has proved inadequate. The proposition that economic growth alone will solve long-term needs and emergency programmes will fill the gaps in the short-term has been widely acknowledged as false. It is agreed that the strategy for poverty eradication and aid must be reviewed. Growth is a necessary but insufficient condition for poverty reduction and the same is true of aid. However, little has been done put a new model in place and urgent, creative engagement on this is needed by all involved.

During the past year, most donor governments have made *Shaping the 21st Century* (S21C), and its goal of poverty eradication, the centre of their aid policy. Many have taken steps towards a more coherent and transparent policy on aid, improved monitoring of aid flows and impact, and have pledged to make aid more effective. However, the rhetoric around this has not been matched by contributions at a level that can realise the S21C goals.

For example, throughout the 1990s, donors have stressed their commitment to Basic Education as a crucial tool for overcoming poverty. Yet while the international community may have shifted its rhetorical goals in education, it has clearly failed to provide its share of the US$7 to US$8 billion in annual investment necessary to achieve them.

In any event, the focus on S21C has tended to usurp the responsibility of donors to address seriously the broader agenda for achieving global social development, set out at the Copenhagen Social Summit. The follow-up by donor countries to the Social Summit needs to ensure that S21C is an integral part of, not an alternative to that broader agenda.

While making aid more effective is important, it is a relative concept. Aid is merely one element in a poverty eradication strategy and its effectiveness depends on other contextual factors – trade, investment and fulfilment of human rights among others. The bigger picture is enabling governments and people directly affected by poverty to solve the problems that cause it.

This requires a redistribution of wealth and changed power-structures within the poor countries and between North and South. The concept of development and its objectives need to be challenged, discussed and reshaped. A clarification of where the agenda is set and by whom is important to ensure transparency and allocate responsibility.

Foreword

Development strategies need to be linked first and foremost to ensuring basic human rights – including dignity – creating employment and livelihood opportunities. They also need to be linked to genuine efforts to shift decision-making and responsibility – and the resources to make these meaningful – to the countries and the people experiencing the worst effects of poverty. The multilateral donors, governments and NGOs alike need to ask themselves: Do marginalised people really feature in the development process – or only in funding proposals? Is true partnership achievable when large segments of society suffer exclusion due to their poverty, ethnic origin or gender? Whose definition of development counts?

Donor and recipient country governments alike have signed up to the global commitments to eradicate poverty. Both need to be held accountable for this. Yet 'partnership' is hardly possible in the face of growing inequity, with developing country governments being asked to sign up to conditions rather than consensus. In this climate, an honest dialogue about a new poverty eradication model might be more realistic than a false partnership in the old one.

The reality of aid on the threshold of a new millennium is that it is not helping to eliminate poverty – more than four million children born in the year 2000 will die before they reach the age of five.

The fact that more than a billion people are living and dying in poverty is not a tragic twist of fate but a deliberate turning of heads. The goal of absolute poverty elimination remains affordable and within reach. Most governments have committed themselves to this goal. If it is to become reality, there is an urgent need for a concerted and creative approach to replacing the old donor-driven model of aid. This must involve governments, civil society and donors. It must include channelling adequate resources to practical poverty eradication efforts. Above all, however, it must focus on ensuring that people living in poverty have the power to challenge the forces that create poverty.

Elin Enge

Elin Enge
Chair, The Reality of Aid Management Committee

The Reality of Aid Project

The Reality of Aid Project exists to promote national and international policies that will lead to poverty eradication. It is a collaborative, not-for-profit project, which reports on the performance of aid donors from the perspective of non-governmental organisations (NGOs). This year sees the publication of the seventh edition in a series of annual reports.

The Reality of Aid report is produced by European Solidarity Towards Equal Participation of People (EUROSTEP), Latin American Association of Development Organisations (ALOP) and a coalition of NGOs from the non-European Development Assistance Committee donor countries. The NGO Norwegian People's Aid (NPA) is the lead agency.

During the last two years, The Reality of Aid Project has strengthened Southern involvement in the assessment of efforts to eradicate poverty and the debate around aid issues. This process will continue over the next two years with a view to achieving a balanced participation between Northern and Southern NGOs on an individual basis and through networks.

The Reality of Aid is a collaborative project, implemented and managed by NGOs. Every effort is made to ensure that the information supplied in the report is accurate and that the interpretation is fair. Corrections to any errors of fact or interpretation would be welcome. The views expressed in *The Reality of Aid* are those of the individual chapter authors and do not necessarily reflect the views of EUROSTEP, ALOP, NPA or Development Initiatives.

EUROSTEP

Established in 1990, European Solidarity Towards Equal Participation of People (EUROSTEP) is an international association of European NGOs 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 (EU) 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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ALOP

La Asociación Latinoamericana de Organizaciones de Promoción (ALOP) has members in Argentina, Bolivia, Brazil, Chile, Ecuador, Guatemala, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela. Its activities include evaluation of new trends in international cooperation in Latin America drawn from the perspective of civil society and analysis of the impact of global trends on development in Latin American countries.

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Norwegian People's Aid

Norwegian People's Aid (NPA) was founded in 1939, and is the humanitarian organisation of the Norwegian labour movement. NPA's basic principles of value are solidarity, human dignity, unity, peace and freedom.

NPA has approximately 15,000 individual members and works in Norway and internationally. NPA has several hundred projects in 34 countries, where the work is carried out in close cooperation with local partners. NPA is primarily involved in long-term development assistance, but also in short-term emergency aid. NPA is a key organisation in world-wide humanitarian action to ban landmines.

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Development Initiatives

Development Initiatives is an independent research and information organisation working on aid and poverty policy, NGO-government relations, advocacy, evaluation and information for development. It produces a quarterly bulletin, Development Information Update, and edits a number of global reports on international development issues.

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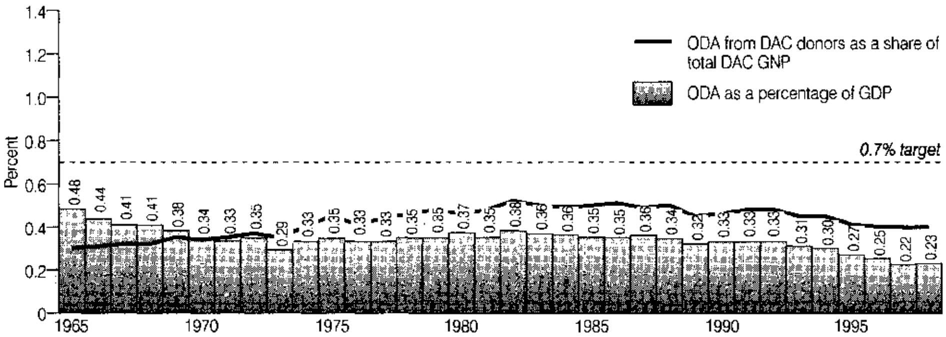
Part I
The Reality of Aid versus the Reality of Poverty

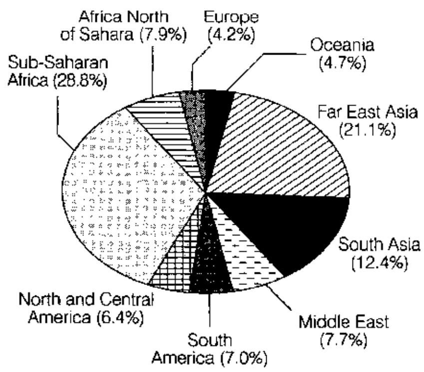
World aid at a glance

Percentage of national income spent on aid: a 30-year picture

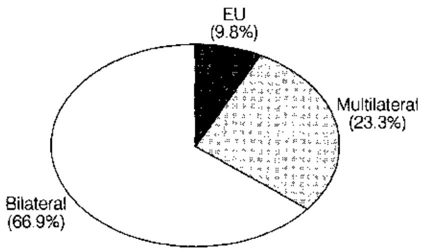
How much aid does the DAC give?



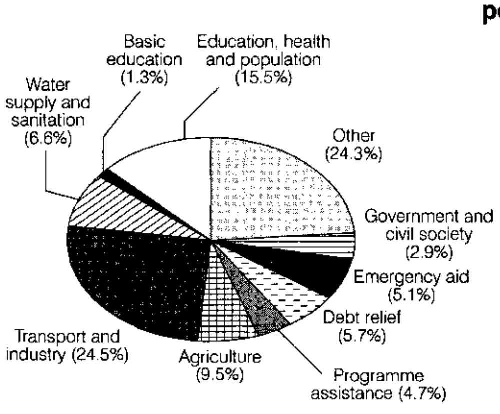
Where is DAC aid spent?



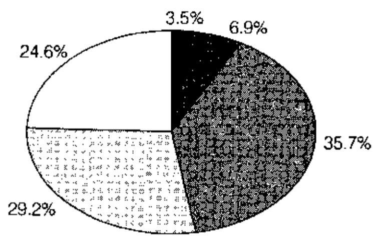
How much of DAC aid is spent through multilateral organisations?



What is DAC aid spent on?



How much of DAC aid goes to the poorest countries?



- Least developed countries (48 low income countries classified by UN for vulnerability)
- Low income countries (<US$765 annual income per capita in 1995)
- Lower middle income countries (US$766–US$3035 in 1995)
- Upper middle income countries (US$3036–US$9385 in 1995)
- High income countries (>US$9385 per capita in 1995)

For notes on data and sources see page 286

Box 1 World aid at a glance

How much aid do the 21 OECD donors give?

The donors gave	US$51,521 million in 1998*
that was	0.23% of their total GNP
and	0.59% of combined total government expenditure
which meant	US$63 per person in 1998

Is it going up or down?

In 1998 aid	rose by US$3,197 million, a real-terms rise of 8.9%
8 donors	were less generous, reducing the proportion of GNP allocated to development assistance
10 donors	were more generous
Private flows	amounted to US$100.2 billion in 1998, a decrease of US$142.3 billion over 1997, but still nearly twice the volume of ODA

What proportion of bilateral aid goes to basic education and basic health?

In 1997 17 countries** reported their bilateral aid committed to basic education, basic health, and population and reproductive health. Their combined commitments were:

Basic education	1.44% of combined bilateral ODA – an average country effort of 2.1%
Basic health	1.72% of bilateral ODA – an average country effort of 2.9%
Population and reproductive health	1.24% of bilateral ODA – an average country effort of 0.8%

How much goes to the poorest countries?

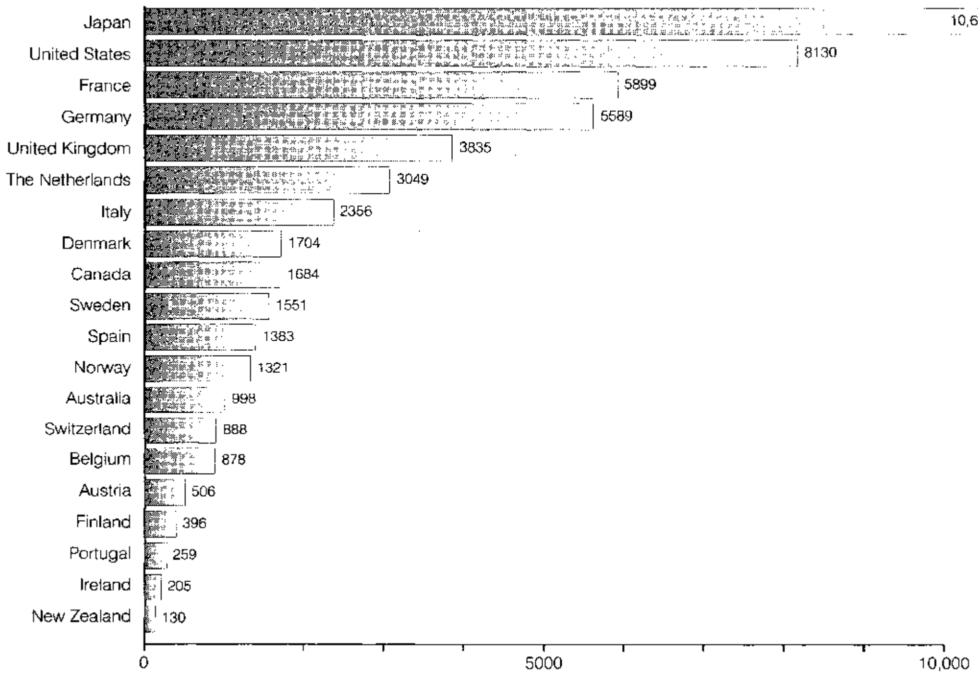
Just over half	of DAC ODA (50.7%) was spent in low income countries with an average per capita income of US$2 a day in 1997

How much OECD aid is tied to purchases from the donor country?

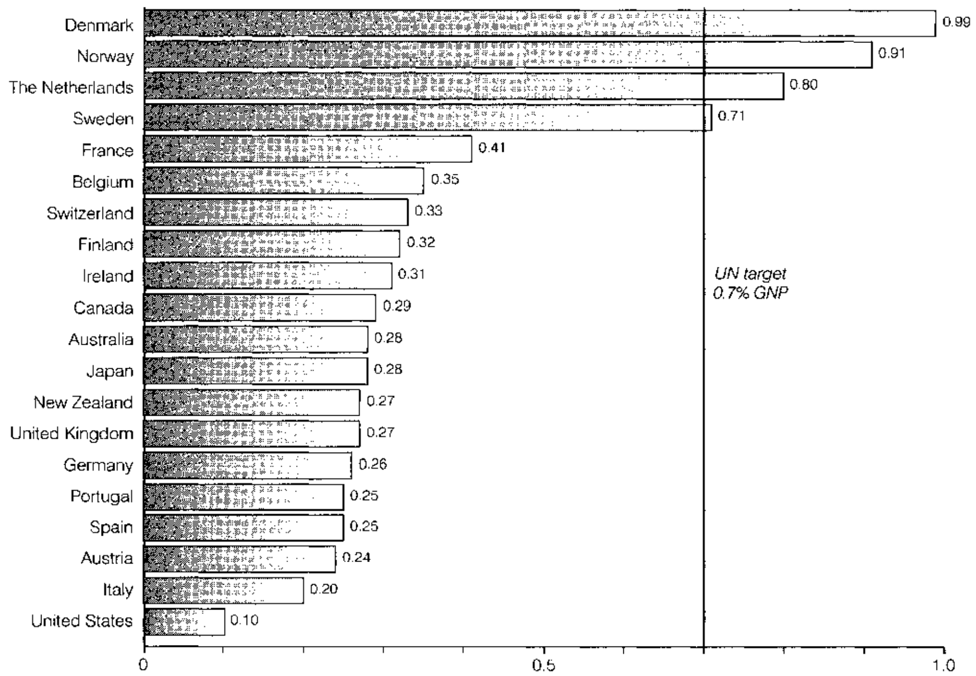
Just over a quarter	of DAC bilateral aid (26.5%) is given on the condition it is used only to purchase goods and services from the donor country. This excludes Technical Cooperation which is mostly tied to services from the donor and which amounted to 40% of bilateral ODA in 1997

* This total will rise to US$51,780 million when ODA from Portugal is included (see notes on page 287)
** Those not reporting are: France, Ireland, New Zealand and Switzerland

ODA Volume DAC donors 1998 (US$ millions)



ODA as a percentage of ODA DAC donors GNP 1998



ODA as a percentage of government expenditure

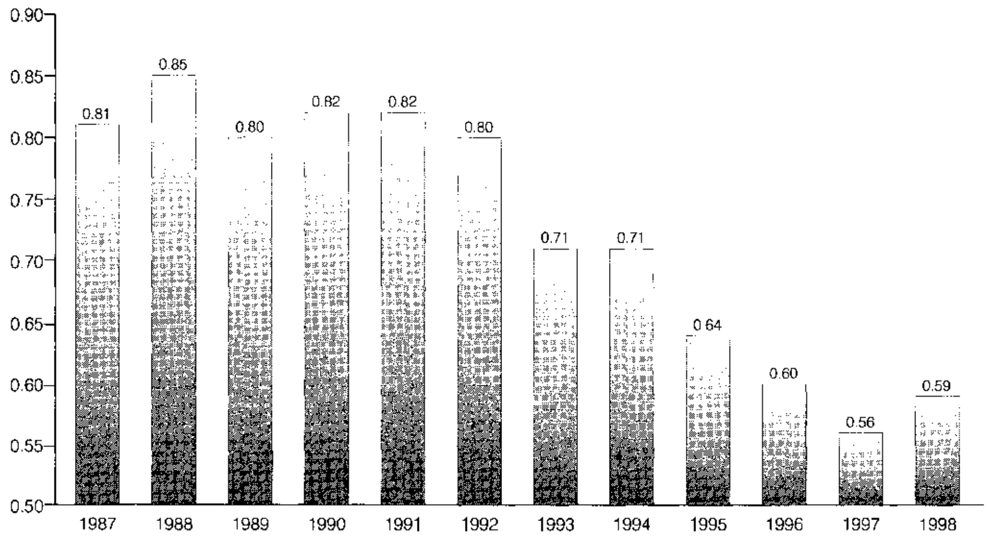


Table 1 Bilateral aid spent on emergencies, domestic priorities and technical cooperation (US$ millions)

	1994	*1995*	*1996*	*1997*
Bilateral aid spent on domestic priorities and emergencies				
Total bilteral ODA	41,300	40,628	39,091	32,343
Subsidy to exporters via tied aid*	1,907	1,051	1,591	1,516
ODA for emergency relief	3,469	3,062	2,692	2,150
of which aid spent on refugees in the donor country	964	8706	647	644
Total spending on domestic priorities and emergencies	5376	4113	4283	3666
Share of bilateral aid	13.02%	10.12%	10.96%	11.33%
Bilateral aid spent on technical cooperation				
Technical cooperation in US$ millions	12,848	14,249	14,120	12,875
Technical cooperation as a share of bilateral ODA	31.11%	35.07%	36.12%	39.81%

Note:
* Figure for tied aid in 1997 is estimated based on an average of the preceding three years
Sources: Tied Aid, DAC Report 1998 Table 24; DAC Report 1997, Table 31; Technical Cooperation: OECD, Geographical Distribution of Financial Flows to Aid Recipients, 1992–1997, pages 67 and 69

The context of international development cooperation

Humberto Campodónico, DESCO

Global changes bring local challenges

From 1990 to 1997, the international economic and financial context suffered a radical about-face, producing massive capital inflows to developing countries. Among developing countries as a whole, short- and long-term capital inflows increased 700%, creating an environment of high optimism about the potential for growth and business opportunities in these markets.[1]

On the plane of economic policy and ideas, the neo-liberal paradigm dominated emerging markets: economic freedom was the means and the end that would lead to sustained growth. In almost all these countries, structural adjustment programmes were applied, which involved liberalising and deregulating markets (financial, monetary, commercial, labour, land, pension systems and others). It also meant the State's withdrawal from all business activity and the process of privatising public companies.

Net aggregate private capital inflows rose spectacularly, from US$43.9 billion in 1990 to almost US$300 billion in 1997 (see Table 2). Rarely have we seen such enormous growth of private financing to developing countries.[2] Among the items that increased most were foreign direct investment (FDI), loans from private banks and bonds issued on the international capitals markets.

In contrast, the decline in net *official* financing for development has been equally spectacular, falling from US$63.5 billion in 1990 to US$52.2 billion in 1997.[3] The greatest decline occurred in bilateral (government-to-government) loans, which dropped from US$6.6 billion in 1991 to only US$1.1 billion in 1997.[4]

Grants also fell, from US$34.6 billion to US$31.1 billion. Nevertheless, loans from multilateral agencies (World Bank, IDB, African Development Bank, Asian Development Bank and others), rose during the period, from US$9.2 billion to US$13.7 billion.[5]

In the context of the application of the neo-liberal structural reforms, the inflows of capital allowed consumption and investment to grow again, inflation to remain low and macroeconomic equilibrium (particularly fiscal equilibrium) to be achieved without much turbulence.

In many 'emerging market' countries (Korea, Thailand, Indonesia, Philippines, Brazil, Argentina and Mexico), however, this growth was not built on stable foundations. Instead, it co-existed with a systematic trade and debt payment deficit. These deficits were covered by flows of foreign capital.

As long as incoming capital was not affected, the economic model allowed growth (and payment of the foreign debt) and functioned without many snags. In other words, while foreign capital was flooding into emerging markets – Latin America included – foreign debt payments more or less went unnoticed because we could not see the 'wood' (the weak, precarious reality of the countries of the region) for the 'trees' (incoming capital).

However, barely had the flows of capital (both long- and short-term) begun to diminish, as a result of the international financial crisis (which began in Thailand in July 1997, reached Russia in September 1998 and Brazil in early 1999), than we saw the precariousness and weakness of the foundations underlying the macroeconomic balance we had attained, as we shall discuss further on.

Erratic short-term capital flows (not shown in Table 2, which shows only net long-term resource flows) have led to volatility and precariousness in developing-country economies. According to the World Bank, short-term capital flows into developing countries as a whole fell from US$61.1 billion to US$4.9 billion between 1995 and 1998, with the most pronounced drop occurring in East Asia and the Pacific (from US$43.1 billion (positive) to US$-6.1 billion (negative) in the same period).[6]

Table 2 Net long-term capital flows to developing countries 1990–98 (US$ billions)

	% 1990	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
A Official Finance for Development	56.4%	56.9	62.6	54.0	58.3	45.5	53.4	32.2	39.1	47.9
A1 Concessional	44.8	51.0	44.0	41.5	45.8	44.6	40.0	33.3	32.7	
Grants	29.0%	29.2	35.3	30.5	28.3	32.4	32.3	28.9	25.7	23.0
Loans	15.5%	15.6	15.7	13.5	13.2	13.4	12.3	11.1	7.6	9.7
Bilateral	9.5%	9.6	9.3	7.0	6.7	5.6	5.1	2.9	0.2	2.8
Multilateral	6.0%	6.0	6.4	6.5	6.5	7.8	7.2	8.2	7.4	6.9
A2 Non-concessional		12.1	11.5	10.0	11.8	-0.2	8.7	–7.9	5.7	15.2
Bilateral		2.9	3.9	4.5	3.4	-2.5	5.0	–12.7	–8.0	0.8
Multilateral		9.2	7.6	5.5	8.4	2.3	3.7	4.8	13.7	14.4
Note:										
Use of IMF credit		0.1	3.2	1.2	1.7	1.6	16.8	1.0	14.7	21.0
Technical cooperation grants		14.3	15.9	18.0	18.6	17.3	20.6	19.4	17.0	16.1
B Total Private Flows	43.6%	43.9	60.6	98.3	167.0	178.1	201.5	275.9	298.9	227.1
B1 Private debt flows	15.6%	15.7	18.6	38.1	49.0	54.4	60.0	100.3	105.3	58.0
Commercial banks	3.2%	3.2	4.8	16.3	3.3	13.9	32.4	43.7	60.1	25.1
Bonds	1.2%	1.2	10.8	11.1	37.0	36.7	26.6	53.5	42.6	30.2
Others	11.3%	11.4	3.0	10.7	8.6	3.7	1.0	3.0	2.6	2.7
B2 Portfolio Investment	3.7%	3.7	7.6	14.1	51.0	35.2	36.1	49.2	30.2	14.1
B3 Foreign Direct Investment	24.3%	24.5	34.4	46.1	67.0	88.5	105.4	126.4	163.4	155.0
Total net flows	100%	100.8	123.2	152.3	225.3	223.6	254.9	308.1	338.0	275.0

Source: World Bank, Global Development Finance 1999, pp24 to 70.

Economic growth and improvement in social indicators

During this period 1990–97, characterised by strong capital inflows, economic growth in parts of the developing world was far superior to that in the industrialised nations, with China and the South-East Asian countries in the lead and sub-Saharan Africa providing the major exception.

With this state of affairs, it seemed that the policies of openness and liberalisation urged by the neo-liberal reforms were accomplishing the goals set by their mentors: they were attracting foreign capital and this, in turn, was producing economic growth.

Economic growth, according to theory, should have a direct effect in the alleviation of poverty. In the 1990s, poverty levels were seen to decrease in almost all emerging nations, especially in eastern Asia (see Table 4).[7] The countries in which poverty decreased most were Thailand, Malaysia, Indonesia and China.[8]

Poverty levels also declined in Latin America, but not as markedly as in South-East Asia and other regions. In effect, as the graph on page 10 shows, the decline in poverty was barely perceptible; the percentage of poor people dropped from 41% to 36% and the percentage of extremely poor, from 18% to 15%.

The benefits of economic growth, however, did not lead to much improvement in the unequal distribution of income in developing countries. For example, social inequality was seen to increase in Africa and remained unchanged in eastern Asia and Latin America, the region with the most unequal distribution of income in the world (see Table 5). In southern Asia, however, there was improvement in unequal distribution of income.

Economic growth, then, was not yielding the expected social results. Although overall poverty was reduced (more in South-East Asia than in Latin America and Africa), there was almost no improvement in the unequal distribution of income.

This led the multilateral agencies, such as the World Bank, to affirm that their central objective was to fight poverty. IADB president Enrique Iglesias stated that the extreme inequality in distribution of income in Latin America endangered the very continuity of the structural reforms.

Box 2 Flows of capital into low income countries

It is important to note that the small, poor countries did not receive very significant flows of private capital during the 1990s. As seen in Table 3, although flows of capital into low income countries grew by 500% between 1990 and 1997, they had only reached US$17 billion by 1997, a little over 5% of the flows of capital to emerging markets as a whole.

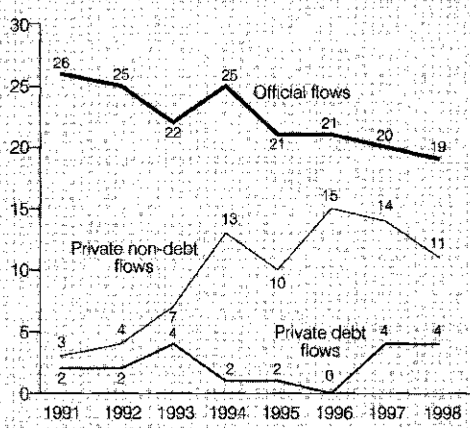
Table 3 Net private capital flows to low income countries 1990–98 (US$ billions)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Total private flows	3.5	4.9	5.0	11.2	13.1	11.3	14.6	17.0	15.2
International capital markets	2.4	1.8	1.8	6.3	4.0	4.0	5.3	6.4	4.7
Debt	2.3	1.8	1.4	4.2	1.3	1.3	-0.4	4.0	4.3
Banks	2.2	0.4	1.6	3.7	1.0	1.0	-0.6	1.7	4.7
Bonds	0.1	1.4	-0.3	0.6	0.3	0.3	0.2	2.3	-0.4
Portfolio equity flows	0.1	0.0	0.4	2.1	2.7	2.7	5.7	2.4	0.4
Foreign direct investment	1.1	0.0	3.2	4.8	7.3	7.3	9.3	10.6	10.6

Source: World Bank, *Global Development Finance 1999*, Table 2.11, p37

For a small number of low income countries, mostly in sub-Saharan Africa or small states, international aid continued to be the main external source of income. For example, for the countries of sub-Saharan Africa, development aid accounted for 4.1% of GDP in 1997. For other regions, such as Latin America, South Asia and East Asia and the Pacific, official aid was only 0.2%, 0.5%, and 0.3% of the GDP, respectively.

Lastly, it must be noted that official development aid to low income countries declined sharply between 1990 and 1997, from US$32 billion to US$25 billion in 1997 (see graph, right).



Total net resource flows to low income countries

Asian crisis heralds a global crisis?

Many economic analysts affirm that the Asian crisis is only the beginning of a global crisis that has systemic characteristics, having not touched the 'important' centres: the economies of the United States and Europe (it reached Japan some time ago). In any event, a full discussion of this issue would be worthwhile, because the risks of underestimating it can be fatal; ie, whoever thinks there are no large obstacles in the road is simply not ready to face them.

One of the principal effects of the Asian crisis was the sudden reversal of the boom in capital inflows to the emerging markets, which had characterised the period 1990–97.[9] Private flows fell from US$298 billion in 1997 to US$227 billion in 1998 (see Table 3 and the graph in Box 2). Most of the decrease occurred in commercial bank loans, issuing of bonds and portfolio investments, while the decrease in foreign direct investment (FDI) was not as significant.

Official financing for development increased from US$48.3 billion to US$51.1 billion from 1997 to 1998, fundamentally due to rescue packages for economies in crisis in Asia, Russia and Brazil. This increase did little to counteract the massive private capital outflows during the period.

Table 4 Percentage of poor people among the total population, East Asia 1975–95

	1975	1985	1995
Malaysia	17.4	10.8	4.3
Thailand	8.1	10.0	<1.0
Indonesia	64.3	32.2	11.4
China	59.5	37.9	22.2
Philippines	35.7	32.4	25.5
Papua New Guinea	NA	15.7	21.7
Laos	NA	61.1	41.4
Vietnam	NA	74.0	42.2
Mongolia	NA	74.0	42.2
TOTAL	57.7	37.3	21.2
TOTAL (exc China)	51.4	35.6	18.2

Source: World Bank, 1998

Furthermore, it is evident in Table 2 that grants and concessional loans have remained relatively stable from 1997–98 but very depressed as compared to their past levels.[10]

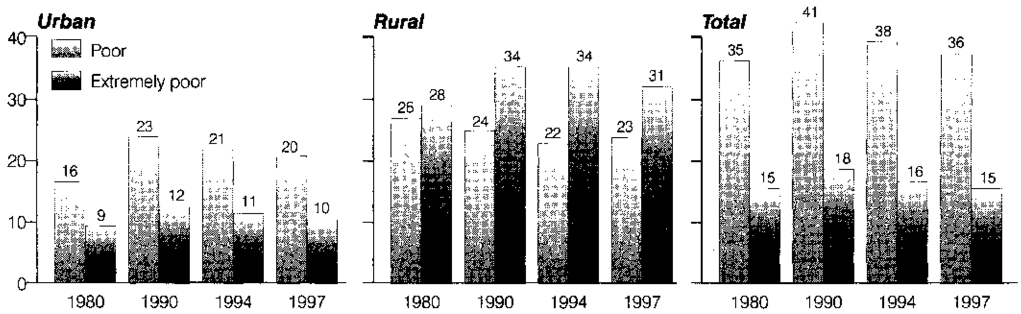
The sudden drop in private financing, just as the Asian crisis was beginning, helped to intensify the fall of the South-East Asian markets and, by extension, those of other emerging markets, in particular Russia and Brazil.

Aggravation of poverty and social inequality

The outbreak of the crisis had an immediate impact on the living conditions of the population in the affected countries. According to the President of the World Bank:

> *'In East Asia, estimates suggest that over 20 million people fell back into poverty last year (1997). In these countries, at best of cases, growth is likely to be halting and hesitant for several years to come. Today, while we talk about financial crisis, 17 million Indonesians have fallen back into poverty and across the region a million children will not return to school. Today, an estimated 40% of the Russian population now lives in poverty.*
>
> *'Today, across the world, 1.3 billion people live on less than one dollar a day; 3 billion live on under two dollars a day; 1.3 billion have no access to clean water; 3 billion have no access to sanitation; 2 billion have no access to electricity. We talk of financial crises while in Jakarta, in Moscow, in sub-Saharan Africa, in the slums of India and in the barrios of Latin America, the human pain of poverty is all around us.'*
>
> (World Bank, James D Wolfensohn, *The Other Crisis*, October 1998)

Latin America: trends in poverty and extreme poverty, 1980–97 (percentage of homes)



Source: Economic Commission for Latin America and the Caribbean, ECLAC

Table 5 Global comparison of levels of inequality by region, 1980s–1990s

	1980s	*1990s*
Latin America and the Caribbean	49.8	49.3
Sub-Saharan Africa	43.7	47.0
Middle East and North Africa	40.5	38.0
East Asia and the Pacific	38.7	38.1
South Asia	35.0	28.9
Eastern Europe	25.0	28.9
High Income Countries	33.2	33.8

Note: This table shows levels of inequality using the Gini coefficient – a universally recognised indicator of distribution of income. The higher the coefficient, the more unequal the distribution of income in a given society.
Source: World Bank, 1998

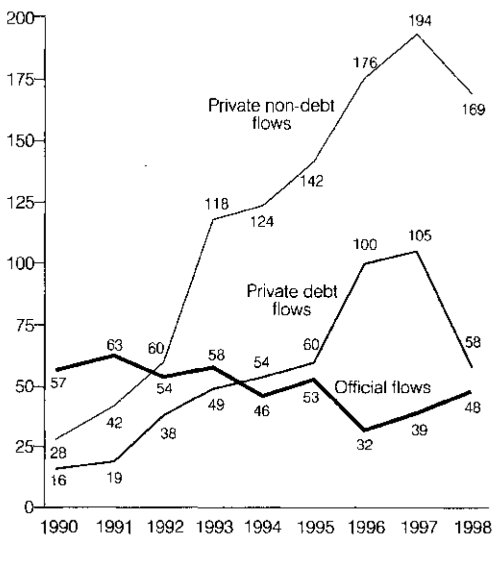
What Wolfensohn is telling us is that the (highly relative) improvement in levels of poverty achieved during the 1990s is rapidly being lost to the financial crisis. Worse yet, the international agencies forecast that the recession or economic stagnation will last for several years.

Also, we cannot foresee that multilateral development banks will increase their loans in absolute terms. Worse, the loans that were being negotiated (many of them linked to social programmes), are at risk of being postponed due to the requests from developing countries for freely disposable credits for resolving the problems of insolvency brought on by the withdrawal of foreign capital.

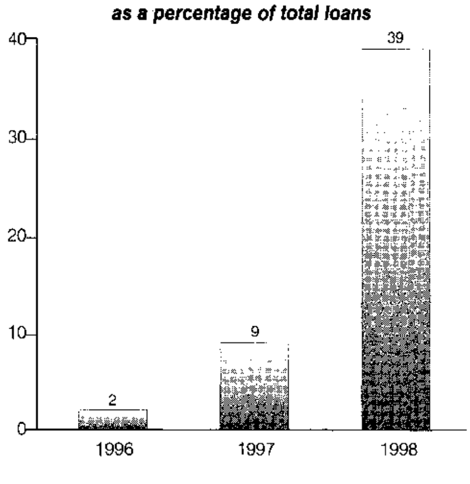
In effect, structural adjustment loans (SALs) granted by the World Bank, which were growing rapidly until 1994 and came to constitute 33% of total World Bank credits, began to decline notably from that year. The World Bank consequently asserted that many countries had already graduated from a first phase of structural reforms by that time. However, in 1995, as a result of the Mexican crisis, these credits increased again for several countries of Latin America, principally Mexico and Argentina.

By 1996, those loans had again declined (see graph), representing only 2% of the total credits granted by the World Bank. However, as a consequence of the Asian crisis and of the rescue packages for those countries, these credits rose again rapidly to 39% in 1998, the highest figure granted by the bank in all its history. Preliminary reports indicated that this trend would hold in 1999.

Total net resource flows to Developing Countries



World Bank structural adjustment loans as a percentage of total loans



Facing up to the fight against poverty and social inequality

Structural adjustment policies, even during periods of growth (such as 1990–97), have made little progress in the sustainable reduction of poverty or unequal distribution of income in developing countries.[11] We can only conclude, then, that while the economic growth of the 1990–97 period was not a sufficient condition for fighting poverty, the withdrawal of capital flows and the low economic growth foreseen will certainly aggravate poverty and social inequality.

Worse yet, when the international financial crisis broke out, with the consequent reduction in private capital flows to affected countries, it brought on huge economic crises that led to prolonged recessions, bankruptcies of financial systems, recession in production mechanisms, massive layoffs and reduction of fiscal spending for poverty alleviation programmes.

At present, the instability caused by the capital flows (both long- and short-term) has made the establishment of a new international financial framework the order of the day.[12] At the same time, the proposal of the Tobin Tax on short-term capitals, to decrease their negative effects, is gaining force.

As a result, we are entering a period that will see an increasing loss of credibility in the liberalisation, deregulation and privatisation policies urged by neo-liberal structural reforms, which have concentrated income worldwide (through mega-mergers of banks, oil companies, mining companies, etc), without resolving the problems of unequal distribution of income. The credibility of the statements of the G7 leaders, who always supported structural adjustment, is clearly called into question.

It is obviously necessary to explore alternatives for development that challenge the neo-liberal proposal based on the free play of market forces, in the different fields of economic and social policy. We can begin by stating that there are limits to the liberalisation of markets. One of the guiding principles for the discussion could be that: *there should be as much market as possible and as much State as necessary*. This is something that has not been done and would be difficult for today's governments to do, because they continue to believe in neo-liberalism and the arguments of the multilateral development banks.

Until now, the policies for fighting poverty and social inequality that have used the *targeting* approach. This is the reverse of the concept of universal benefits which underpins much rhetoric on poverty and international commitments such as the 20:20 Initiative. Targeting tries to ensure that benefits – such as lower electricity tariffs – are given only to selected groups.

One of the most important examples is provided by the Social Investment Funds, which have sought to identify the claimants' needs, financing their investments with funds from the State and multilateral development banks. In health and education reforms, the main objectives have centred on criticising the State's role in performing these functions and on promoting the influx of private capital to provide these essential services for the population. In Columbia for instance, public hospitals were privatised as part of a dogmatic adherence to a neo-liberal doctrine which treats health care as another good to be bought and sold in the market. The new private owners were unable to make them profitable – largely because patients could not pay for the services – so the hospitals went bankrupt. Currently, the hospitals are closed and have not been re-opened by the government. This policy approach is receiving strong criticism for its poor performance and the World Bank has recently been making changes to its original concepts.

The inability of such policies to reduce poverty indicates that we must explore further policies that stimulate the steady creation of sources of employment for the population. This is especially important in the sectors that generate added value, strengthen domestic savings and promote growth, such as industry, agro-industry and agriculture.

Notes

1 These countries were even renamed emerging markets, based on the international investors' interest in them. In Latin America, this brought a radical change from the 1980s (also called the 'lost decade') characterised by the foreign debt crisis and the consequent, massive flight of capital (more than US$235 billion left the region between 1982 and 1990), as well as by recession and inflation.

2 We must not forget, however, that more than 70% of these capital flows went to only ten countries (among them, China, South Korea, Brazil and Mexico).

3 These data are at 1996 prices and exchange rates. In current prices, ODA fell from US$52.9 billion in 1990 to US$48.3 billion in 1997.

4 OECD DAC Development Cooperation (DAC Report) 1998, OECD, Paris 1999 and previous years.

5 World Bank, 1999, *Global Development Finance 1999*, World Bank Publications, Washington DC. Table 1.

6 World Bank. 1999, *Global Development Finance 1999*, World Bank Publications, Washington DC, p31.

7 There are different methods for measuring poverty. In this paper, we are using the income method, which provides minimum bases for comparing countries. It should be made clear that many authors of *The Reality of Aid* consider the incomes approach too narrow. A broader understanding of poverty can be found, for example, in UNDP's *Human Development Report 1997*.

8 Nevertheless, in a publication subsequent to the outbreak of the crisis (September 1998), the World Bank wrote that 'Before the crisis there were three weak points, which were disguised: protracted