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Crisis or Transition in Foreign Aid

edited by

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Contents

Acknowledgements	iv
Notes on Contributors	v
1. Introduction	1
2. Development Co-operation in Canada	6
3. Foreign Aid in Denmark	10
4. The European Union: Fundamental Change Without Crisis	19
5. The Paradox of French Aid	25
6. German Aid Policy	29
7. Italian Foreign and Development Co-operation Policy	34
8. Japan's Official Development Assistance	43
9. Crisis Management in Dutch International Development	51
10. Norway: Trends in Aid Volumes and Priorities	59
11. Swedish Development Aid: Building Global Human Security	66
12. UK Aid in the 1990s	72
13. US Foreign Assistance: Facing New Challenges	80
14. Conclusions and Policy Recommendations	88
Bibliography of Recent Titles on Aid in Transition	96

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1. Introduction

No single event required that a 'crisis' in foreign aid be announced. Some donors have to fight off budget cuts every year. It is not enough to say that because, with the fall of the Berlin Wall in 1989 and the break-up of the Soviet Union in 1991, the Cold War ended – a phenomenon essentially between the First and Second Worlds – the institutions and their instruments which had dealt with aid to the *Third* World over that thirty- or forty-year period were suddenly defunct. Nonetheless, some observers see it that way, at least for some donors. A *Washington Post* editorial¹ expressed it in the following terms:

The greater imperative is to figure out the fundamental role of foreign aid in a post-Cold War era and create a degree of consensus on it. The purpose of containing the Soviet Union, which drove US foreign policy and aid decisions for decades, disappeared with the Soviet Union. That does not release the United States from international responsibilities. But it does mean that the nature of American engagement around the world needs redefining. More than the Soviet Union's dissolution, the dictates of budget constraints and the unpopularity of foreign aid make it so.

The whole idea behind foreign aid has shifted dramatically from the Marshall Plan concept of huge resource transfers. Today the path to growth and development is said to be free markets and policy reforms, even while a disproportionate share of limited foreign aid dollars is being spent in traditional ways in Israel and Egypt. Are those priorities correct for this new era?

Clearly the post-Cold War era marks a transition from the old order, but just as clearly there are other reasons to review foreign aid policy. Some are mentioned in the quotation above: budgetary stringency, fashions in political economy and distributional concerns – even 'fairness'. Loyal members of the OECD and NATO such as, say, Norway (which, unlike the USA, shares a border with Russia) never wanted to justify their aid programmes in such predominantly Cold-War terms. Aid policies differ among donors because the purposes of development assistance may differ. Similarly, the instruments and organisations vary, despite the stalwart efforts of the Development Assistance Committee of the OECD to co-ordinate and standardise, and in each country the politics of aid is different because the constituency for (and against) aid is special to that country or nation.

In financial terms, the 'crisis' in foreign aid remains for the future rather than for the present. Almost unknown to the media and the general public, official development assistance (oda) grew steadily in real terms at between 2 and 3% per year in the 1970s and 1980s. There was a slight slow-down in the growth in the 1990s, but part of this was due to the falling off in oda from OPEC and COMECON. By 1992, oda's annual real growth was well below 2% but aid continued to grow nonetheless and DAC oda reached \$60.8 billion. In 1993, however, there were clear signs of significant real cuts in foreign aid with DAC oda down to \$54.8 billion (see Table 1.1) and evidence throughout the July 1994 DAC report on Members' aid

1. 'Rethink Foreign Aid'. Reproduced in the *International Herald Tribune* of 2 April 1993.

policies and performance² that new demands were being placed upon aid budgets but that few governments were planning to increase aid expenditure and several were planning further real reductions.

Yet, if there is a crisis across the aid donors, it could be more a crisis of confidence on the part of the politicians who appropriate funds and the public authorities which supply aid rather than an intractable problem of budget availabilities, of support from the general public or of foreign policy as such. The ending of the Cold War in fact coincided with, or brought to a head, a number of other aid-related developments. These included:

- revived concern about aid effectiveness, especially of technical co-operation and relief operations;
- dilution of development aid budgets by other demands: no longer just trade promotion and strategic considerations; now also environmental spending (not just global environmental activities), peace-keeping and the promotion of political transitions to democracy;
- the threat of diversion of resources to new claimants among the former COMECON countries, a few of them resolutely poor countries;³
- a loss of confidence in the capacity of parts of the United Nations system to deliver development assistance;⁴
- simultaneously, concern on the part of some donors that their own bilateral programmes are being squeezed by growing, and seemingly unconstrained, international commitments;
- burden-sharing questions, given the realisation that, with the economic collapse of the Soviet Union and the rapid scaling-down after 1991 of Arab donors' international aid programmes (at least outside the Gulf region), the OECD donors (now 21 with the addition of Spain and Luxembourg, and the readmission of Portugal) are the only major donors left;
- at the same time, the associated phenomenon of new, albeit small, donors emerging (Taiwan, Korea, Singapore, Turkey), which argues all the more strongly for the richer developing countries to be 'graduated out' of the list of aid recipients: this argument is strengthened by the results of purchasing-power-parity-based comparisons of countries' domestic product, published in 1993 by the IMF, which has been used to alter the relative rankings of countries. Compared with the traditional concepts of national income, this

2. OECD, Press Release *Sharp Changes in the Structure of Financial Flows to Developing Countries and Countries in Transition*, 23 June 1994.

3. Albania was admitted to the 48-member strong UN list of Least Developed Countries in 1993; later, Tajikistan was declared an lldc for aid purposes and three other Central Asian republics plus three Caucasian republics of the former Soviet Union were determined as qualifying for conventional development assistance.

4. In 1991 the Nordic countries made various suggestions for improving and restructuring the UN system.

Table 1.1:

Key totals for oda from DAC countries (a)
Net disbursements

	1978-83	1983-88	1989	1990	1991	1992	1993
A) \$ billion, current prices and exchange rates							
Total oda	24.3	34.5	45.7	53.0	56.7	60.8	54.8
of which							
1) Bilateral	16.2	24.0	32.9	37.2	41.3	41.2	37.6
2) To multilateral agencies	8.1	10.5	12.8	15.8	15.4	19.6	17.2
B) \$ billion, 1992 prices and exchange rates							
Total oda	43.9	52.4	56.1	58.2	60.1	60.8	56.1
of which							
1) Bilateral	29.2	36.2	40.1	40.9	43.8	41.2	38.4
2) To multilateral agencies	14.7	16.2	16.0	17.3	16.3	19.6	17.7
C) Percentage change over previous year 1992 prices and exchange rates							
Total oda	4.9	1.7	-1.1	3.7	3.3	1.0	-7.8
of which							
1) Bilateral	4.8	3.1	3.8	2.1	6.6	-6.3	-7.0
2) To multilateral agencies	-1.2	-1.9	-13.5	7.6	-5.6	16.5	-9.5
D) As percentage of GNP							
Total oda	0.34	0.33	0.32	0.33	0.33	0.33	0.29
of which							
1) Bilateral	0.23	0.23	0.23	0.23	0.24	0.23	0.20
2) To multilateral agencies	0.11	0.10	0.09	0.10	0.09	0.10	0.09
E) Grants by NGOs not included in above							
\$ billion, current prices and exchange rates	2.1	3.2	4.0	5.1	5.4	6.0	6.3
\$ billion, 1992 prices and exchange rates	3.6	4.6	4.8	5.5	5.6	6.0	6.3
As percentage of GNP	0.03	0.03	0.03	0.03	0.03	0.03	0.03

a. Excluding forgiveness of non-oda debt in 1990, 1991 and 1992.

Source: OECD.

tends to deflate the per capita income of countries like Russia and inflate that of China and a number of developing countries,⁵ with possible implications for aid allocation arrangements;

- the feeling that four decades after the Marshall Plan and three decades on from the foundation of the donors' club, the DAC, the old mechanisms and policies of aid-giving must be at best mature, on the assumption that they had not been adequately reformed already; or that a second generation of post-independence leaders deserved to be offered a new approach as aid recipients. In short, that aid might be not merely an instrument of the Cold War, but a relic of early post-colonialism;
- competing contenders asserting success as agents of development: non-governmental organisations (including indigenous ones); private capital and individual enterprise; even policy reform itself as a substitute for direct action and public spending. With many donors engaged domestically in privatisation programmes (if only to keep up revenue flows), and encouraging such policies in East-Central Europe and the former Soviet Union, and professing a strong belief in the power of markets, a system whereby development in poor countries was assisted by large programmed or projectised injections of international public spending did require considerable justification.

Added to these issues are some quite vocal public and political demands for a review of foreign aid policy and for a more cogent explanation of it to individuals who now get regular media briefings in their homes and workplaces on events in even the most obscure parts of the world.

Interest in whether aid is in crisis or entering a period of possibly highly productive transition is therefore manifest. Consequently, when the US Overseas Development Council, the UK Overseas Development Institute and the Canadian North-South Institute called a meeting of the research institutes of the main donor countries to deliberate on these matters, they obtained an instant response. Country papers were compiled and were taken a few weeks later as background to the deliberations at the Rockefeller Foundation Study and Conference Centre in Bellagio, Italy in July 1993. They set the scene as regards aid volume and trends, the policy priorities, the particularities of the aid constituency, and the likely future directions of each of the main donors.

A year later, in Paris at the OECD Development Centre, the research institutes met again to consider their earlier conclusions and to review the evidence of the past year. The country papers were updated and new evidence was incorporated. The current, and one past, Chairman of the Development Assistance Committee of the OECD joined in the deliberations in both Bellagio and Paris, as did senior people from Africa and Asia who deal with aid from both official and non-governmental donors.

The final chapter of this Special Report presents less an account of the proceedings in Bellagio and Paris but rather an analysis of the main current arguments and discussions about

aid: whether there is a crisis of aid policy or spending, whether it is generalised or particular to some countries and, if the latter, whether it will affect or contaminate the others; what the key future issues to be addressed are, including dealing with new claimants; the aid requirements of global concerns as opposed to national or sectional interests; the tension between bilateral and multilateral operations, short-term relief and long-term development out of poverty; and, beyond this, the issue of achieving aid effectiveness. The conclusions offered are essentially policy recommendations and indications of the need for further work. Via this book they can reach a much wider audience.

5. A separate phenomenon of the 1990s was the ease with which UNDP's *Human Development Report*, annually reclassifying countries in non-traditional ways, gained acceptance.

2. Development Co-operation in Canada

Maureen O'Neil and Roy Culpeper

Recent developments

During the past year there has been a considerable change in the federal political scene in Canada. In the federal elections on 25 October 1993, the Liberal party under Jean Chrétien decisively defeated the Progressive Conservative party – in power since 1983 – to win 177 of the 295 seats. Significantly two new parties also did well. The Bloc Québécois (BQ), a federal-level Quebec separatist party, took 54 of Quebec's 75 seats and formed Canada's official opposition party. The conservative Reform party took 52 seats – all save one in Western Canada. Canada's social democratic party, the NDP – the party most committed to foreign aid – also did poorly, retaining only 9 of its 40 seats.

The election was dominated by economic and leadership matters. Foreign aid and foreign policy in general were not significant election issues – despite some valiant attempts by the NGO community (including the North-South Institute) to bring them to the fore. The Reform party and the Conservatives made fighting the budget deficit a priority and called for further cuts in foreign aid. The Liberals campaigned on the basis of their so-called 'Red Book' – outlining their policy positions on a range of issues – and reiterated a promise to achieve a foreign aid budget of 0.7% of GDP 'as soon as possible'. They also pledged to increase the share of Canadian aid going to human priority areas, à la UNDP, from 10% to 25%. The BQ, although campaigning for deficit reduction, sought to cut defence spending, while maintaining foreign aid.

When the Liberals took office in November they took note of a call from the NGO community during and before the election and promised to undertake a wide-ranging Foreign Policy Review (FPR) within the year. Prime Minister Chrétien's powerful Quebec lieutenant, André Ouellet, was made Minister of Foreign Affairs and consequently became the Minister responsible for CIDA.

In February 1994, the Finance Minister presented the Liberals' first Budget. The International Assistance envelope (which includes aid going to the former Soviet Union and Eastern Europe) was cut by a further 2% and frozen at a level of \$2.6 billion (US\$1.9 bn) for the following two years – saving the government \$400 million from projected spending over three years. Based on the growth of GNP predicted by the government, the North-South Institute projects that this will bring Canada's oda/GNP ratio down from its current level of 0.4% to 0.35% in 1996/97 – a level not seen since the early 1960s. In its defence the government points out that Canada will still be above the OECD average for aid effort. Notwithstanding these cuts, many in the development community were relieved that more drastic measures were not taken. The Liberals revealed that – largely as a result of a collapse in expected revenues – the deficit for 1993–94 was going to be a record \$45 bn (6.4% of GDP), almost 40% greater than projected by the Conservatives only one year earlier! Many voices were urging the government to attack the deficit and make much larger cuts than they

actually did. In the end, there were more severe cuts in both absolute and relative terms in both defence spending and Canada's unemployment insurance programme than there were in the aid programme – a reversal of a trend established since 1989 by the Conservatives.

Perhaps the most noteworthy foreign policy stance taken by the Liberal Government since its advent to power was the one taken in April 1994 concerning human rights and trade with China. In a departure from previous policy, first the Foreign Minister and then the Prime Minister voiced their doubts about whether Canada could influence China on human rights through its trade policy and said that they would therefore not try to do so. While their statements were candid, many were outraged that Canada was apparently putting commercial interests ahead of long-held Canadian values on human rights. (Editorial opinion has run against the government.) Meanwhile, Canada was taking a very firm stance with regard to Haiti and the restoration of Jean-Bertrand Aristide to power. These contrasting stances point to a foreign policy which, on questions of human rights, will be determined by the weakness or strength of the state in question.

In May, following the inauguration of Nelson Mandela as President of South Africa, Canada announced that all forms of development assistance, including bilateral government-to-government aid, would now be available for South Africa.

Current situation: the Foreign Policy Review

On 25 March 1994, the Foreign Policy Review was officially launched by André Ouellet in the House of Commons. Only 20 MPs out of 295 were there to hear the Foreign Minister open the debate and announce the creation of a special joint committee of the House and Senate to review Canada's foreign policy and report back within six months. The process had actually begun with a National Forum on Canada's international relations the previous week. This two-day conference which brought together some 120 experts – men and women from universities, the world of business, non-governmental organisations and a few former soldiers – received limited national media attention.

Already, only half-way through the process, concerns were being expressed with regard to the review. A primary worry is that there are in fact two committees reviewing Canada's foreign policy. The Joint House-Senate Defence Committee is concurrently conducting a review of Canada's defence policy and is to table its report in September, one month prior to the Foreign Policy Review committee's report. Ostensibly the FPR committee has authority to investigate and make recommendations on all aspects of foreign policy. However, there is little doubt that its members will have to take account of the Defence committee's report to provide a coherent policy. This may prove to be difficult, the two committees having met jointly (and in camera) only once.

The process has also been hurried, and is not well planned. The FPR committee began with six round tables, hearing some four speakers on each occasion. It then divided into three groups, each spending one week in June in a different region of Canada. Reassembling in Ottawa, its members had time only to focus on a few issues they have identified as crucial before the onset of summer when the first draft of the report was due to be written. Some of

the committee members felt that the round table discussions were too general, and lacked any hard recommendations. The question of who actually writes the report is also a cause for some concern. In the previous foreign aid policy review the chairman was a key player with his own clear views expressed in the 1987 report *For Whose Benefit?* This time the committee may be less single-minded. Liberal Senator Allan MacEachen, a former External Affairs Minister and the committee's co-chairman, is the dominant figure. Judging by his performance thus far, there is a legitimate concern that he may wish to defend positions established when he was in office.

As regards official development assistance policy, the debate has revolved around the development versus Canadian commercial objectives of aid, whether more aid should go to meet the basic needs of the poorest and which channels should deliver the aid (bilateral vs multilateral, NGOs vs the private sector). In their submissions to the committee, some NGOs have not been helpful on the 'big' issues, while worrying more about delivery channels and proposing that an impracticable 60% of aid be directed to 'Sustainable Human Development'. The NSI has tried to broaden the context of the debate by emphasising the importance of other policy instruments with respect to the developing world, namely, debt and finance issues and trade policy. There is some concern that Africa may lose out to both Latin America and Asia in this review, given the prominence already shown to these regions by the Liberal Government and its virtual silence on Africa (with the exception of South Africa). Committee members from the opposition parties (a minority) also seem to hold diverse points of view. The BQ is the party most in favour of a strong development focus for aid and a continued commitment to Africa. The Reform party, on the other hand, while against political interference over aid, takes the view that emergency humanitarian aid should be the primary component of Canada's programme.

Finally, an overarching concern in this whole process is the fact that, in the context of the current agenda of Canadian politics, the Foreign Policy Review has had a remarkably low profile. Apart from those directly involved, Canadians as a whole have barely shown an interest in the review. Media attention has been low to non-existent. Part of the explanation for this lies in the fact that Canadians are currently preoccupied with domestic issues. Even as the government is conducting this full-scale review of foreign policy, it is also undertaking a detailed examination of the entire social safety net with a view to making significant changes (and cost savings) in this complex system by 1995. Canada's national health insurance system is also being reviewed by the government. Indeed, there is scarcely an area which involves federal government spending which is not currently being reviewed.

Public support

The aid programme is thus in crisis, and public support has slipped badly. Opinion polls show that Canadian support for aid reached a peak in 1985, when the famine in Ethiopia and elsewhere had its greatest impact on public consciousness. From 85% then support fell to 67% in a Decima poll of August 1992 – not an alarming decline, but, more ominously, those opposed to aid grew from 19% to 33%. In that poll 58% of respondents agreed with the statement, 'As a country we spend too much time and money on the world's problems, and not enough on problems here at home'. At the same time, the percentage of Canadians who

are 'very interested' in international affairs fell from 31% in 1985 to 27% in 1992. An Angus Reid poll published in May 1993 indicated that cutbacks in foreign aid were the second-most favoured means of reducing the federal deficit (the most favoured being reductions in the civil service). A general explanation is that support is based on humanitarian motivations and is consequently 'soft'. A large majority (71%) agreed with the statement, 'We shall help poorer countries more if we focus on trade rather than on aid'. Reasons for resistance to Canada's aid effort, according to an analysis of polls by the Canadian Council for International Co-operation in February 1993, comprise five factors: its costliness and perceived inefficiency and futility, as well as Canadians' ignorance about international affairs and their lack of faith in government. Reinforcing the last factor is the figure of 52% of Canadians who favour channelling aid through NGOs, which they see as more effective than government in delivering aid to the poorest.

3. Foreign Aid in Denmark

Poul Engberg-Pedersen

Denmark has always shown a remarkable consensus with respect to the objectives and scope of its international aid. This was reinforced during 1993–94.

- The centre-left government, which came to power early in 1993, confirmed the overriding focus on **poverty alleviation** and the allocation of 1% of GDP for aid to developing countries;
- Danish industry and business and Danish NGOs – traditional opponents in the national aid community – accepted the active involvement of both parties in aid policy formulation and implementation;
- Steps were taken to implement Parliament's decision to phase in an allocation of 0.5% of GDP for environmental protection and emergency relief through the Special International Environmental and Disaster Relief Facility, established at the end of 1992;
- The government asked DANIDA, supplemented by selected members of the large Danish 'aid mafia', to prepare a comprehensive *Strategy for Danish Development Policy towards the Year 2000* (Ministry of Foreign Affairs, 1994) which was accepted by Parliament in March 1994.

The key features of this new strategy are:

- Concentration of Danish bilateral aid on 20 programme countries mainly located in Africa and South Asia;
- Concentration of bilateral programmes on a few sectors in each programme country, based on a poverty-oriented strategy involving all parts of the Danish human and institutional 'resource base';
- Provision of sectoral programme assistance to national institutions in recipient countries as the preferred form of bilateral assistance, with increased emphasis on capacity building aimed at 'national ownership' as well as good governance;
- Continuation of the more or less equal division of Danish aid between bilateral and multilateral assistance, with multilateral contributions concentrated in future according to the priorities of the Danish Government;
- Emphasis on 'active multilateralism' i.e. concentration and clear setting of priorities with respect to Denmark's political, financial and professional contributions to individual multilateral organisations and programmes;
- Broadening and extension of emergency relief, to incorporate assistance with restructuring and the development of programmes in the 'grey area' between relief and development assistance, aimed at sustainable recovery.

Official development assistance

Table 3.1 shows the consistent growth of Danish aid over the period 1990–94; it reached 1% of GNP in 1992 and is all in the form of grants. Table 3.2 gives the sectoral allocation of Denmark's bilateral aid in 1992 and 1993.

Table 3.1: Danish assistance to developing countries, 1990–94 (DKKm.)

	1990	1993	1994 ^a
Bilateral assistance	3,416	4,308	4,608
of which:			
• Projects	2,457	3,119	3,361
• Technical co-operation, etc.	689	689	747
• Integration of refugees	270	500	500
Multilateral assistance			
of which:			
• UNDP and UNICEF	685	721	745
• Multi/bilateral projects	309	206	240
• Humanitarian aid	418	249	271
• World Bank	423	455	469
• Regional Banks & Funds	195	169	227
• European Union	424	564	560
Administration etc.	256	497	458
Total Danish assistance	6874	8627	9190

Source: Ministry of Foreign Affairs, Danida, *Annual Report*, 1993.

Note: a) Approved budgets. Rate of exchange in June 1994 is DKK6.5 = 1US\$.

The two tables reveal four main characteristics of Danish aid. Firstly, UN agencies (excluding the World Bank) are major recipients. Secondly, the social sectors receive an unusually large share of bilateral aid. Thirdly, programme assistance has hitherto used only 7–9% of bilateral aid. Finally, expenditure on the reception of **refugees** has increased rapidly; in future, however, this cost will be met from other government votes.

Table 3.2: Sectoral composition of Denmark's bilateral assistance, 1992 and 1993 (%)

<i>Sector</i>	<i>1992</i>	<i>1993</i>
Social Infrastructure	32	37
• Education	7	7
• Health and family planning	9	11
• Water and sanitation	10	13
• Public administration	1	0
• Development planning	1	1
• Other social infrastructure	5	5
Economic Infrastructure	16	15
• Transport	9	9
• Communication	1	1
• Flood control	1	1
• Energy	3	3
• Other economic infrastructure	1	1
Productive Sectors	19	14
• Agriculture etc. (primary production)	9	8
• Manufacturing, mining, etc. (secondary production)	9	5
• Trade, co-operatives, etc. (tertiary production)	1	1
Multi-Sector, Integrated Projects	3	3
Programme Assistance	7	9
Reception of Refugees in Denmark	16	12
Un-Allocated Activities	8	11

Strategy for development policy towards the year 2000*Objectives and principles*

The overall objective of the Strategy is 'to assist developing countries in their efforts to achieve sustainable development based on an improvement in living conditions through socially balanced economic growth and with respect for political independence'.

Danish official development assistance will be organised to promote: socially balanced economic growth and social justice; the development of human resources; pluralistic civil societies and respect for the individual; protection of the global environment and the sustainable use of natural resources; global and regional co-operation and cultural co-operation

and understanding between peoples. Its poverty alleviation focus can be condensed under three main headings:

- the promotion of sustainable and socially balanced economic growth;
- the development of the social sector, including the promotion of education and health services as prerequisites for the development of human resources; and
- the promotion of popular participation in the development process and the development of a society based on the rule of law and good governance as prerequisites for stability and economic, social and political progress.

In addition to poverty alleviation, three **cross-cutting themes** will be pursued at all levels: women in development; the environment; and good governance and human rights.

Bilateral assistance

The new strategic emphases are the following:

- Aid will be concentrated on fewer developing countries and on fewer sectors within them, with a country strategy drawn up for each of 20 programme countries and priority sectors selected in accordance with the needs of each individual recipient country;
- Future sectoral programme assistance will support development and reform in a limited number of sectors or sub-sectors including education and training, financing of recurrent expenditure, operation and maintenance, new investment, and budgeting assistance;
- Programme assistance (balance-of-payments, in-kind assistance, etc.) will be provided to support balanced structural adjustment and debt relief;
- To ensure sustainability, the recipient must take overall responsibility for the activities supported by Danish aid;
- Increased assistance will be provided for capacity building in recipient country institutions responsible for the budget, sectoral planning, administration, and auditing, with personnel assistance reoriented towards increased emphasis on local advisers supported by short-term consultants;
- Outside the 20-odd programme countries, bilateral aid will be restricted to the promotion of democratisation and human rights and its associated finance; assistance for transitional restructuring; Danish NGO programmes; and some regional assistance.

Multilateral assistance

Under the heading of 'active multilateralism', new strategic emphases are the following:

- Greater selectivity and focus on areas prioritised by Denmark, both between and within individual multilateral organisations, will be implemented by means of a concentration of policy and professional contributions;
- In dialogues with the World Bank and other international financial institutions, attempts will be made to ensure that combating poverty and protecting especially vulnerable groups become an integral element of structural adjustment programmes that must be firmly anchored in developing countries;

- A number of mechanisms will be applied to increase Danish influence on – and benefits from – the work of the UN and other multilateral organisations, including the appointment of Danish officials; promotion of further procurement in Denmark; establishment of trust funds aimed at increased co-financing; provision of strategic funds and contributions in areas prioritised by Denmark, including support for reform within the multilateral agencies themselves.

Thematic priority areas

In the field of **population**, a sectoral strategy will be prepared aimed at strengthening women's and families' possibilities of choosing the number and spacing of children.

On **trade**, greater cohesion will be promoted in the European Union's development policy and its trade and agricultural policies, in particular, with respect to breaking down the barriers to developing countries' exports of manufactured products.

On **debt relief**, bilateral aid and/or supplementary contributions to multilateral arrangements will be provided to enable Denmark's programme countries to service and repay their debt to the multilateral institutions of which Denmark is a member.

Critical issues and challenges in the new strategy

Denmark's new aid strategy is well-conceived and is an adequate reflection of current thinking in the progressive parts of the international aid community. Its underlying philosophy is that Danish society has something useful to contribute through both bilateral and multilateral development assistance, and that Danish aid programmes must concentrate on this special competence and comparative advantage.

The Strategy makes tough demands on the quality of Danish official and private inputs into aid relations. A number of dilemmas arise that need to be addressed during the policy's implementation. These are summarised below.

1. National ownership and responsibility versus a focus on Danish priorities. These two principles cannot easily be reconciled. If aid is integrated into and owned by national institutions in the recipient country, there is no guarantee that these will share Danish policy objectives, nor that they will want to work with Danish institutions and enterprises in implementing the aid programmes. Sectoral programme assistance is a useful tool for minimising this dilemma, but only if both sides are willing and able to enter into a policy dialogue on priorities and programmes.

There is the risk of a gap developing between the sectoral programmes, supported by Denmark and implemented by the recipient national institutions, and the country strategy, whose preparation may become a strictly Danish affair, aimed at involving and satisfying all parts of the Danish aid community.

2. National ownership and long-term capacity building versus increased corruption in the short term. Integration of aid into national institutions and procedures makes sense only if it is accompanied by a reduction in donor-specific controls and procedures. Local institutions will only build up management capacity if they are given management responsibility. The Strategy could, if fully implemented, lead to increased misappropriation of resources in the short to medium term.

The provision of capacity-building assistance to local accounting and auditing institutions in both the public and the private sector is a necessity in order to minimise this dilemma. However, it will only produce results in the long term. A more immediate solution is for the donor to hire local consultants as financial management specialists and auditors. Here the problem is an 'internal brain-drain': donors like DANIDA pick the best national professionals for 'their' own programmes.

3. National ownership of aid implementation versus accountability in terms of results and 'value for donor money'. Aid agencies, even in like-minded donor countries, are coming under increasing pressure to be able to present results to government auditors and tax-payers at home. This inevitably clashes with the aim of achieving institutional sustainability through the national ownership of programme implementation. DANIDA's new strategy is explicit on this dilemma:

Sectoral programme assistance, assistance towards running costs, more local responsibility and increased utilisation of local advisers will imply changed conditions for the achievement of **immediate and visible results** of assistance and for direct control in the local use of Danish funds. A possible short-term decline in effectiveness and in visible results must be expected, to be counterbalanced by development activities becoming more sustainable with improved local anchoring. Therefore they will become more effective, in the final analysis, compared with projects implemented by posted experts who cannot achieve the same level of local anchorage.

Recipient countries' increased responsibility and involvement in the preparation and implementation of development assistance will be followed up by reinforced efforts to **strengthen institutions** in recipient countries, responsible for budgeting, accounts and expenditure control. This strengthening of local control and auditing will be balanced by a reduction in the **direct control** by Danish officials over Danish-financed activities.

4. Good governance and human rights as explicit objectives versus the small size of Danish aid. Despite its high share of GDP, Danish bilateral assistance amounts to only US\$15–50 million per programme country per annum. The bulk of this will be concentrated in a few sectoral programmes, including the not very prestigious social sectors. Thus, Denmark's leverage in policy dialogue is quite limited.

Over-explicit Danish political stances and conditionalities with regard to democratisation are unlikely to have much effect. Moreover, Denmark cannot easily expose the poor in undemocratic countries to double oppression: political and social oppression by the national elite, and economic suffering as a result of politically motivated reductions in aid flows. The solution is to concentrate Danish efforts on positive measures aimed at building good governance from below and from within national government institutions. The occasional

preoccupation with the number of parties standing for national elections must give way to a focus on local-level participation, human rights and the building of capable and accountable institutions.

5. Poverty orientation as the fundamental principle versus the move away from projects and the small size of Danish aid. Projects are a useful mechanism for Danish aid to reach its target groups. The move towards sectoral programmes run by national institutions inevitably increases the distance of the donor from the poor. Capacity building in national institutions means that the institutional power base of the elite is strengthened.

At the same time, DANIDA aims to influence the design of structural adjustment programmes, to make them more sensitive to the plight of the poor. When the majority of bilateral aid is tied to sectoral programmes, there will be little scope for Danish support for macroeconomic programmes aimed at curbing the negative social implications of adjustment. The task of modifying the social impact of adjustment and of developing alternative, more human development models and paradigms is so huge that Denmark's contributions must be highly focused in this field also.

6. Integrated basic needs of the poor versus vertical sectoral programmes. Integrated development projects have proved much too complex and expensive. Sector-specific programmes are likely to be both more sustainable and cost-effective. However, improved understanding of empowerment and human development clearly points to the need for a broad-based interaction between the state and civil society.

Danish support for vertical sectoral programmes runs the risk of reinforcing a 'supply-side approach' to public service delivery. Sectoral programme assistance must be supplemented by aid to strengthen the capacity of target groups to demand effective and relevant services from public institutions. Furthermore, there is a risk that Danish assistance will be found lacking in the crucial field of capacity-building assistance aimed at local authorities: district councils and administrations, etc.

7. Active multilateralism versus multilateral organisations. The whole point of multilateralism is that donor countries make use of economies of scale and provide aid to individual international organisations that can be more effective in their respective fields rather than having a host of bilateral agencies all trying to build capacity in a particular field. Thus, the proliferation of 'ties' on Denmark's multilateral contributions, which is inherent in the search for influence under the catch phrase of active multilateralism, may jeopardise the capacity of the multilaterals to plan their operations in the most effective manner.

In reality, Denmark is only trying to catch up with the practice of other donor governments vis-à-vis the multilateral institutions. Furthermore, the introduction of conditionalities tied to reforms in the *modus operandi* of the multilaterals only exposes the latter to the kind of pressure which the governments of developing countries have lived with over the past 15 years. There is little doubt that the multilateral bureaucracies, especially but not solely in the UN system, need to be exposed to such demands as unavoidable incentives for them to improve their performance.

8. Involvement of the Danish resource base versus the proliferation of mechanisms to satisfy vested interests in Danish society. The laudable desire to involve all sections of Danish society in active co-operation with developing countries runs the risk of carving off slices of Danish aid for different segments of the private sector, Danish NGOs, the public institutions interested in twinning arrangements, etc. Key mechanisms are the establishment of trust funds tied to purchases in Denmark and the conclusion of framework agreements between DANIDA and the large Danish NGOs.

For example, according to the philosophy of the new Strategy, active multilateralism ought to imply Danish influence on the multilaterals within a few high-priority policy and programme areas. One means would be strategic trust funds to finance Danish contributions to the multilaterals in selected high-priority fields. If, however, DANIDA's efforts to implement the Strategy start with the establishment of trust funds to increase Danish involvement in the multilateral agencies, without prior setting of priorities on the policy objectives to be achieved, then only half the purpose of active multilateralism will have been achieved.

The Strategy calls for the involvement of the private sector and NGOs in Denmark in a mutual commitment to contribute to development. This is an appropriate and impressive objective, but it is also extremely ambitious. Clearly, the Strategy makes great demands on the quality and preparedness of the more focused and active Danish contributions to international aid. It remains to be seen whether the existing consensus can survive the more active demands which we as stake-holders in the Danish aid community will have to make on each other.

The challenges to foreign aid

The two most important features of the new Strategy are its emphases on **national ownership and accountability** in developing countries as regards development efforts supported by Denmark, and on the need for more **active, qualified and transparent** involvement on the part of all segments of Danish society in international development co-operation. The Strategy puts Denmark at the centre of the dilemmas which all donors face in the mid-1990s as a consequence of the emphasis on policy dialogue on both economic and political issues of nation-building. Donors tend to (i) tackle the powers and institutions of the state through government-to-government development cooperation; (ii) demand both recipient responsibility and national ownership and good governance, targeting, participation, etc; (iii) seek to integrate aid into government plans and budgets that are often quite unrealistic; (iv) promote a pluralistic society through intergovernmental co-operation; (v) assume institutional capacity in government while promoting a reduction in the staff and resources of these same government institutions; (vi) demand speedy service delivery through institutions which need time for capacity building; and (vii) demand both transparency and good governance and donor control and 'upward' accountability.

As a minimum, a fair and effective policy dialogue would require: transparency and openness on the values and objectives of both sides; donor insight into the history of nation-

building and the traditions of policy-making in developing countries; and new and greatly expanded forms of capacity-building assistance for recipient responsibility and accountability.

While the new Strategy for Danish Development Policy addresses these dilemmas and requirements, it is doubtful whether its full implications have been recognised by policy-makers and practitioners in the Danish aid community.

Reference

Ministry of Foreign Affairs, DANIDA (1994), *A Developing World. Strategy for Danish Development Policy towards the Year 200*, English summary of a strategy paper presented by the Danish Government, Copenhagen, March.

4. The European Union: Fundamental Change Without Crisis

Adrian Hewitt

Unlike its Member States, and indeed unlike most of the bilateral donors, changes in the European Union's aid programme are the result of major developments internal to Europe. This is a fundamental difference which is likely to result in the EU's aid policy becoming stronger as it is reformed, even as the bilateral programmes and policies of some of its members show difficulty in adapting to change.

That is not to say that Europe's aid programme¹ is not affected by the familiar new external pressures and demands facing all traditional donors: the consequences of the end of the Cold War, addressing the budgetary implications of economic recession, adapting to the new world trade regime and to competition from former aid-active developing countries, responding to disasters, and providing reliable evidence of aid effectiveness. Nor that it does not have, like the major national donors, plenty of redundant 'aid baggage' dating back to the 1960s (or even the late 1950s) which has to be handled with care – but ultimately jettisoned. No, it is simply that, almost uniquely among Western aid donors, the European Community (which, at least formally, became a Union in 1993) is in the rather happy position of finding its development co-operation policy, and so its aid programme, primarily driven by matters internal to the Union itself. This gives EU aid a remarkable position of strength for the future, extending even to its budgetary situation. It ought to be a cause for optimism – not something the conventional observers in the capitals of Europe, in the World Bank or among European NGOs usually associate with EU aid (although governments in recipient countries are wont to note its appealing features). To discover why, we review these unique features which are internal to EU policy-making.

The Single European Market (SEM)

The basis for our argument is the so-called completion of the Single European Market on 1 January 1993. Although the European Economic Community had come into being (with six Member States) thirty-five years earlier with the 1957 Treaty of Rome, it was only in reaction to the 'Euroclerosis' of the 1970s that the Members of the then European Community expressed their determination to complete the common internal market in goods and (most) services and (some) capital and labour movements in the late 1980s and early 1990s. Of course, such internal decisions had major external implications, since they spelled the end of a Member State's capacity to maintain a national commercial policy with countries outside,

1. Should there be any doubt that the EU, or rather the European Commission, runs a separate aid programme, still acting as the 'thirteenth donor' in Europe, one merely has to refer to the composition of the Development Assistance Committee (DAC) of the OECD, where the European Community has long held separate membership from that of eleven of its Member States. (Greece alone is not a DAC donor.)

including developing countries. The signing of the GATT Uruguay Round Agreement at the end of 1993 will, in the longer term, be seen to have further reinforced the EU's resolve to have a single external commercial policy. Indeed, the special trade preferences of the Member States towards particular developing countries (even those inherited and adopted by the Community itself) are in the process of being outlawed or at least run down in conformity with GATT rules and in preparation for a tougher WTO regime.

The Maastricht Treaty on Union

More momentous still in European terms was the signing and (in late 1993) the eventual ratification of the Maastricht Treaty on European Union (TEU). (The preposition is to be noted: it marks a firm intention to create a – political – union, building on the Communities which were earlier formed and merged; it does not mean that the Union is already a *fait accompli*.) This has major implications for developing countries outside the Union and for the aid policy of the Union because *for the first time* the European Community, now formally Union, has a development policy. It is stated in Article 130 of the Maastricht TEU in particular, whereas throughout the period when the Treaty of Rome governed the European Community's affairs, there was none: only an off-budget provision in Part IV of that Treaty, which in fact referred to European dependencies, plus a number of piecemeal decisions on aid policies, instruments and funds. Article 130u of the TEU for the first time specifies the tripartite aims of the policy:

- sustainable economic and social development of the developing countries and of the most disadvantaged;
- the smooth and gradual integration of developing countries in the world economy;
- a campaign against poverty in developing countries.

But it is now a further requirement (in Article 130v) for the EU to take account of these aims and objectives in forming all the policies it implements and which are likely to affect developing countries. So the rules have changed; the goalposts have shifted; policy coherence is now a legal requirement for Europe (and for the European Commission in particular) whereas before it had been at liberty to indulge its own incoherence – e.g. as between the Common Agricultural Policy at home and the needs and potential of the agricultural sector of developing countries.

Now coherence is a pre-condition of the EU's new development co-operation policy. And not only policy coherence. Far from being the 'thirteenth aid donor' in the EU which it has become, the European Commission is now required to ensure that the EU and its Member States operate complementarily in the execution of their aid programmes. Some interpret this as meaning that the EU (or specifically the Commission) should do none of the tasks which the Member States are already performing adequately. Others that it should take on a co-ordinating role; that it should take over the 'new' aid areas such as the environment, human rights linkages or politically-ordained disaster relief. Others that it should find its aid niche, possibly in such sectors as education and health, or in 'food security', or – as the Treaty itself says – the campaign against poverty. There is a long way to go in refining these policies – and even debating them internally – but in comparison with the mish-mash of odd and uneven

policies, actions and aid instruments which preceded them, these deliberations are moving in a distinctly positive direction.

The Edinburgh budget decision

A further reason for optimism is that the EU will have substantial budgetary funding for development assistance in the years to come. Owing to a compromise decision at the Edinburgh Summit of the twelve Member States in December 1992, the EU has been voted a near-doubling, to ECU 5.6 billion, of its external actions under the budget by 1999 – and this increase in commitments is fixed in 1992 constant ecus, so that all Member States have to contribute their share on that basis, whether or not they raid their own development assistance budget allocations. Not all this budget for external actions will go as aid to developing countries; indeed it is not clear how much will be used to assist the countries in transition in Eastern Europe and the former Soviet Union, but it can – and will – be argued that a large share must be retained to implement the above post-Maastricht policy towards developing countries. How the Member States cope with this call on resources is their national affair (Britain contributes just under one-fifth and, on present aid planning projections, the UK House of Commons Foreign Affairs Committee (House of Commons, 1994) is alarmed to find that nearly half the total aid budget will be absorbed on EU actions in future). There will, however, be a further Intergovernmental Conference of the Member States of the EU in 1996 to review this and other post-Maastricht constitutional developments. Of course, the numbers could go up as well as down.

This development has already obliged Member States – as well as aid recipients – to look carefully at the value of European aid, at the question of potential duplication, as well as waste, and to consider again, and move forcefully on, the question of the underlying rationale and purpose of a distinctively European aid spending programme.

Globalism versus regionalism

If the EU has an aid policy, even prior to achieving such an enormous resource base, then surely that policy needs to have global reach commensurate with the size and scale of the Union itself? Instead, the EU has inherited a number of piecemeal policies and instruments. The legacy of the EEC includes a concentration on the African, Caribbean and Pacific signatories of the Lomé Convention, currently (1994) undergoing a mid-term review and subject to refinancing. Although this excludes all the Asian and Latin American developing countries and so discriminates against them in order to favour the ACP, a small paragraph inserted in the TEU (Article 130w) decrees that this special arrangement should be maintained, including, by implication, the funding of the European Development Fund outside the EU budget. There are important matters of policy coherence to be addressed here, not least because the Member States now have to decide whether and how to refinance the EDF for another five years (1995–99), with some of them, notably Germany, intending to lay down the condition that any new funding be subjected to normal budgetary procedures and scrutinised by the European Parliament. But the real dilemma is elsewhere, for the inherited commitments under the Lomé arrangements have not, ultimately, been successful; the 'pyramid' of privilege at whose apex the ACP states nominally sit has, in fact, been

demolished by new factors (EU willingness to give priority to Eastern Europe, to help certain Latin American countries fight the drugs menace, to use aid as a precautionary instrument with respect to regions in the South of the Union sensitive to immigration pressures from North Africa, and so on). It is not that the 'globalists' are already winning the argument against the 'regionalists': merely that many of the elements of the regional policy are now defunct while new claims for aid are globally somewhat dispersed. There is a lot of difficult European policy-making still to be accomplished in this area.

Aid alongside an emerging European foreign policy

The Maastricht Treaty marks a watershed because for the first time Europe will aim to have a common foreign (and security) policy. However much one might like to regard development policy as separate, ultimately development aid will need to conform with the emerging European foreign policy. And unlike EEC policies such as the Common Agricultural Policy and the Common Commercial Policy which preceded it, the Foreign Policy will be determined *intergovernmentally*: indeed, it could hardly be otherwise – there would be no sense in a democratic Europe having an unelected Commission laying down laws and guidelines on foreign affairs which then had to be adopted willy-nilly by member nations. (The same applies to other elements of post-Maastricht EU policy – legal and home affairs policies – which have less influence, perhaps, on developing countries and development assistance, except if labour migration and refugee/asylum policies were to be aid-linked.)

If two of the three pillars of the Union are now intergovernmental, where does that leave the European Commission? The answer surely is administering, and proposing initiatives for, those actions which fall under the old Treaty of Rome, and carving out a role for itself under the Treaty of Maastricht. As regards European aid policy, it will no longer automatically find itself in the driving seat, though it could make claims for a chauffeuring role if it had the right credentials. To do this, the Commission has realised that it must undergo major reform. (Until 1994, for instance, aid policy was controlled by two different Commissioners, largely on the inherited geographical basis, and even today two separate Directorates-General administer parts of the programme without much sign of either internal cohesion or consultation with other determining parts of the Commission such as the Agriculture Directorate-General, which ultimately determines the massive food aid policy. A further fragmentary development was the recent creation of an EC Humanitarian Office (ECHO) operating quite separately from the D-Gs running the long-term development aid programmes and not reporting to them.) Not only do the structures need to adapt to the new circumstances, the Commission now has to develop new facilities to receive policy advice from the governments and expert bodies of the Member States. This is a major change from the past when it merely inherited the aid policy of a dominant Member State and had no capacity for policy development. Thus it became renowned for devising aid instruments (such as Stabex) but not for delivering effective aid; and for sustaining procedures (the extra-budgetary EDF is now older than the World Bank's IDA, yet subject to far less scrutiny) but not for responding to the need for reform – for instance, the Commission was the last to concede to an adjustment element in its aid programme, as late as 1987. Such phenomena have raised pertinent questions in the Member States as to how closely European aid is monitored and evaluated, and how effective its instruments are, let alone its overall policy. So far, evaluating EU aid has proved to be a rather elusive art compared with that of the Member States and

the World Bank. Indeed, one of the problems is that there is no comparative evaluation on which to base such future policies as 'niche' agency operations, 'task division' or subsidiarity.

The wider European dimension

Since Germany, now the largest EU Member State, called up enormous domestic resources to absorb a whole country, the former German Democratic Republic, after the fall of the Berlin Wall (and still managed to maintain most of its aid programme to developing countries intact – see Chapter 6), it is inevitable that the European Union as a whole will regard its immediate Eastern neighbours as not merely 'economies in transition' – which is what they are for other donors – but plausible future Member States. (Already Poland, Hungary, the Czech Republic and perhaps Slovakia seem to be leap-frogging long-standing candidates for membership such as Turkey, Malta and Cyprus.) In this sense, then, the events in Eastern Europe and even Russia over the 1989–92 period are not just external events which affect the donor's aid programme: in the EU they are rapidly becoming internalised. For most EU Member States, not just for Germany, and for the Commission as thirteenth donor, the programmes of assistance to Central and Eastern Europe are the most rapidly rising part of their aid programme. If few Member States have managed to keep the developing country aid part separate and inviolate from East European budgets and actions, at least the EU, through the separate administration within the Commission, has managed to ensure that so far the real value of the former has not been encroached upon by new actions (PHARE and TACIS) on behalf of the latter.

But this has been possible only because of our third phenomenon (the Edinburgh budget decision) above: a rapidly rising total of overall aid commitments, paid for by the Member States through taxation and direct contributions. If this were to falter, it is not obvious that the rump of developing country aid programmes would survive the special pleading of status on the EU's very borders, unless the EU had by then formed and committed itself to a coherent global development assistance policy. So, the various elements in these changes affecting Europe are closely interlinked.

By the beginning of 1995, moreover, subject to three Scandinavian referenda, the EU will have not twelve but sixteen Member States. Although this may seem to add to the diversity, the enlargement towards the North should also bring benefits to the developing countries of the South, for traditionally Sweden and Norway in particular have been generous, important and innovative donors (and Finland in the 1980s saw a major expansion in its aid). Some of the budgetary resolve for aid in Sweden and Finland (and Austria) now seems to be flagging a little, but it is likely that the most important benefit to the EU aid programme, and to developing countries, will come from this enlargement in the form of the stronger aid-policy input which Norway and Sweden, in particular, will supply. This should also strengthen the EU's resolve to opt for a global development policy strongly attuned to its foreign policy. (Norway, for instance, has maintained a foreign policy on East-West relations, on the Middle East and on Southern Africa, far ahead of its modest size as a nation-state, and as a consequence its people are strong supporters of the aid programme too.) The new Members (apart from Austria) are also strongly in favour of concentrating development aid on the sustained relief of poverty: they should help to strengthen the EU's resolve in this respect also.

Conclusion

It may be stretching the argument a little to claim that the way in which the EU responds to Eastern Europe and the manner of its fourth enlargement, of Sweden, Austria, Finland and Norway, are matters internal to the Union itself. Nonetheless, the point about the other five phenomena ought to be well taken. The European Community's aid policy reforms are being driven much more by Europe's internal needs, so, without becoming introspective, the potential – and the resources – exist for a major policy renewal to face the development challenge of the decade to come. It is not clear how exactly the new policy will shape up.

Federalising as well as centralising tendencies are afoot. Many Member States – not just the UK, but France and Italy too – are determined that the Commission shall henceforth revert to a more purely administrative role. Foreign policy, intended to be the preserve of the Member State governments, may yet be increasingly determined by a strengthened European Parliament.

But a few developments can be predicted with some certainty. The EU will have a larger budget for aid (including Eastern spending policies) than in the past;² some Member States will be inclined as a result to work primarily through the EU in future. The EU aid programme will also, as a consequence, be subjected to much closer scrutiny, budgetary control and evaluation than in the past. This should improve aid effectiveness if the feedback mechanisms are put in place. Northern enlargement will, on balance, be beneficial to aid policy towards the South, and should also act as a counterbalance to the unfortunate tendency emerging in France and Italy (though not in Spain) of regarding immigration from Muslim countries as a 'threat' to be addressed by diverting a portion of the aid programme to anti-immigration policies. Finally, although there is far to go before the EU has a global aid policy (or even a foreign policy of sorts), it is inevitable that the special and discriminatory treatment meted out to at least the richer ACP countries will be replaced by a more balanced worldwide policy which combines respect for EU global interests with its TEU undertakings on helping the poorest and most disadvantaged. If not, the haphazard ways of EEC reform have been such that one might perversely predict that the next Lomé Convention – call it Lomé V, to be signed in 1999 – would be not with the ACP or any developing countries, but with the EU's immediate neighbours in Eastern Europe.

Reference

House of Commons Foreign Affairs Committee (1994), *Public Expenditure Spending Plans of the FCO and the ODA, 1994–95 to 1996–97*, Session 1993–94, Second Report. London: HMSO.

2. It is the relative change which is important. These projections of the growth of EU commitments do not mean that the EU's aid programme will exceed that of two of the Member States, France and Germany, even by 1999. (Indeed, France alone is projected to overtake the USA in aid volume by that date.) Nonetheless, the EU programme should become the fourth or fifth largest DAC aid programme by then.

5. The Paradox of French Aid

Zaki Laidi

French aid policy, and through it France's policy of co-operation with the South, has entered a period of crisis since the beginning of the 1980s. Structural adjustment programmes have not helped Africa to pull itself up by its bootstraps. The promise of democracy, usually deemed a prerequisite for economic recovery, seems to be either bogged down or ambiguous, if only because the process of democratisation is accompanied by great confusion. The ambiguity arises because the arguments about democracy are in the majority of cases led by urban groups concerned about the erosion of their privileges and determined to exclude ordinary farmers from the democratic process. One cannot help but notice the absence of rural representation at the 'national conferences' held to re-establish government legitimacy in Francophone Africa following the lead of the La Baule meeting of heads of state in June 1990.

Briefly, French co-operation policy is characterised as follows:

- In France there is now a strong tendency towards 'psychological disinvestment' from the South in general and Africa in particular. This intellectual distancing began in the 1980s – when new policies of adjustment assistance were supposed to reveal the failure of traditional aid policies – and increased with the fall of the Berlin Wall. Today it is no exaggeration to say that, in general, France sees its relationship with the South through two issues: South–North migration and the commercial threat posed by the newly industrialised Asian countries.
- In France – to a greater extent than in the rest of Europe – aid problems are viewed with a profound political and psychological despondency, probably because France is the only Western country to have attempted to include a strong political component in its relations with the South. This despondency is even worse, considering the level of expertise and experience of French aid workers.
- For several years the future of French aid has tended to be thought of in the European rather than the national context. There are at least two reasons for this. The first is the progressive development of European co-operation and the birth of the single market. The second is the evolution of Africa, where it is becoming more and more clear that no aid policy worthy of the name can afford not to take the regional situation into account. In West Africa, the influence of Nigeria on Francophone Africa (and specifically on the Franc Zone countries) cannot be ignored. Taking into account the level of informal trade, policies which are purely bilateral are rendered useless. France, following the example of the World Bank, had hoped that adjustment policies would lead to a reduction of such informal flows and a resulting increase in tradables. Almost the opposite has happened.

Despite this fairly pessimistic assessment, France's position in Africa is, paradoxically, stronger than expected. French influence remains far greater than the failure of its policies

would lead one to expect. French development co-operation policy suffers from great inertia which can be explained and expressed in the following way:

- The French political classes – taking all tendencies into account – remain fundamentally attached to Africa. Curiously enough, Africa still plays a role in the political legitimisation of French leaders at the party, government and even the presidential level. From the left to the extreme right, every substantial French politician has a network of supporters in Africa. But one thing has changed. For a long time these networks were structured around the state apparatus; today, certain ‘liberal’ politicians are trying to set up networks outside the realm of the state.
- This close link with Africa – Belgium is the only other comparable example – has complex origins which relate to historical, personal, emotional or political-financial factors (the latter including the clandestine financing of political parties). Even the French extreme right has networks in Africa. This schizophrenic co-operation policy, where the French Treasury’s discourse on aid and adjustment is contradicted by purely clientelist practices, is likely to continue; no French politician has an interest in halting these practices.

In other words, the French aid problem is this: the risk of a reduction in its volume is lower than that of leaving its content unchanged. Thus, for example, the growing role of structural adjustment in French financial aid to Africa has not affected the clientelist logic of French aid. Indirectly, and sometimes directly, French aid policy allows African states to resist pressure from the World Bank and the IMF.

Certainly, there have been some changes (the cleaning up of the Senegalese banking sector being a good example). But the changes are too slow. France has not sent its aid ‘constituents’ strong enough signals of its willingness to give notice and suspend its aid. The French authorities refer back to the principle of non-interference in sovereign states. But in reality the situation is much more complex.

However, there are some courses of action which would involve small but significant changes rather than a radical break. The question of the quantitative level of aid overlooks its qualitative aspects. For example, it is known that rehabilitation of existing investments is sometimes preferable to an injection of new resources. The latter, however, is what is usually supplied. French aid does not suffer from a lack of *savoir-faire* or from a lack of ideas relating to regional integration, mobilisation of human resources or energisation of the private sector. But neither public opinion nor the French leaders provide a strong incentive for breaking with doubtful practices.

Will the dynamics of Europe allow French aid to reform? It is to be hoped so, but we must remain cautious. During the 1980s, when adjustment programmes were launched, it was thought that they were a definite break with the past which would provide French aid policy with agonising choices. The reality was more complicated. On the European front, during the Maastricht negotiations, France was opposed to the ‘Communitarisation’ of the Lomé agreements – in other words providing finance via the Community budget rather than by direct Member State contributions to a separate European Development Fund on the IDA model. With this refusal, France is clearly stating its preferences: Africa should remain within

the sphere of the state. For the moment therefore, there is no question of making France’s African policy more European. A conclusion can be drawn: France’s traditional aid policy is remarkably durable, despite ever more questionable effectiveness. Only the failure of other donors in Africa can alleviate France’s pessimism. French aid has failed, but its political survival is assured. This is not the least of its paradoxes.

Editor’s note

France has for many years been the largest European aid donor, and the third largest in the world. In 1993 French aid expenditure reached \$7.9 billion (the same in real terms as in 1992) and 0.63% of GNP. There have been progressive increases in recent years, under cohabiting conservative as well as socialist governments, and even as France’s overseas departments (DOM) have been removed from the official development assistance accounts. Furthermore, the President of the Republic stated at the UNCED conference in Rio de Janeiro in 1992 France’s explicit intention to increase its aid to reach the 0.7% of GNP target by the year 2000. If the conservative government adheres to this commitment, this would take French aid to nearly \$10 bn at current prices, almost as much as that of Japan and probably more than the USA.

Nonetheless, French aid can be seen to be facing a crisis, as M. Laidi’s paper shows. This may be partly due to the inherited characteristics of French aid: a very high concentration on Africa (where aid effectiveness has been difficult to substantiate over the past decade); a high proportion of technical co-operation within the total, charged out to the budget and so, at least nominally, to recipients at quite high rates; the increasing, though still quite modest, ‘burden’ of maintaining the Franc Zone currency arrangements at a time when overall French foreign economic policy has been to link the franc to the appreciating Deutsche Mark; and the fragmentation of French aid policy-making between various ministries and bodies (the Ministry of Co-operation and Development essentially for Africa; the Treasury for loans and trade-related balance-of-payments assistance, and beyond this, the Caisse Française de Développement; spending on French Overseas Territories, still counting as *oda*, under its own Ministry; a separate Ministry for humanitarian assistance; and the Ministry of External Affairs (the Quai d’Orsay) running a further programme of grants and technical assistance).

The inevitability of change became apparent in 1994. On 11 January, the CFA franc was devalued. However, the choice of a uniform 50% devaluation across thirteen African countries was meant to signal that the Franc Zone itself would survive. But Africans were not convinced that this best served their interests, nor that France’s commitment to Africa was not being diluted under the Balladur administration.

The aid constituency is now increasingly split between Africanists (many pro-poverty alleviation NGOs plus some traditional business and trading interests) and the globalists or ‘mondialistes’. Yet even the NGOs voiced strident criticism of their government’s policy of sending troops into Rwanda. France found that being the only foreign power prepared to intervene in a desperate situation was a thankless task, not helped by the weak application of the La Baule doctrine in the case of Rwanda and Algeria.

Not only do developing countries (especially Francophone African ones) feature in French politics, but France is, within Europe, unique in having arrangements for French voters overseas to elect their representative to the Senate (the upper house of parliament). By the nature of the concentration of voters in independent countries, this means in fact that Africa still has direct constituency representation on aid-related matters under the French political system.

Despite its very strong aid traditions, France has been active in reform recently with respect to more directly targeted relief operations and the adoption of structural adjustment policies. The dominant bilateral focus has been mitigated in recent years by increasing contributions to multilateral bodies. Frenchmen head several key bodies influential in aid politics such as the IMF, the OECD, and the European Bank for Reconstruction and Development.

6. German Aid Policy

Hans-Helmut Taake¹

In 1992, Germany disbursed US\$7.6 billion of official development assistance and was the fourth largest DAC donor after the United States, Japan and France. The oda/GNP ratio declined slightly from 0.41% in 1991 to 0.39% in 1992, still above the average of DAC donors' aid efforts (0.33%). German aid disbursements declined by 2% in real terms from 1991, mainly due to a drop in multilateral contributions. Bilateral assistance at US\$1.4 bn almost doubled in real terms over 1991, while the volume of grant aid shrank by 14%. Major recipients of German aid in 1991-92 were Egypt, India, Israel, states of the former Yugoslavia, Turkey and Indonesia.

Traditionally the German Government channels about 30% of its official aid – including contributions to the European Community – through multilateral institutions. The multilateral proportion of oda rose from 29.1% in 1990 to 33.6% in 1991, mainly due to higher disbursements from the EC budget and higher IDA contributions to the World Bank. Although the government considers about 30% to be appropriate, there appears to be an overall trend towards more multilateral assistance (Federal Ministry of Economic Co-operation and Development, 1992: 5).

Despite the extremely tight financial circumstances resulting from German reunification and the need for assistance in the reforming states of Central and Eastern Europe and in the successor states of the former Soviet Union, the German Government is endeavouring to increase its development aid as far as possible (*ibid*: 1-2). Given the scarcity of resources, future emphasis will be placed on raising the quality of assistance. Support is offered primarily to those countries undertaking credible efforts to improve their situation by solid structural reforms.

Up to 1992, the level of oda flowing to the developing countries did not suggest a major aid diversion from the South to the East. On the other hand, Germany is expected to mobilise additional resources to support the transformation process of the East European countries. The reason is obvious: the failure of economic and political reforms would put the stability of the entire region at risk. As a result, future aid may well be diverted in terms of growth rates but not in terms of absolute figures.

Objectives

The Federal Ministry of Economic Co-operation and Development has drawn up a set of criteria, in order to be able to devote even greater attention to the general framework

1. This chapter incorporates material prepared for the 1994 Paris conference by Dr Bernhard Fischer, Director, Department for Development Economics, Hamburg Institute for Economic Research (HWWA).

30 *Crisis or Transition in Foreign Aid*

conditions which are conducive to development: namely, human rights, popular participation in the political decision-making process, legal security, economic and social conditions favourable to establishing a market economy, and the development orientation of the government.

These five criteria form the basis for decisions with regard to instruments and areas of co-operation with individual countries. It is not practicable to draw up binding rules governing the sectoral distribution of aid commitments because of the different needs and conditions in the recipient countries. The sectoral distribution of aid is usually the result of a policy dialogue with the country concerned, in which an understanding is striven for on bottleneck areas where assistance is needed urgently. In such dialogues the German Government focuses on the following areas: poverty alleviation; rural development; protection of the environment and natural resources; education; and the promotion of women.

Given the dramatic changes in the geopolitical scene over the last few years, German development co-operation now has a more political profile, with an emphasis on humanitarian considerations and German security interests. Among the themes emerging in this context are policies to curb migration flows and to wrestle with cross-border problems associated with underdevelopment, such as drug traffic, organised crime and the spread of epidemic diseases. Examples of the more political orientation of Germany's development co-operation are its support for the reform of economic and social legislation in former socialist economic systems and the building-up of democratic institutions in former non-pluralistic societies. Military expenditure is also a major concern in Germany's new political sensibility in aid policies. If expenditures for military purposes in partner countries are considered to be beyond defence needs, this is taken as evidence of a lack of development orientation on the part of the government concerned. This aspect plays an important role in policy dialogues.

Priorities and improved procedures

Together with the introduction of new framework criteria, a further concentration of development co-operation in a few priority sectors should help to make Germany's aid more effective and efficient. The selection of these areas is governed by Germany's (perceived) relative advantage in development co-operation in comparison with other donors and by their central importance for the development of partner countries.

Poverty alleviation is the most important priority and the cross-sectional target. Significant elements in the approach are the preparation of poverty profiles of individual developing countries and the examination of each development scheme to discover the extent to which it contributes to the improvement of the situation of the poorer segments of the population. More than half of Germany's bilateral technical and financial co-operation is basic-needs-oriented. Support for poverty alleviation through self-help – an ambitious approach both for the partner and for the German Ministry of Economic Co-operation and Development (BMZ) – has been increased in 1993/94 by 13%.

The second priority is **environmental protection**, to which more than a quarter of bilateral aid commitments is allocated. Since 1990 oda loans have been increased four-fold,

the bulk of them being used for measures to protect tropical forests. As regards **population policies**, which are directly linked with poverty alleviation and the protection of natural resources, about DM 160 million was provided in 1993. Progress in this area has been relatively slow, mainly due to lack of support from partner governments.

Similar difficulties in implementation can be observed in the third priority area – **education and training**. While the importance of investing in human capital is still not fully recognised in many developing countries, there is also a donor problem with regard to the long-term nature of the involvement necessary for making support effective. Germany intends to increase its aid commitments further in this sector, and to put basic education at the forefront of its aid effort.

As a consequence of the insight that sustainable development is dependent not only on the amount of resources disbursed but mainly on the efficiency of the measures taken and the adequacy of the approach, the German Government has introduced a number of modifications in its procedures:

- Central to the management of development co-operation are new **country concepts** for 31 main partner countries. Cross-country approaches are summarised in five new regional concepts for Africa, Asia, Latin America, the Near East and the Mediterranean countries. These concepts identify country-specific problems and strategies, including analyses of the framework conditions for development co-operation. They also cover sectoral priorities. These concepts are prepared in so-called country discussions in which official development agencies such as the GTZ and KfW, NGOs and other experts take part.
- New guidelines have been adopted for the leading development agencies (GTZ and KfW) to guarantee more flexible and better co-ordinated technical and financial co-operation. They should help to optimise the choice of instruments and the suitability of projects for their socio-cultural and ecological environments and permit the maximum participation of the private sector in development programmes.
- All German development agencies are encouraged to enforce their internal quality control systems to ensure the efficacy of aid. NGOs are also encouraged to follow suit.
- The range of financial co-operation has been enhanced by a new guarantee instrument enabling the BMZ to combine resources from its budget with funds from the capital market. The underlying idea is to adjust credit conditions to the profitability of projects and the performance capacity of the borrower.
- Finally, the BMZ aims to concentrate its efforts on a small number of developing countries. The application of the new framework criteria has already resulted in the suspension of bilateral aid to a number of countries, thus allowing a shift of resources towards countries which have made significant progress in improving their framework conditions. Meanwhile, over 85% of bilateral commitments are concentrated on 40 developing countries.

Public support

Public interest in the Third World has grown, as can be seen from the opinion polls which the Federal Ministry of Economic Co-operation and Development has carried out every two years since 1977. In 1987 development aid was generally approved by almost 75% of the population, although only about 45% viewed the Federal Government's development policy favourably and only 16% took any real interest in development policy issues. The opinion poll scheduled for 1989 was not carried out because of the fundamental changes in the situation brought about by German reunification. The poll undertaken in December 1993 revealed that 75% were still in favour of development assistance and only 11% against it.

The Ministry is endeavouring – as are other ministries such as the internal affairs departments of the Federal and Land governments with regard to refugees and immigrants – to increase public understanding of the situation in the developing countries and of the need for a relationship with the Third World based on a partnership of suitable programmes. This has led to the scheduling of information meetings and exhibitions at which the Ministry – usually in collaboration with governmental and non-governmental organisations – explains the situation in developing countries and the need to provide aid. Although the media response to such events is almost always positive, the effect is not very enduring. Particular attention is therefore paid to providing journalists with up-to-date information – through press releases, interviews and the financing of travel to developing countries. The Ministry also produces information materials which are distributed at home and abroad and are one of the mainstays of development education.

Like political education generally, development education is a task for all groups in society. The government takes advantage of the pluralist structures by supporting a wide variety of bodies with grants to help them establish education programmes. As the funds available to the Federal Ministry for this purpose are limited (1990: DM 5.5 million), it concentrates on institutions that have a pronounced multiplier effect, especially schools, which are supplied with teaching and learning materials. Otherwise, the main burden of educational work is borne by the social groups themselves, who are free to choose the aspects on which they wish to focus (Claus and Lembke, 1992: 15–16).

Policy coherence

Donors' efforts in development co-operation cannot compensate for failings in other policy areas. Given the rapidly growing interdependence between developed and developing countries and the emergence of global problems such as the environment and migration, successful development requires effective participation by the developing countries in the international economy, as well as their co-operation in confronting global challenges. Development co-operation through financial and technical assistance is not in and of itself sufficient to achieve this. Because of their significant impact, macroeconomic, trade, financial, environmental and other policies of the industrialised countries must be part of an integrated approach to supporting developing countries. The key factor is policy coherence.

The costs of policy incoherence are substantial. The most notorious instance is the trade protectionism of the developed countries. The World Bank has estimated that a 50% reduction in protection by the European Community, Japan and the United States against imports from developing countries would increase their exports by 15% or \$50 billion in 1988 prices (i.e. by the same amount as the total ODA of the OECD countries). The industrialised countries can make a decisive contribution to improving the development prospects of the Third World by liberalising access to their markets, reforming their agricultural policies, achieving and maintaining sustainable growth with low inflation and low real interest rates, and intensifying their efforts to save energy and restructure their economies in line with ecological requirements.

Apart from policy coherence, donor co-ordination is another pertinent issue. Three major reasons explain the urgent need for effective donor co-ordination:

- the already mentioned emergence of global problems which cannot be solved by isolated national approaches;
- the desperate situation in some parts of the Third World, especially in Africa, which calls not only for massive but also for co-ordinated efforts if there is to be any hope at all for the future; and
- the shift from project aid to policy-based lending. Since it has been recognised that the impact of financial and technical assistance depends crucially on the framework conditions, in particular on the macroeconomic and sectoral policies pursued by the partner countries, donors have increasingly tried to influence development planning in the recipient countries through policy dialogue. While the basic idea is correct, it is inconceivable that each donor should undertake its own policy dialogue.

To a certain extent, donor co-ordination takes place either on a formal level (e.g. within the DAC, the EC and UNDP round tables) or informally through direct contacts between individual donors. Bilateral donors have also recognised the leading role of the World Bank and the IMF in policy-based lending and structural adjustment programmes. But much remains to be done (Ashoff, 1993: 5–7).

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7. Italian Foreign and Development Co-operation Policy

Marta Dassù and Marco De Andreis

International institutions and European security: the Italian debate

Reporting on the Italian foreign and security policy debate has never been an easy task. After all, a real debate never took place, since international issues were carefully kept outside the sphere of domestic politics throughout the post-war period. Even today, in spite of the dramatic turn of international events with the end of the Cold War, the Italian foreign and security policy debate is a mere whisper. Why is this?

The foremost reason has to be found in the current domestic political crisis. The municipal elections of November 1993 and the general elections of March 1994 saw the collapse of the old centre of the political system: the Christian Democrats, recently renamed the *Partito Popolare Italiano* (PPI), were ousted from power for the first time for almost fifty years.

Thanks to the new electoral law, the political spectrum coalesced around two poles: a centre-right coalition holding together the *Alleanza Nazionale* (the former neo-fascist MSI), largely based in the centre and south of the country and characterised by a strongly statist approach, the Northern League with a federalist vision, and *Forza Italia* ('Go Italy'), the movement founded by the entrepreneur Silvio Berlusconi, which won the election hands down, and the progressive coalition (*I progressisti*) on the left, which was soundly defeated barely four months after its victories in many big cities' mayoral contests. The support of some figures from the Radical Party, and notably its leader Marco Pannella, reflects the weak internal coherence of the winning coalition, which will make the first government, or governments, of the second Italian Republic prone to instability. For the first time after the end of World War II, however, a party openly inspired by Fascism has come back to power in Western Europe – a fact which the foreign media have generally noted with open concern.

This profound political realignment is only the culmination of a process begun in the Spring of 1992 and known by such terms as *mani pulite* (clean hands) or *tangentopoli* (kickback city), whose practical result has been the prosecution of a number of prominent politicians, including former premiers, defence and foreign affairs ministers. Such sweeping investigations are widely seen as made possible by the end of the Cold War. Previously the overriding goal of keeping the Communists out of power had meant the practical invulnerability of the ruling parties, no matter how corrupt some of their practices were. Over the same period, two successive governments struggled to defuse a public debt that in September 1992 – when Italy left the Exchange Rate Mechanism of the European Monetary System – finally appeared for what it was: a time bomb. Finally, the electoral law was changed to a basically majoritarian, first-past-the-post, system intended to push further the ongoing political realignment and to prevent any further versions of the old system of multi-party coalition governments.

There have thus been enough events to keep the attention of the country's political élite focused on the domestic front. But beyond events there is also a question of mood. The September 1992 monetary disturbances, for example, suddenly relegated Italy to the second tier of the European Community. Since much of its prestige during the 1980s was due to the dynamism of its economy, this loss of status undoubtedly contributed to a lower profile in the conduct of foreign affairs.

From the government point of view, however, the collapse of the bipolar system forces upon Rome a more active and responsive role within the existing international institutions. This conclusion stems from both realities – the decline of external guarantees, particularly of American origin – and the perception that Italy should play a more active role in the world. Belonging to the club of nations that really count is a long-standing goal of Italy's foreign policy. What is new now is the perception that to achieve this goal the country can no longer rely on the rent that, during the bloc-to-bloc confrontation, used to accrue from being in the Western camp. Multilateralism is now a fact of life in the country's international relations.

Such a picture is confirmed by even a cursory comparison of the major parties' platforms. The traditional political forces, and in particular the PPI, are clearly those with the best multilateralist credentials. After all, the former Christian Democrats are the party that, since the days of De Gasperi, presided over Italy's integration in a complex web of international bodies: the UN, the Bretton Wood institutions, the GATT, NATO, the European Community and the Western European Union. Although the former Communists were relative late-comers in their acceptance of Italy's membership of the EC and NATO, the Party of the Democratic Left (PDS) is now a staunch supporter of Italy's multilateral commitments. Like the PPI there is a peculiar cultural dimension which favours a multilateralist approach to foreign affairs: a mix of the heritage of Communist internationalism and Catholic universalism that critics used to call *cato-comunismo*. Admittedly, the *Rifondazione Comunista*, a PDS splinter group of Communist die-hards, has a strong anti-NATO and pro-UN rhetoric and will challenge the government from a pacifist, anti-Western stance in foreign policy. But basically both the Christian Democrats and the PDS represent the forces of continuity in Italy's foreign and security policy. And both are now in opposition.

The same cannot be said of two members of the new government coalition: *Alleanza Nazionale* and the Northern League. In the AN's electoral programme, building up a 'European nationalism to face off the United States and Russia' is one of the main foreign policy goals. In short, with *Alleanza Nazionale* one touches the right, nationalist extreme of the Italian political spectrum. As regards the Northern League, it appears to have little interest, let alone expertise, in foreign policy. Within a 'Mitteleuropean' framework it shows its own brand of isolationism: the idea that the rich North should not be dragged into the South's problems, whether it applies to economic subsidies for *il Mezzogiorno*, to African immigrants in Italian cities, or to Italy's participation in the United Nations operation in Somalia (UNOSOM), which the League has been opposing since its inception.

Obviously, the underlying problem is how these different approaches will be combined in the foreign policy of the new government coalition headed by Silvio Berlusconi's *Forza Italia*. On paper, at least, its foreign policy programme seems intended to combine a more

active pursuit of the national interest (chiefly meaning the country's economic growth) with a high-profile participation in Europe's integration process.

Policy issues

Official, post-1989 security perceptions depict Italy as more vulnerable than before, given the tensions coming from both the Balkans and the Mediterranean. On the other hand, concrete risks have yet to materialise: Serbian threats of missile strikes against Italian territory were rightly shrugged off; the flow of refugees from the former Yugoslavia has been contained through a very restrictive immigration policy; in the Mediterranean NATO has never enjoyed a clearer superiority. In the circumstances, the main goal of Italian diplomacy is to balance Europe's next round of enlargement towards North and East with a federalist deepening of key EU countries. Italian security interests are better served in a multilateral framework of European security than through competition.

Beyond the EU, the CSCE is seen as the larger framework of European security – a framework that, while having the clear virtue of keeping both the US and Russia linked to the old continent, needs to be strengthened to be able to represent the ultimate guarantee of a pan-European order. Italy continues to regard NATO as the keystone of international stability, while at the same time agreeing on the opportunity for some adaptations in the light of the new international environment. But NATO's short-term enlargement towards the East is not viewed with favour in Rome, for a variety of reasons ranging from concerns about Russia, to a reluctance to extend concrete defence commitments, to the precedence accorded to the EU and the CSCE as vehicles for political and economic co-operation. It should not come as a surprise therefore if Italian diplomacy finds President Clinton's 'Partnership for Peace' a good compromise solution to the thorny problem of NATO's relations with its eastern neighbours.

Interestingly enough, Andreatta, an economics professor when not involved in politics, has also proposed a new Atlantic Charter 'to spell out the rules of law for the resolution of economic conflicts' (Andreatta, 1993). According to the former Foreign Minister, 'Italy is interested in participating in the collective actions of the international community: since there is a lesser need for defence at national level, Italy has a great interest in NATO taking up out-of-area missions'.¹ But for NATO to be involved in crisis management, both inside and outside Europe, a clear UN endorsement is considered a necessary condition.

On the other hand, the Yugoslav crisis highlighted the inherent difficulties of Andreatta's approach. Situated just across the border from the conflict, Italy is prevented by UN rules from participating in the peacekeeping operations. At the same time, however, Italy has provided the main logistical base for NATO peace-enforcing.

After the Somali experience, Italy has also insisted on the necessity of giving the countries that contribute peacekeeping troops both a role in the field operations' command structure, and a say in the UN Security Council decision-making. This concern is reflected

1. See the round table 'Progetti per un continente,' in *Limes*, No.4, 1993.

in the more broadly encompassing proposal for the reform of the Security Council. More generally, the forces belonging to the new government coalition have all mentioned the necessity of a UN reform.

When it comes to the question of European defence integration, the Italian official attitude has always been characterised by a good deal of scepticism. Italy has always feared that integrated European defence, especially if coupled with a reduction of the US presence in the Mediterranean, would add a strategic dimension to a two-speed Europe (see Jean, 1993). Within the WEU, Rome has recently shown a certain propensity to take the lead. Italy is currently advocating the creation of a pre-planned, on-call European Multinational Force – a proposal so far supported by France and Spain. On European defence, a more favourable stance seems likely, given the consensus on this issue uniting the government (including *Alleanza Nazionale*) and the PDS.

At the level of the political debate, a division between those, pro-German, who favour continental Europe, and those, pro-American, who give precedence to the Mediterranean is still possible. The latter attitude was typical of the military during the 1970s and 1980s, but it has been somewhat damaged by the quarrels over Somalia. Should the deterioration go further and extend to the next generation of the political leadership, then the future of the US bases in Italy may become less bright.

To sum up, if Italy's main foreign and security policy goal is to remain in the club of Western nations that really count – and even to raise its profile inside it – then the question of whether Rome has the means adequate to the goal becomes crucial. In this regard, the first problem to be solved is the country's defence posture. While the military struggle to keep the maximum level of forces allowed by a stagnating defence budget, the Northern League and the PDS have at least put forward their ideas as to the resources and force levels they would assign to the country's defence, with an interesting degree of convergence between them. For their part, the neo-nationalist intellectuals are persuaded that, the era of quasi-automatic US security guarantees now being over, Italy's foreign policy must count on a strong defence (see Panebianco, 1993). They are thus on the side of the chiefs of staff, calling for a sharp increase in defence expenditures – an increase that evidently clashes with the overriding objective of cutting the budget deficit. A similar stance is taken in *Forza Italia's* programme, even though there is no explicit reference to increasing military outlays.

A second prominent foreign policy tool for a country with Italy's ambition is the availability of financial resources. Here the current budgetary austerity is striking even more violently than in the case of defence. A law approved in 1992, for example, foresaw the allocation of Lire 900 billion over three years to support the transition in Central and Eastern Europe. For the triennium 1994–96, the government is now proposing to allocate Lire 344 billion, a sum which includes some money appropriated in 1992 and 1993 and not yet spent. Italy's official development assistance, planned at Lire 1.2 trillion in 1994, will be able to count on Lire 200 billion and Lire 2.5 trillion less than in 1993 and 1992 respectively. Thus, a country that only a couple of years ago was the third ODA donor in the EU (after France and Germany) has now fallen well behind Britain, the Netherlands, Sweden, and countries like Norway and Denmark, which have a far smaller economy in absolute terms (see Rhi-Sausi, 1993). There is little doubt that, from the point of view of the potential recipients East and South, the present cuts will entail a sharp reduction in Italy's influence and prestige – i.e. the

very features so dear to those neo-nationalists who are advocating an increase in military spending.

Development co-operation policy

Italian development co-operation has traditionally been undertaken for five main reasons: humanitarian reasons; commercial interests; security objectives; historical and cultural links; and international prestige. These motivations have intersected with time, but some have been present constantly in development co-operation policy. Others have been more important at certain moments and have given rise to alternative policies.

Throughout the last decade, much importance was given to international prestige as a driving factor. If the proportion of multilateral official development assistance is taken as an indicator of this motivation, we find that as the international economic and political position of Italy rose, Italian oda – especially multilateral oda – increased apace. Even in the current period of retrenchment, Italian commitments in the field of multilateral development co-operation are significant (49% of the total appropriations for 1994), showing the weight of Italy's international commitments (that is, its membership of the G-7).

Another constant motivation is the promotion of economic returns to Italy. Italy's oda has always been closely linked to the interests of its enterprises, almost without regard for the social and economic conditions of the recipient countries. This is shown by the extremely high share of tied aid (approximately 90% of bilateral oda has been completely or partially tied), and the fact that Italian development assistance during the 1980s was mainly destined to support productive sectors (approximately 25–30%) in the beneficiary countries, and for the economic and social (health and education) and administrative infrastructures (approximately 25% each).

Another feature of Italian development co-operation policy is a constant interest in a group of countries with which Italy has historical links, such as Somalia, Ethiopia, Eritrea, Albania and Argentina. These countries have enjoyed preferential treatment ('paesi prioritari') in Italian development co-operation, receiving approximately 20% of the aid disbursed during the last decade. Changes in the level of aid stemmed from specific causes: some countries (Somalia, Ethiopia and Eritrea) went through devastating civil wars; others (Albania) became beneficiaries only recently (after 1989), while others (Argentina) lost importance as a result of the Helsinki package. The trend towards the geographical concentration of Italian aid thus has historical roots, and it has been encouraged by the current financial shortages.

Other motivations seem to be less consistent. In fact, three rather different phases can be identified in the period in question. In the long initial phase, extending from 1982 to 1990, the humanitarian motivation was dominant. Legislation, including the law of 1979, of 1985 (struggle against famine), and the 1987 law still in force today, were strongly rooted in humanitarian concern. In fact, the large increase in oda funding in the mid-1980s had the same motivation. In the period 1983–90 Italy earmarked 50–60% of its oda for the poorest countries, though the importance of this factor started to decrease in 1991.

Another motivation which has been dominant for some time is commercial interest, the linkage between oda and Italian foreign trade policy. The importance of this motivation can be seen when we examine the amount of Italian oda directed to developing countries that have a higher level of trade with Italy. During the period when humanitarian motivations were dominant (until 1990), the countries of greatest commercial interest received barely 20% of bilateral oda. At the beginning of the 1990s the situation changed radically, and the share of oda allocated to these countries rose to 36% in 1992. This new trend seems linked to a period – when De Michelis was Minister of Foreign Affairs – in which development co-operation was considered the driving force for all economic policy instruments towards developing countries. This does not seem to be a structural motivation, however, as is shown by the reduction in funds available, the constraints of the Helsinki agreements, and the many problems – including corruption – that the approach has itself generated. By 1993 a reduction of concessionary credits (the main tool for this strategy) was evident. The 1994 budget allocates Lire 364 billion for concessionary credit, a mere 31% of the amount allocated in 1992.

Finally, the weight of security concerns must be considered. In this case, geographic proximity has been taken as an indicator, as Italy has specific interests in the Mediterranean basin. During most of the 1980s, the Mediterranean countries received a relatively low share (around 13%) of Italian oda. In recent years, however (in particular after the Gulf war), Italy's co-operation in this area has increased rapidly and the security factor has gained in importance, as shown by the remarkable increase in aid to the countries where the major flows of Italian immigrants come from. The revision of geographic priorities currently under discussion will certainly give considerable importance to this motivation.

The future may bring about a reorientation of Italian development co-operation in the following directions:

- priorities for bilateral policy will be concentrated in the Mediterranean Basin;
- commercial interest may play a significant role, but within the framework of a policy guided by other motivations (security, historical and cultural links);
- humanitarian concern will be important, but within a multilateral framework;
- co-operation with countries with which Italy has traditional and cultural links will probably continue.

The crisis in Italian co-operation and its new orientations

The Italian aid model is going through a critical period at the moment. This is due to a reduced public budget and a serious loss of credibility in its bilateral development policy. Furthermore, Parliament has set up and approved an official Inquiry Commission to investigate Italian aid policy because officials in charge of Italian oda during the 1980s are currently under investigation.

The Financial Law of 1994 has allocated Lire 2,304 bn for 1994. This means that Italy is reducing its oda funds by 55% compared with 1992.

Table 7.1: Italian aid appropriations 1990-94 (billion lira)

	1990	1991	1992	1993*	1994*
Bilateral	3,309	3,330	3,143	1,370	1,170
% of total	67	66	62	45	51
Multilateral	1,611	1,679	1,906	1,614	1,134
% of total	33	34	38	55	49
Total	4,920	5,009	5,049	2,984	2,304

* CeSPI estimates on data from the Chamber of Deputies

Source: MFA-DGCS (1993)

At present, Italian development co-operation funds are frozen. Only emergency programmes and a few credit and grant projects, previously financed, are being implemented. Fortunately major efforts are being made to reorganise the operational and organisational structures. Three courses of action can be identified:

- to find solutions to the litigation and to match available resources to commitments;
- to restore operative functioning;
- to elaborate new guidelines for Italian development assistance.

With regard to the first two points, Law No.121/94 set up a Commission in charge of solving the litigation and rearranging the organisational structure through the new Regulations brought in in 1994.

New guidelines

- The basic guidelines for the new Italian development co-operation effort reflect the model elaborated by UNDP for integrated and sustainable human development. The adoption of this model means that the success of the development policy 'will no longer be measured exclusively with regard to specific objectives of single interventions, but will be based on human development indicators' (MFA-DGCS, 1993: 2).
- A switch from bilateral programmes to increased participation in multilateral actions. By development co-operation we mean 'the undertaking of our share of responsibility within this sector of international relations' (ibid: 3);
- Support for peacekeeping activities and conflict-solving within the framework of multilateral actions, as was the case in Mozambique;
- Actions in favour of human rights and in support of democratic processes in developing countries (particularly institution-building actions: support of representative institutions, electoral processes, decentralisation, good governance);
- Support of Agenda 21 (on the global environment);

- Concrete actions for the promotion of entrepreneurial activities in developing countries (with priority for the promotion of small- and medium-sized enterprises);
- Emphasis on demographic programmes and control of migration flows, through the multilateral channels;
- Promotion of co-financing by Italian enterprises and international organisations, to implement infrastructure and major public work programmes;
- Revision of the role of NGOs, based on increased self-financing and greater volunteer participation;
- Evolution towards more un-tied aid programmes.

Operational criteria

- Progressive concentration of bilateral aid on a 'very few countries' – from 39 countries of major importance to the following 10 or 11:
 - Mediterranean Basin and Middle East*
 - Algeria, Egypt, Morocco and Tunisia
 - Sub-Saharan Africa*
 - Eritrea, Ethiopia, Mozambique and Somalia
 - Central and Eastern Europe*
 - Albania
 - Asia & Pacific*
 - China
 - Latin America*
 - Argentina (although it is doubtful that Argentina will remain a priority country)
- Interventions to be inserted in long-term country programmes, agreed together with the beneficiary countries;
- The systematic introduction of public procurement and other competitive procedures;
- Adoption of project-cycle methodologies;
- Adoption of international methodologies with regard to the screening of projects and ongoing and *ex-post* evaluations;
- Establishment of local support units in priority countries.

These criteria are to be further elaborated in order to establish a comprehensive action methodology (a task of the new Regulations).

Organisational structure

There are two possibilities for the new arrangement of future Italian development co-operation. One option is to maintain its present structure (*Direzione Generale per la Cooperazione allo Sviluppo*, DGCS, as part of Ministry of Foreign Affairs), and the other is the creation of a separate agency with independent technical decision-taking powers. These two options represent the two extremes: it is possible, however, that some compromise between them will be reached. The present organisation must be improved, independently of the choice of the future organisation.

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8. Japan's Official Development Assistance

Ryokichi Hirono¹

Japan's international aid policy

Basic philosophy

Confronted with a world in which over a billion people in the developing countries are still suffering from famine and poverty while living in an age of increasing 'interdependence among nations of the international community' in which 'the stability and further development of the developing world is indispensable to the peace and prosperity of the entire world', and faced with a deteriorating global environment 'which all countries, developed and developing alike, must work together to tackle', 'Japan attaches central importance to support for the self-help efforts of developing countries towards economic take-off'. It will implement its official development assistance to help ensure the efficient and fair distribution of resources and 'good governance' in the developing countries by developing a wide range of human resources and socio-economic infrastructure, including domestic systems, and by meeting basic human needs, thereby promoting the sound economic development of the recipient countries. In so doing it will work for globally sustainable development while meeting the requirements of environmental conservation.

Japan's oda Charter, announced on 30 June 1992 and quoted above, can be summarised as stating that Japan now stands more than ever ready to assume an international responsibility commensurate with its resource capability for pursuing world peace, maintaining global prosperity and sustaining the global environment through continued assistance to the developing world.

New principles and priorities

The oda Charter sets out the following new principles and priorities. It is important to note, however, that these principles, while vital to Japan's allocation of oda and its policy dialogues with recipient countries, are not identical with the so-called 'conditionalities' attached by the International Monetary Fund and the World Bank to their lending programmes. Japan has no intention of imposing these principles on recipient countries, but would simply like them to be familiar with its negotiating position.

- a. oda must be extended, taking into account its impact on the environment.
- b. oda must not be used for military purposes.

1. This chapter incorporates 'Recent initiatives' prepared for the 1994 Paris conference by Professor Yasuo Uchida, Kobe University.

- c. Recipient countries' misallocation of domestic resources, including high defence spending, the production of weapons of mass destruction and the export and import of arms, must be discouraged.
- d. Recipient countries' efforts towards democratisation, the transition to a market-oriented economy, and the establishment of human rights and political freedom must be encouraged.

Historically and politically over the past three decades the Asian and Pacific region has continued to be the priority for Japan's oda. Having become a global power, however, Japan is now expanding its assistance to other regions of the world, in particular sub-Saharan Africa and Eastern Europe, and it will continue to give priority to assistance to the least developed and low-income countries. In terms of functional areas, population and human resources development including health and education, the alleviation of poverty, the environment, humanitarian relief, infrastructures and structural adjustment will constitute major priorities of Japanese aid. In recent years, however, in view of its changing political role in the international community, Japan is increasingly expected to enhance its contributions to United Nations peace-keeping operations outside the normal confines of oda (which may be better termed Official Peace Assistance – opa), in addition to enhancing its humanitarian assistance to refugees and displaced persons in conflict-ridden developing countries.

Enhancing complementarity between oda, international trade and investment

Japan is fully convinced, based on its involvement in the sustained development of East Asia during the last three decades, of the desirability of providing oda for the development of basic economic infrastructures such as irrigation, drainage, power, transport and communications and basic social infrastructures such as education, health and skills development so that recipient countries can establish the basic business infrastructures conducive to private sector investment at home and abroad. This in turn contributes to sustained economic growth through a market-oriented international division of labour and expanded international trade.

Collaboration with NGOs

In recent years Japanese NGOs have become important grassroot organisations dealing with all aspects of international co-operation both in development and in humanitarian and peace-keeping operations. A few years ago the government set up a new scheme of providing its oda through NGOs, Japanese, international and local (developing countries), particularly in the fields of health, education and other social and humanitarian development. Japanese NGOs are also responding positively to calls by the United Nations and other international organisations, including international NGOs, for joint action in assistance to developing countries.

Recent trends in Japanese oda

Volume increases

In line with the First through the Fourth Medium-term Plan (the Fourth Plan 1988–92 was to double oda from US\$24.96 billion during 1982–87 to \$50 bn), a long-term trend has been seen for over a decade of absolute volume increases in US dollar terms, interrupted only by a drop in 1982 and 1989 due to exchange-rate changes and in 1981 and 1985 due to budget cuts (see Table 8.1). In 1992 Japan's oda stood at US\$11.15 bn and \$11.33 bn including assistance to Eastern Europe (EE) and contributions to the European Bank for Reconstruction and Development (EBRD). This constitutes 18.2% of the world's total official development assistance and ranks at the top among the OECD/DAC member countries. There has, however, been a continuing difficulty in increasing oda as a percentage of GNP, i.e., 0.30% and 0.31% including assistance to EE/EBRD, still below the DAC average of 0.33% in 1992, ranking 15th among the DAC member countries. A steady improvement has been seen in per capita oda over the years, i.e., \$92.9 in 1992 as compared with \$88.3 in 1991, far above the DAC average of \$71.7, though still ranking 9th among the DAC member countries in 1991.

Terms and conditions

- a. A significant increase has been observed in recent years in the volume of grant assistance, i.e., \$3.76 bn and \$3.86 bn including assistance to EE/EBRD in 1992. It remains low, however, as a percentage of total oda, i.e. 58.5% and 59.2% including assistance to EE/EBRD in 1992 (far below the DAC average of 71.7% in 1990/91 and ranking lowest, apart from Spain, among the DAC member countries).
- b. There has also been some persistence in the low level of grant element as a percentage of total oda, i.e., 75.1%, substantially below the DAC average of 85.1% in 1990/91, ranking at the bottom, apart from Spain, among the DAC member countries.

A steady improvement has been observed in the untying of bilateral oda, e.g., from 64.9% to 79.7%, and from 61.6% to 89.8% for bilateral loans, between 1987 and 1991, ranking Japan second after New Zealand among the DAC member countries.

Allocation

There has been a continued predominance of bilateral oda, i.e. 75.2% and 74.9% including assistance to EE/EBRD in 1992 as compared with 80.9% in 1991, substantially similar to the DAC average of 72.8% in 1991.

A steady decline has been observed in the bilateral oda going to the least developed countries, e.g. from 18.8% to 11.2% between 1987 and 1992 (below the DAC average of 25.3% in 1987/8). There has, however, been a steady increase in the bilateral oda going to the low-income countries e.g. from 43.2% to 59.3% between 1987 and 1992 (similar to the DAC average of 57.7% in 1987/8).

Table 8.1: Japan's oda, 1977-92

Year	Yen (bn)	Increase rate (%)	US\$ (m)	Increase rate (%)	Percent of GNP	DAC average
1977	382.5	16.7	1,424	28.9	0.21	0.33
1978	466.3	21.9	2,215	55.5	0.23	0.35
1979	578.1	24.0	2,638	19.1	0.26	0.35
1980	749.1	29.6	3,304	25.3	0.31	0.37
1981	699.3	-6.6	3,171	-4.0	0.27	0.35
1982	752.9	7.7	3,023	-4.7	0.28	0.38
1983	893.3	19.6	3,761	24.4	0.32	0.36
1984	1,025.8	14.8	4,319	14.8	0.34	0.36
1985	905.7	-11.7	3,797	-12.1	0.29	0.35
1986	949.5	4.8	5,634	48.4	0.29	0.35
1987	1,078.2	13.5	7,454	32.3	0.31	0.35
1988	1,170.5	8.6	9,134	22.5	0.32	0.36
1989	1,236.8	5.7	8,965	-1.8	0.31	0.34
1990	1,313.1	6.2	9,069	1.2	0.31	0.35
1991	1,473.1	12.2	10,952	20.6	0.32	0.34
1992	1,412.3	-4.1	11,149	1.8	0.30	0.33

Sources: Ministry of Foreign Affairs (MFA), Japan's Official Development Assistance (White Paper), Tokyo: Association for the Promotion of International Co-operation, 1990, Table II-2, p.58 and MFA, Japan's Official Development Assistance: Performance in 1992 (Annual Report), Tokyo, MFA, Table IV-2, p.14.

A continued predominance but a steady decline has been seen in the bilateral oda going to developing Asian and Pacific countries, e.g. from 70.5% to 67.1% between 1980 and 1992. There has also been a sharp contrast in recent years between the steady decline in the bilateral oda going to South East Asia (SEA) and South West Asia (SWA) against the steady increase in that going to North East Asia (NEA), e.g. from 44.0% to 39.6% and from 22.2% to 11.7% respectively for SEA and SWA and from 4.2% to 13.7% for NEA between 1980 and 1992. A rapid decrease in the bilateral oda for the Middle East has been observed against a steady level in that going to sub-Saharan Africa, e.g. respectively from 10.4% to 4.3% and from 11.4% to 10.1% between 1980 and 1992 (see Table 8.2).

Sectorwise, there has been a continued predominance, though it has declined since 1989, of bilateral oda going to economic infrastructures such as transport, communications, waterways, energy, i.e., 39.4%, 32.0% and 27.3% respectively in 1988, 1990 and 1992 (the highest among the DAC member countries) against the DAC average of 14.6% in 1990. On the other hand, a steady increase has been seen in the bilateral loans going to social sectors and programme aid including structural adjustment programmes, commodity loans and debt relief, e.g. respectively from 16.0% to 17.6% and from 24.1% to 27.0% between 1988 and 1992.

Table 8.2: Geographical distribution of Japan's oda, 1980-92

Regions	1980	1986	1987	1988	1989	1992
Asia & Pacific	70.5	64.8	65.1	62.8	62.5	65.1
Northeast Asia	4.2	12.7	11.0	11.3	13.6	13.7
Southeast Asia	44.0	30.4	35.6	34.2	32.8	39.6
Asean	35.9	23.8	32.0	29.9	31.5	35.1
Southwest Asia	22.2	21.6	18.5	17.3	16.1	11.7
Elsewhere	0.3	0.1	0.1	0.1	0.0	0.1
Middle East	10.4	8.8	10.0	9.1	5.4	4.3
Africa	11.4	10.9	9.8	13.8	15.3	10.1
Latin America	6.0	8.2	8.0	6.2	8.3	9.1
Oceania	0.6	1.4	1.3	1.4	1.4	2.0
Europe	-	0.1	0.0	0.1	0.2	1.2
Others	1.2	5.7	5.8	6.6	6.8	8.2

Sources: MFA, White Paper, Table II-3, p.60, and MFA, Annual Report, Table 3, p.15.

Increasing importance has also been given to non-project grant assistance to the least developed countries, in particular to sub-Saharan Africa, associated with structural adjustment programmes, i.e. from \$500 m. for the period 1987-89 to \$600 m. during the years 1990-92.

A steady expansion of technical assistance has been observed over the last decade, i.e. \$2.11 billion and \$2.13 bn including assistance to EE/EBRD in 1992, though Japan still hovers at the lower end of the DAC ranking in terms of technical assistance as a percentage of bilateral oda, i.e. 18.9% and 18.8% including assistance to EE/EBRD (standing at 12.5% against the DAC average of 21.8% and 15th among the DAC members in 1991). There has been, however, a continuing low level of aid through NGOs, \$205 m. and \$165 m. respectively in 1987 and 1988.

Major issues

Major issues include the following:

- Increasing clarity and transparency through public debates on the strategic objectives of Japanese oda vis-à-vis both the rest of the world and specified recipient countries. This can be achieved by legislative measures, drawing up a country programming framework, sectoral programming exercises and a project approach;

- Meeting the OECD/DAC targets, both in quantity and quality, by improving on the medium-term targets of oda as a percentage of GNP; improving the terms and conditions of oda by increasing the grant element as a percentage of overall oda, and of bilateral oda; and increasing the amount of bilateral oda going to least developed countries;
- Improving the strategic performance of oda by enhancing the Japanese contribution, both financial and in manpower, to UN peacekeeping operations under the new framework of Japanese Official Peace Assistance rather than that of Japanese oda;
- Increasing the Japanese intellectual contribution to international development co-operation by, *inter alia*, strengthening the research and educational capacity devoted to international development and co-operation in Japan and encouraging Japanese professionals to work with international organisations including the OECD, multilateral financial institutions and the United Nations and its specialised agencies;
- Increasing bilateral oda to Asian and Pacific countries, with the focus shifting to environment, poverty alleviation, human development and social sectors in particular for upper middle-income countries, and promoting greater regional economic co-operation;
- Increasing the absolute volume and percentage of the bilateral oda going to sub-Saharan African and Latin American countries undertaking structural economic and social reforms;
- Increasing technical assistance as a percentage of bilateral oda;
- Increasing the amount of multilateral oda through the United Nations, the Bretton Woods institutions and regional development institutions including regional banks;
- Expanding the Japanese Overseas Co-operation Volunteers programme.

Enhancing the effectiveness of oda by

- Intensifying the policy dialogue with each recipient country in formulating and implementing country programming, sectoral programming and project assistance;
- Intensifying consultation and co-ordination with other bilateral and multilateral donors in recipient countries both at the head and local office levels;
- Streamlining the decision process in Tokyo so as not only to improve policy consistency but also to accelerate policy and implementation decisions;
- Increasing the number, and improving the quality, of qualified aid professionals engaged in oda policy formulation, implementation, monitoring and evaluation;
- Introducing a multi-year programming approach for all types of oda including grants and technical assistance;

- Establishing many more field offices of the agencies implementing aid, with decentralised authority for making decisions in every phase of programming and project cycles in close consultation with the governments and people of recipient countries;
- Recruiting and developing qualified aid professionals locally and delegating greater authority to them;
- Increasing co-operation with Japanese, local and international NGOs in aid programming and implementation; and
- Exercising intellectual leadership in the formulation and enforcement of the internationally agreed aid policy and implementation guidelines on the environment, education, health, women, refugees, displaced persons, human rights and other human development concerns.

Looking beyond the 5th Medium-Term Plan, 1993–97

Based on the continued positive public response that Japan should continue to increase and improve its oda (as shown in the public opinion surveys from 1977 to 1990), it is vital to strengthen the political commitment to the new role expected of Japan in the international community in maintaining world peace, accelerating development, protecting the environment and enhancing human wellbeing. It is equally important, however, to note that public opinion surveys taken during the last few years indicate that there is a growing concern among the Japanese public with the effectiveness of the current aid regime, with the modalities and decision processes within and among bilateral and multilateral donors as well as with the absorptive capacity within recipient countries. This may eventually lead to 'aid fatigue' if no urgent action is taken to rectify the situation.

Japan will increase the volume of oda under the Fifth Medium-term Plan 1993–97 from \$50 bn to \$75 bn and will do its best to raise its GNP/aid ratio and improve the quality of its oda.

As the largest donor in recent years, Japan must develop an intellectual leadership in reformulating existing international strategies and policies, including new international oda targets in response to changing international needs and requirements.

Japan will need to continue a collective search for renovating existing international development co-operation regimes including the DAC, multilateral financial institutions, the United Nations development agencies and other international development organisations including NGOs. It will also need to continue to reorganise its existing national oda regime including the legislative, executive, administrative, fiscal, educational, research and business consulting institutions and arrangement and its human resources management practices.

Recent initiatives

On the political front, there has been significant change and considerable turmoil during 1993–94. As has been pointed out internationally, Japan can be said to be run in fact by the central bureaucracy, which remains very stable. It is generally believed, therefore, that the political turmoil is unlikely to affect oda priorities and policies. However, UN peacekeeping will certainly be a controversial issue for the newly established coalition government made up of the conservative LDP and the Social Democratic Party.

In January 1994, the government announced that it would implement 'Global Issues Initiatives on Population and AIDS', which will put into effect positive co-operation with developing countries to the tune of around US\$3 bn over the seven-year period FY1994 to FY2000. Japan is calling upon other donor countries and international organisations to co-operate positively in dealing with population issues and the problem of AIDS. Japan has itself co-ordinated its actions with those of other donors. One example of such co-operation is the co-ordinated efforts made under the 'Common Agenda for Co-operation in Global Perspective' of the Japan-US Framework Consultations; a variety of specific items are scheduled to be implemented through Japan-US co-operation.

Japan has persuaded the DAC member countries to put the five Central Asian republics of the former Soviet Union on the DAC list of developing countries in order to make them eligible for official development assistance. With regard to Vietnam, Japan made various diplomatic efforts, including steps towards improving the relationship between Vietnam and the United States, to secure assistance for Vietnam from the international financial institutions. Japan is considering further provision of aid to Vietnam in conjunction with these initiatives. With regard to Myanmar, Japan has continued its diplomatic efforts to encourage early transition to democratic rule.

Outside the Asian region, Japan is a participant in Partnership in Democracy and Development (PDD), an international framework for aid to Central America. With regard to Africa, Japan sponsored a high-level conference in Tokyo in 1993 to discuss democratisation and future economic development in Africa, thereby rekindling the international community's interest in that region. At the G-7 summit in Naples the Prime Minister announced the allocation of US\$1.3 bn to support the newly elected democratic government in South Africa.

In relation to the Fifth Medium-Term Plan the government announced a 'Funds for Development' initiative aiming to step up its oda and non-oda financial co-operation with developing countries as part of its efforts to encourage the flow of private sector funds to developing economies. In addition to the \$70–75 bn oda for net disbursement during the 1993–97 period, the government proposed to make \$50 bn of non-oda funds available, such as untied loans from the Japan Export-Import Bank and export insurance.

9. Crisis Management in Dutch International Development

Louk Box

A looming crisis?

The World Bank's 1992 *Review of National Aid Programmes* stated in its conclusion on the Netherlands:

The switch in the country's own aid programming, toward more flexible, region-based, allocations of ODA, and the increased emphasis on poverty and environmental resource management suggest that the Netherlands' aid programs are likely to have increasing impact. (World Bank, 1992: 15)

This statement was correct. Unfortunately, it told only part of the story. Pressure on the aid budget had begun in the late 1980s, when politicians were confronted with the need to cut government budgets at a time of economic growth. The aid budget, being tied to Net National Income (1.5%), continued to grow, taking an ever larger share of the government budget (which was not allowed to grow). This created strains in the government and ways were sought to have one's cake and eat it too.

The development cake could nominally be 'had' by sticking to the NNI norm, which reflected Dutch solidarity with the South; it was gradually 'eaten' by transferring items from other ministries' budgets to the development budget. This process is called 'budget pollution' and the various Ministers for Development Co-operation have had to fight their case, to keep the pollution to a minimum. With great ingenuity attack after attack was mounted to show that ministries like Social Affairs, Health, Education, Agriculture, and Foreign Affairs, were in fact dealing with Development Co-operation. It all started in 1975 when certain subsidies for foreign workers and immigrants from Surinam and the Antilles were charged to the aid budget (non-oda). In addition, funds were allocated for admitted refugees and for asylum-seekers. Together these three add up to Dfl 562.5 m. in 1993, or about one-tenth of the total aid budget.

By 1993, the aid budget could no longer stand the pressure of such measures. Instead of allowing more pollution, Minister Pronk opted for a smaller cake, and permitted departure from the 1.5% NNI norm. This was done against the background of adopting an all-grant programme (World Bank, 1992: 15) and discontinuing capital-market financing. Although it can be argued that in the long run the budget will return to the 1.5% level, current political realities make this unlikely. The net result of pollution plus reduction led to a sharp decline between 1988 and 1993 in oda as a percentage of GNP. In the early 1980s the Netherlands still boasted a ratio of 1.03% of GNP – in 1993 it was 0.78%!

From the financial point of view, this is no longer a looming crisis. It is a real one.

Programme priorities: bilaterals lose

Minister for Development Co-operation Jan Pronk¹ took office in November 1989. He immediately embarked on an ambitious new course, embodied in a Government White Paper *A World of Difference: A New Framework for Development Co-operation* (1991)². The main lines of analysis of this document were:

- the fading frontiers between states and political and economic groups of states, which require a new analysis of post-Cold War realities;
- the increasing risks of inaction, particularly relating to the environment;
- the small margins for traditional actors such as national states to do something about the problems of environmental pollution and poverty and the need for transnational actors to take on their responsibilities.

The White Paper reflects an attempt to build new coalitions for old development co-operation. First, a Rainbow Coalition bringing peace groups, environmentalist, and women's movements together. Second, a political coalition, bringing 'development-oriented wings' in Pronk's Labour party in line with those from the Christian Democrats, and, if possible, the Liberal Democrats. The first coalition led to priority for the environment, women and East-West linkage. The second resulted in strong support for market-oriented co-operation, through strengthened programmes of (Agro-)Industrial Finance (FMO), Export Promotion (ORET) and Management Assistance (PUM). Dutch support for multilateral agencies was maintained or increased, as was support for NGOs.

These priorities have generally been maintained during Mr Pronk's administration, albeit that some were not realised (like the ORET programmes due to strict conditions on development relevance) and others were added. These are shown in Table 9.1 where a classification of Winners and Losers is made after comparing the 1992 and 1993 budgets. The general tendency is to maintain priority for special programmes (Environment, Women and Development, West-East South), and give priority to new overseas obligations (emergency aid, peace and security operations) as well as domestic ones (refugees, asylum-seekers). Programmes supported by strong domestic pressure groups like the business community, NGOs, the universities and the municipalities have not been cut; some have even grown, paid for by a reduction of about 11% in bilateral programmes, which are either stopped altogether in certain countries (Indonesia, Mauritania, Peru) or scaled down drastically on a regional basis (Latin America).

1. Mr Pronk was reappointed Minister for Development Co-operation in the Cabinet of Prime Minister Wim Kok of August 1994. A Labour – D'66 – Liberal coalition, this was the first government of the Netherlands to exclude the Christian Democrats for some four decades.

2. The new Pronk White Paper, *A World in Dispute*, which was published in 1993, asserted that achieving and maintaining peace should overtake development spending as the first claim on the aid budget.

Table 9.1: Winners, stayers and losers in Dutch development co-operation: a comparative budget analysis by subcategory (1992–3)

Category	Winners	Stayers	Losers
1. <u>Spearhead & special</u>			
• Spearhead	Environment – bilateral; Women & development	Environment – multilateral; Research & Techniques	Urban poverty alleviation
• Business Sector	FMO (Finance corporation)	CBI (import promotion)	ORET (Export promotion)
• Education	PUM (Veteran managers)		
• Emergency	SIO (International projects & training in the Netherlands)	MHO (co-finance higher education)	DSO (direct support educational institutions)
• Human rights	Humanitarian	Human rights	
• Experts	Multilateral Sectoral		Bilateral General
• Innovation	Municipal co-operation	Small projects	
2. <u>Bilateral</u>	West-East-South; Surinam	Africa	Asia (Indonesia), Latin America (Peru), Africa (Mauritania, Lesotho)
3. <u>Multilateral</u>	Peace operations UNDP (Extra-budgetary) WFP (Extra-budgetary) UNICEF World Bank EDF	UNDP (Core) WFP (Core) UNFPA EC: ALA	IDA EC: Food Aid
4. <u>NGO-co-finance</u>	Co-finance Central Programmes "SNV"	Co-finance – Special programmes	
5. <u>Antilles</u>		General programme	
6. <u>Other expenditures</u>	– Assistance to foreign workers, asylum-seekers & others – Administration cost	International Education Public Information	Remigration to Surinam

Geographically, the trend is therefore away from Latin America (apart from Surinam) and Asia (but to a lesser extent), leaving Africa with relatively (but not nominally, for the real cut was about Dfl 40 m. in 1993) larger budgets. The real question is how much Eastern Europe and the former Second World will get. The creation of a special desk for Europe shows that Mr Pronk has been unable to maintain the line that no aid funds for the South would go East.

This should be serious news for Africa, because it means that the political commitment to increase funding, so eloquently made at the Africa Conference in Maastricht in 1990, cannot be maintained. The crisis is therefore not just financial, but also political.

Public opinion: ambivalent

Two schools of thought exist with regard to the state of public opinion concerning development co-operation. The optimists note that, in the long run, public support for co-operation has remained positive and may even grow among adolescents and retired people. The pessimists note the sharp decline in the relative importance of development issues among voters and the negative association of notions like aid and the Third World.

Both are right, as far as the statistics go. The secular trend in public opinion shows that between 1970 and 1987 an increasing proportion of respondents (from less than 40% to more than 50%) indicated that the Dutch Government should maintain its level of development aid. Those arguing for cuts are on the decline. This gives comfort to the optimists (see Mudde, 1989b: 71–2).

The pessimists note that voter surveys during the 1989 elections showed that development co-operation was hardly mentioned any more. Whereas the issue had figured in a stable fourth or fifth place in 1976 and 1986, it was suddenly overtaken by other concerns like the environment. Other researchers also indicate that the support for development co-operation had started to decline by the 1980s (see Mudde, 1989a: 5).

These discussions stimulated Minister Pronk to launch a campaign to present a positive image of the Third World and of development co-operation, and to suggest what people in the Netherlands could do to help. Whatever the merits of the campaign-format, the resulting opinion surveys are interesting. On the whole the respondents were ill-informed about life in the South, and had negative associations both about the countries and the people living there. Nevertheless, about half indicated that they had done something for the Third World, and about the same proportion were willing to do more. The vast majority received its information about the South mainly from television (NIPO, 1992: 5–9).

When asked to rank issues and concerns, about one in ten of the respondents selected development co-operation as being most important (after income, energy problems, danger of war). Two-thirds of all respondents considered that rich and poor countries were interdependent, regardless of development aid; they considered trade to be the most important issue (41%), followed by the environment (26%), raw materials supply (20%), refugees (11%) and employment (1%) (ibid.: 14–20).

The vast majority of respondents were aware of Financial Adoption of a Child projects (96%), Third World Shops (88%) or large NGOs like NOVIB (89%). But regardless of this knowledge, most respondents were fatalistic and subscribed to the thesis that aid was insignificant and that the poor would be always with us, or that the money did not go where it should go anyway (ibid.: 23–27).

The conclusion may therefore be drawn that there is no lack of information, but that negative associations dominate its interpretation. If anything, public opinion appears ambivalent and unstructured. The financial crisis and the departure from the 1.5% NNI norm have hardly generated the public response they would have done a decade ago. If there is a crisis in public opinion it is not because of the lack of support at the base, but because of a lack of leadership at the national level.

The crisis: financial, political and intellectual

The financial crisis is evident from the decrease in aid volume due to budget pollution and cuts. The political crisis manifests itself in a wavering commitment to Africa, the budgets for which were still sacrosanct in 1990. The Netherlands Parliament reflects this ambivalence: it pleads for increased commitment to the South but at the same time presses the Minister to make cuts. The general atmosphere is not conducive to maintaining a strong posture. Although no cases of gross fraud or illegal transactions have been reported in the press, the climate is negative as in other countries. 'Accountability' is imposed, and enforced to such an extent that one can seriously wonder if the risky business of international co-operation can continue under such a regime.

Interaction with public opinion becomes negative in such a context. As argued above, fatalism is its general characteristic. 'The money does not get there, and if it does, it does not reach the poorest'. Emergency aid scores best and still attracts great support, through campaigns and membership organisations. The picture then emerges of a powerless state, unable to provide the means for international co-operation. It is contrasted with seemingly effective campaigns widely reported on television: 'the doctors are flying wherever the real need exists'. Add to this the general apathy about national politics (party memberships are at an all-time low) and the effects of the recession, and a questioning mood turns into cynicism. /

Of course, this is not limited to the Netherlands. What makes the Dutch case interesting is the suddenness of the reversal and the lack of public reaction to the political changes. One factor could be the divided state of the Dutch intelligentsia, with regard to poverty and development co-operation within the present context of post-Cold War realignment in general and European integration in particular. Jan Pronk has referred to the crisis in the intellectual debate (Ministry for Development Co-operation, 1991: 39–40). He follows the line of UNDP's work on Human Development, and pleads for the basic freedom of peoples in the South to choose their own path: 'their own human rights, their own equality, their own future. Development co-operation is the generation of the space to do so' (author's translation).

Although Pronk has moved some inner circles of academia, the sad conclusion must be that he has not engaged major intellectual adversaries in the debate. With the decline of ideological frontiers, which stimulated the debate in the past, new battle lines have to be drawn. In the general malaise surrounding the recession, other issues come to the fore. The intellectual leadership, so much needed to provoke debate and sustain it, is almost totally absent. The politicians take over and fill the void.

Conclusion: the crisis is not just political and financial, it is intellectual and moral as well. If public opinion in a country like the Netherlands is not confronted with a lively debate, politicians may follow short-run priorities. There is a need for rethinking international co-operation.

A framework: human security

In preparing the papers for this publication we were asked to think about 'any possible new framework for development co-operation that emerges from the current debate'. I would like to present an alternative framework which some policy-planners and researchers in the Netherlands have been considering. It is identified with the term Human Security and was first discussed at a policy seminar on Security and Development in The Hague (see Siccama et al., 1992: 633ff).

The notion is based on the following propositions:

- current development models and strategies have not been able to achieve development in Africa;
- insecurity is increasing, both in Africa and elsewhere. If any development is to take place, some form of security for populations needs to be established. In the Netherlands this view has been most forcefully presented by Jan Pronk (1993) who argues that 'peat-fires' are ravaging their way through both South and North:

The new conflicts do not occur any more between states, but ... within countries. They are based on ethnic differences, and racial, religious, cultural, linguistic differences: between the 'natives' and the 'new arrivals'. These conflicts are not bothered by borderlines of states and threaten to expand like peat-fires all over the world. (author's translation).

- new security models are emerging, such as in the work of Booth (1991: 539-40). He argues for a notion of security based on emancipation, which allows linkage with current debates in the development literature. From a security starting point he says:

Emancipation should be given precedence in security thinking over the traditional realist themes of power and order. The trouble with giving a privileged position to power and order is that they are at somebody else's expense, which means that they are potentially unstable. The absolute power and therefore security of one state implies the absolute impotence and therefore insecurity of all others. Likewise, absolute order implies no change: and where there is no allowance for change there is unlikely to be justice, and

without justice there is the potential for conflict. True security can only be achieved by people and groups if they do not deprive others of it.

- if as Booth argues, people should be the primary referent of a security policy, then the traditional concerns of the developmentalists, such as human rights, resource access and the environment, can be taken into account;
- given the new alignments occurring at this moment, insecurities are rampant. On the European scale, this is most evident in the policy debate going on within the EC Commission on new security needs in the post-Yugoslavia situation. In this debate, it is interesting to note that European security is defined rather narrowly in terms of immediate neighbours (Central and Eastern Europe, the Mediterranean) and far-away friends (on the other side of the Atlantic). A common security policy for Africa and Europe is not yet considered.

Taking this new notion of security as a starting point, it can be constructed into a framework into which traditional development concerns and traditional security thinking can be integrated. To show the linkage with UNDP thinking, the term Human Security was coined. It would allow an explicit integration of (geo)political concerns, which have always been present in the development policies of the major powers, and are likely to be important in a European policy for international co-operation. It would be based less on economics, more on notions drawn from political science; less dependent on assumptions of the direction of progress, more on the preconditions for it.

The alternative is presented simply to provoke discussion. It still lacks the elaboration necessary to make it a framework. Yet I feel that it is these types of alternatives which may contribute to reorienting the discussion on international co-operation. For if we do not reorient our thinking, we cannot manage the crisis, but we may be managed by it.

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10. Norway: Trends in Aid Volumes and Priorities

Arne Tostensen

A comprehensive government White Paper on North-South relations and development assistance was tabled in mid-1992 and debated in the Norwegian Parliament in early June 1993. This document attempts to integrate, on the one hand, general North-South issues such as trade policy, debt and global environmental concerns, with development assistance in a narrower sense, on the other. It tries to summarise experiences over the past 20 years and proposes the adjustment of some policies and a certain reordering of priorities in the light of those experiences and current international thinking on development problems.

Only *after* the White Paper had been tabled did the government appoint an Expert Commission to review and analyse the changes taking place in the international situation as they affect Third World countries and to consider how Norwegian North-South and development assistance policies can be improved and better integrated in order to enhance their efficiency. Overall quality and efficacy aspects are central elements in the Commission's terms of reference. It is expected to report in November 1994.

The Development Assistance Committee (DAC) of the OECD reviewed Norway's aid policies and performance in early 1993 and submitted a generally favourable memorandum.

Changing policy orientations and emphases

The 1992 White Paper reiterated the main objectives of Norwegian North-South and aid policies as stated in previous policy documents. But there were some new features and certain shifting emphases and priorities. The government is increasingly conscious of the international setting within which aid policies and programmes are being implemented, i.e. trade regimes, indebtedness and global environmental concerns. Aid is seen as only one instrument in supporting developing countries. Commitments have been made to renew efforts towards improving the international conditions for developing countries, be it by unilateral measures (e.g. by reduction of tariff or non-tariff trade barriers, debt relief) or by advocacy in multilateral fora towards the same end.

The concept of sustainability in a broad sense informs all policy formulation. Programmes and projects are to be appraised in terms of environmental impact and long-term sustainability as regards their economic and institutional underpinnings, thus obviating the need for continued external assistance. As a corollary emphasis is increasingly being put on developing human capabilities and institution-building. The poorest countries are to be prioritised, as are the poorest strata of the population in those countries.

Norwegian aid will continue to be orientated towards the needs and priorities of the recipient governments. This is to be ensured by integrating aid programmes into the development plans of the countries in question. However, a new principle of *recipient*

responsibility has been introduced, which implies that recipients themselves will increasingly take charge of the planning and implementation of development activities.

In line with current international thinking Norway has in recent years devoted more attention to human rights, good governance and democratisation. A special fund has been set up to support activities towards political liberalisation, human rights observance and building democratic institutions. Rather than imposing political conditionalities, Norway emphasises continuous dialogue on such issues, although the distinction is often difficult to draw.

As a matter of policy Norwegian aid should be channelled in roughly equal shares through bilateral and multilateral agencies. But in practice there has been a trend towards bilateralisation in recent years. In 1991 the multilateral share of oda was 38.4%, slightly up from 37.9% in the preceding year. In the mid-1980s the multilateral share tended to hover around 42–45%. According to the 1994 budget the multilateral share is down further to 34% (see below). Notwithstanding this trend, as a small country Norway attaches great importance to multilateral solutions to international problems and wishes to underscore this attitude by channelling a large proportion of its aid resources through multilateral organisations.

Geographically, Norway will concentrate its aid efforts further, to selected regions and countries, primarily Eastern and Southern Africa. Assistance to Central America will continue, while South Asia will receive less. The programme countries in sub-Saharan Africa include Botswana, Mozambique, Namibia, Tanzania, Zambia and Zimbabwe. Botswana is likely to be phased out shortly or reduced in importance, possibly followed later by Namibia and Zimbabwe. Uganda will be added as a new African programme country. In South Asia Bangladesh and Sri Lanka will be retained as programme countries, but India and Pakistan are expected to be phased out by the end of 1995. In Central America Nicaragua will retain its status as a programme country.

Functionally and sectorally, there has been a shift of emphasis towards the productive sectors and their macroeconomic policy framework. This is partly reflected in increasing support for structural adjustment programmes and various other measures designed to facilitate and buttress productive activities. Yet, previous prioritisation of social sectors (e.g. health, water supply, education) has not been disbanded altogether. More attention is now being devoted, however, to avoiding the establishment of social service delivery systems which are clearly not sustainable without continued assistance from abroad. Hence the shift towards boosting production as the long-term indigenous economic basis of social service provision.

The aid administration is progressively becoming more quality-conscious. Steps have been taken to improve quality at all levels of the organisation and in all phases of appraisal, planning and implementation. The entire organisation has been overhauled with a view to rationalising management practices and procedures, and devolving decision-making authority to the aid missions in the field. A new system has been instituted for charting country strategies with respect to bilateral programme countries. To enhance the professionalism of staff a Development Co-operation Training Centre was established in 1992 on a trial basis, and has since been made permanent. Much stress is being put on developing an institutional memory by way of systematising and feeding the results of evaluations back into the organisation.

It must be acknowledged, however, that there is a considerable gap between policy pronouncements and implementation. It remains to be seen how long it will take for the new orientations and emphases to filter down into the organisation and to what extent the measures taken will produce the intended results in terms of enhanced efficiency and quality.

Recent trends in aid volumes and some pressure points

Official development assistance flows from Norway have been maintained at persistently high levels. In 1990 total net official disbursements amounted to NOK 7,540 million (equivalent to US\$1,204.8 million), rising to NOK 7,633 m. (US\$1,177.6 m.) in 1991. Due to depreciation of the Norwegian currency against the US dollar this represents, in fact, a decrease of 2.3% in dollar terms. The oda/GNP ratio was 1.14% in 1991, compared to the exceptionally high level of 1.17% in 1990. The 1992 oda expenditure was NOK 7,921 m., which put the oda/GNP ratio at 1.16%.

The overall expenditure level thus remained comparatively high in the early 1990s. Recently released figures show, however, that total aid expenditure in 1993 dropped dramatically to NOK 7,203 m., representing an oda/GNP ratio of only 1.01%. The main reason for this drop was the accumulation of unspent funds, which in 1993 amounted to NOK 700 m. The 1993 oda/GNP ratio puts Norway slightly behind the leader Denmark in DAC's rating of donors.

A notable feature of the 1993 expenditure pattern is the dramatic increase in aid to the former Yugoslavia, totalling NOK 245 m. in 1993, up from virtually nil the previous year. This aid is utilised mainly for relief operations. In 1993 the former Yugoslavia (principally Bosnia-Herzegovina) accounted for 5.6% of Norway's bilateral aid, the third largest recipient. In budget terms this is made possible by a significant increase in emergency aid at the expense of long-term assistance earmarked for specific countries. Due to the fact that Norway in 1993 received 11,197 asylum-seekers from ex-Yugoslavia pressures have been building up to utilise aid for preventive purposes by channelling funds to refugee and settlement programmes closer to the homes of the refugees. This is thought to facilitate repatriation when the conflict is resolved.

The 1994 budget brought some surprises. For the first time a major 15% cut (NOK 60 m.) was made in the allocation to Tanzania, down from NOK 400 m. in 1993 to NOK 340 m. in 1994. This controversial move was said by the government to be a political signal to Tanzania.

In contravention of policy statements only a year previously the 1994 budget includes an item of NOK 554 m. to be spent on refugees and asylum-seekers in Norway, representing close to 6% of the total aid allocation. Such costs were previously covered by the budget of the Ministry of Local Government and Administration. According to DAC rules this is admissible, but it no doubt represents a policy reversal on the part of the government.

The distribution between bilateral and multilateral aid was also changed in the 1994 budget. Only 34% will be channelled through multilateral organisations. The UN family of

organisations are the hardest hit, in particular the UNDP, WHO and FAO are all down by 2.1%. The World Bank and the regional development banks, on the other hand, are favoured by a slight increase of 0.5%.

The real budget winner appears to be the business community. Mixed credits and parallel financing items were proposed to rise by 15.4 and 91% respectively, reflecting a policy stance to improve opportunities for Norwegian companies in multilateral aid markets. However, in a budget compromise with the Christian Democrats of the opposition, the Labour Government was compelled to accept a lower mixed credits increase of NOK 25 m. in order to get the budget approved.

Overall, the budget compromise resulted in a NOK 150 m. boost (relative to the government's original proposal), bringing the total aid budget figure for 1994 to NOK 7,994 m., an increase of almost 6%. However, in view of the diversions to the former Yugoslavia, and to refugees and asylum-seekers in Norway, there is cause for concern that flows to the traditional Third World recipients are being eroded.

The continuing discussions within DAC and decisions with regard to the list of countries eligible for official development assistance are likely to influence the direction of aid flows in the future. The list currently includes 194 countries and territories. A further 16 countries in Central and Eastern Europe and the former Soviet Union are designated 'countries in transition' on a separate list. The Nordic countries have argued in favour of a dual-category system including a graduation mechanism whereby richer countries would move from category I to II, with only countries with a per capita GNP below US\$2,695 (in 1992 value terms) able to qualify as oda recipients in category I. The two largest donors, the USA and Japan, are opposed to such a system. This discussion notwithstanding, the fact remains that the DAC list has been extended to include a number of Central Asian republics of the former Soviet Union, and others may be added later.

Denmark and Japan would like to include contributions to the Global Environment Facility (GEF) as oda, whereas most other donors, Norway among them, argue that the GEF has a global purpose which will benefit the North just as much as the South.

Opinion polls on aid issues have been conducted regularly since 1972. A recent poll suggests that public support for foreign aid continues to be very strong. About 84% are in favour of Norway providing development assistance, whereas 11% are against and 5% undecided. This represents an increase of 7% above the level recorded in the previous poll in 1990, but is roughly the same as that of 1986. However, when linking questions to the economic situation at home, respondents become more sceptical. A majority (55%) feel the current aid volume is about right, whereas 14% think it should be increased as opposed to 26% favouring a reduction. When asked whether aid should continue to be given if economic and social conditions deteriorate at home, the percentage responding in the affirmative is down to 48%, whereas 40% reply in the negative, and 12% are undecided.

Despite broad public support various pressures are exerting themselves on the volume of aid as well as its orientation and composition. In a situation of economic slump, with large budget deficits and unprecedented unemployment rates, the aid budget tends to be conveniently at hand for cuts. Although in Parliament there has generally been broad

consensus across the political spectrum to maintain the aid volume at a high level, some parties have recently been more willing to consider reductions. But until 1993 cuts were modest; it remains to be seen whether 1993 is indicative of aid levels towards the end of the century, or whether the 1994 budget level can be maintained. It should be pointed out that the fluctuating oil price has a significant impact on total Norwegian GNP and accordingly on the oda/GNP ratio, if not on the expenditure volume in absolute terms.

In a similar vein there is a growing preoccupation with return flow ratios. Short of tying aid to procurement in Norway the business community, certain political circles and part of the general public would like to see a larger share of the aid money flowing back to Norwegian suppliers. As far as bilateral aid is concerned the return flow ratio has for years been relatively high, in the region of 40%. By contrast the return flow ratio on multilateral aid has been much lower, about 14% according to a recent study. Efforts have been made on the part of the aid administration to remedy the situation through various support and incentive schemes.

However, despite such efforts designed to facilitate the involvement of business and industry, results have been meagre. A recent report reveals that Norwegian businesses are inactive on the considerable multilateral market for goods and services, particularly under the tendering procedures of the World Bank and the regional development banks. In FY1992/93 the World Bank undertook more than 9,000 prior reviews of contracts; the total contract volume was over US\$13 billion. Norwegian firms secured contracts for a mere US\$2.3 m. In addition, six tenders by Norwegian companies were among the four lowest bids.

The aid administration is, of course, disappointed that such a small proportion of Norway's considerable contribution to the international development banks flows back to Norwegian industry. The support schemes are considered favourable enough. It appears that, with a few exceptions, Norwegian companies are generally too small to be able to bear the cost and risk of expensive international competitive bidding. Secondly, Norwegian industries tend to be involved in the production of primary or semi-processed commodities rather than the type of goods required on international markets. Thirdly, bilateral aid, including relief operations, seems to provide a large enough market to satisfy Norwegian suppliers.

Increasing attention is directed towards aid quality and impact, rather than volumes and quantities. Reviews and evaluations feature regularly as a matter of routine and growing importance is attached to their verdict. Although such concerns are no doubt genuine and legitimate, to some extent they may also be interpreted as proxy arguments against aid as such.

It is remarkable, on the other hand, that, until the Parliamentary debate on the 1994 budget in late 1993, all political parties, except the Progressive Party (a populist right party despite its name), were agreed that funds for three major budgetary items should be raised additionally from sources other than the aid budget:

- a. aid for Eastern and Central Europe and the former Soviet Union (aid to these areas had not been handled by the oda administration previously);
- b. new commitments made at UNCED for global environmental facilities;
- c. aid for refugees and asylum-seekers.

The general election in September 1993 did indeed change the parliamentary constellation, but not to the point of producing a new government. Parties with a record of staunch support for aid did not lose strength. Nevertheless, politicians were unable to withstand pressures because the general economic situation did not appear to be improving significantly. As referred to above, aid to former Yugoslavia and assistance to refugees and asylum-seekers in Norway were, in fact, included in the aid budget for 1994.

The European Union and Norwegian aid

What impact a possible Norwegian membership of the European Union (EU) will have on current policies and aid volumes is a matter of some controversy. The forces opposing Norwegian membership tend to exaggerate the constraints it is likely to impose on Norway's autonomy and manoeuvrability, particularly in trade policy. Conversely, those favouring membership tend to claim that the impact will be only marginal.

A referendum will be held on 28 November 1994 to decide on membership in the EU. Should Norway join, contributions will have to be made to the European Development Fund under the Lomé Convention, plus contributions to programmes financed by the EU's regular budget. A recent study estimates that Norway's annual contribution to various EU schemes and programmes will be in the order of NOK 600 m.

The policy profile of the EU's aid programmes does not deviate fundamentally from that of Norway. There is likely to be further dispersal of funds to more countries, i.e. the ACP group, in contrast to the current principle of concentrating on bilateral aid. There are also indications that Norwegian funds, via EU mechanisms, might be used more overtly for political purposes than has been the case hitherto.

The likelihood that total aid levels will remain unchanged, at best, or decrease in the years ahead, raises the question whether Norway's contribution to EU programmes will be taken from the bilateral or multilateral parts of the budget. Formally EU aid may be considered multilateral, but in many respects it has much in common with bilateral aid. Most probably the multilateral component of the aid budget will in future include EU programmes. Norway's contributions to UN organisations are then likely to be reduced correspondingly.

Aid to post-apartheid South Africa

In conjunction with the first non-racial general elections in April 1994, the Norwegian Government issued a statement to the effect that aid would be given to the new South Africa for a transitional period of five years. Since South Africa is an upper middle-income country in terms of GDP per capita, despite very wide internal differentials, the main justification for extending assistance is to support the consolidation and stabilisation of democratic governance. The suggested volume of aid would be in the region of NOK 120 m. per year, which corresponds roughly to the level of support given to the liberation movements previously. Priorities and modalities of co-operation have not been decided upon as yet, but NGOs are envisaged as playing a prominent role, although government-to-government co-

operation will also be introduced. Fisheries and electricity sectors have been contemplated on the Norwegian side, but no discussions have been held with the new authorities in South Africa. The Minister for Development Co-operation is expected to visit the country later in 1994 to discuss matters further.

Now that sanctions have been lifted there is considerable interest on the part of the business community in renewed collaboration with South African counterparts. However, some of the aid schemes designed to facilitate commercial exchange and joint ventures, e.g. mixed credits, are not applicable to South Africa because of its upper middle-income status.

Apart from regular development programmes and commercial undertakings, Norwegian universities have initiated collaboration with the traditionally black universities, i.e. the Universities of Durban-Westville, Fort Hare, the North and Western Cape. This involves capacity building in both research and teaching.

Follow-up to the Oslo agreement on Palestine

The recent diplomatic success in the negotiations between the Israelis and the Palestinians is to be followed up by increased aid efforts on the part of Norway in Gaza and on the West Bank. The purpose is to buttress the reconciliation process by improving the socio-economic conditions in the occupied areas. Priority sectors for Norwegian aid are likely to be energy and overall planning.

So far NOK 350 m. has been set aside for this purpose in 1993 and 1994. A new separate budget chapter has been established for assistance to the Middle East. It covers a wide range of types of activity and allows for considerable flexibility in view of the still volatile political situation.

11. Swedish Development Aid: Building Global Human Security

(Editor's Note: This report was agreed by 6 members of the Swedish Parliament representing different parties – Kristina Svensson (Social Democratic Party), Par Granstedt (Centre Party), Alf Wennerfors (Conservative Party), Margareta Viklund (Christian Democratic Party), Karl-Goran Biorsmark (Liberal Party) and Berith Eriksson (Left Party) – in co-operation with NGOs and the Society for Development Issues (FUF), the Swedish chapter of SID, and was presented at the Bonn Parliamentarians' Conference on Global Human Security (September 1993). It has been updated to cover more recent developments.)

Introduction

Swedish development assistance has expanded rapidly over the last 20 years. Not only has the volume increased, but so have the numbers of recipient countries and Swedish development assistance organisations involved. SIDA (the Swedish International Development Authority) remains the principal Swedish development agency and its designated programme countries receive the major (though gradually declining) share of its development aid budget. An increasing portion of SIDA's budget is now allocated to other aid instruments that are not exclusively aimed at programme countries (such as emergency assistance, support through NGOs, humanitarian aid, and so on).

A number of new development agencies (BITS, SwedeCorp and SAREC) have been established over the last two decades. Countries which do not qualify as SIDA programme countries may well become recipients of Swedish technical or industrial/entrepreneurial aid by way of scientific and other co-operation agreements with these agencies. Some countries have become major recipients of Swedish aid in this way. BITS, the second largest bilateral aid agency after SIDA, has emerged as a major supplier of consultancy services and Swedish capital goods through grants and soft export credits. The creation of SwedeCorp, which promotes the development of manufacturing and service enterprises, and seeks to identify and act as intermediary between business partners in Sweden and developing countries, has also contributed to the changing character of Swedish aid in recent years.

A significant amount of Swedish bilateral assistance is channelled through churches, popular movements and other NGOs. Studies have demonstrated the impressive capacity of these organisations, both in response to disasters and in longer-term development efforts. They also make a major contribution to the dissemination of information and mobilising public opinion in support of development co-operation.

Multilateral institutions, including the UN Development Programme (UNDP) and the World Bank, receive approximately one-third of Swedish development co-operation funds, and Sweden supports numerous projects and activities aimed at facilitating developing country trade (traditionally Sweden has been the largest bilateral contributor to the UNCTAD/GATT International Trade Centre – ITC).

Objectives of Swedish aid policy

The goals of Sweden's development assistance were essentially defined in the aid bill submitted to Parliament in 1962. In an oft-quoted section, that bill affirmed that development assistance needs no other justification than that of moral duty and international solidarity. The main objective is to improve the living conditions of poor people. Within this framework objective, four specific goals were outlined: growth; economic and social equality; economic and political self-determination; and the promotion of society in the direction of political democracy. These goals were seen as ways of giving the (then) newly independent developing countries an economic foundation and social content. The aim was to foster their economic independence and thus contribute to international peace and welfare. In 1988, a fifth goal was added: the sustainable use of natural resources and environmental protection.

The Swedish Parliament has repeatedly affirmed that these goals should be seen as equal components of a holistic and integrated development objective. Nevertheless, the emphasis on individual goals has shifted over the years and, in assessing the performance of recipient countries, the current stress is on: the development of democracy; respect for human rights; development towards a market economy; and the efficient use of Swedish aid. Another area under discussion is the linking of aid to a recipient country's level of national military expenditure. In line with current changes in Swedish management generally, there is also an increasing emphasis on formulating goals for aid and on evaluating its results. For example, the recent agreement with Zambia states that the level of Swedish assistance will be based on performance in terms of democratic development, respect for human rights, economic reform and aid effectiveness; the latter requires more transparent and comprehensive reporting of results, both for overall policies and project follow-up. It is further emphasised that Swedish aid should be complementary to Zambian efforts, implying that there is a need for increasing domestic resource mobilisation and strengthening institutional capacity. Full responsibility for the planning and implementation, as well as the follow-up and reporting, of the use of funds, should rest with the recipient, as well as the full responsibility for co-ordinating donor support. The reality is, however, far from this ideal.

In recent years Sweden has also sought to support the democratic process and facilitate the transformation towards a market economy in the countries of Eastern and Central Europe. In FY1992–93, a separate allocation for these countries was opened up. At the bilateral level such assistance is channelled mainly to the Baltic nations, Poland and the north-western region of Russia. Other countries receive Swedish assistance through multilateral channels. There is a broad-based consensus in Sweden that this aid should not be provided at the expense of the developing countries of the so-called Third World. There is agreement that aid for Eastern and Central Europe should not involve the transfer of economic resources *per se* but rather support for various forms of institution-building and the transfer of know-how, and technological and entrepreneurial skills.

Even though it is the policies of the developing countries themselves that ultimately determine their development, the international economic environment also plays a major role. Growing internationalisation has reinforced the interdependence between developed and developing countries, to the extent that the economic policies of the industrialised countries affect the opportunities for developing countries to generate foreign exchange through

commodity exports and to create economic growth. Sweden regularly supports adjustment programmes and economic reform towards a market economy. Practically all major recipients of Swedish aid are undertaking substantial economic reforms. It is the view of SIDA that the state sector in many of these countries has adopted too large a role at the expense of civil society. At the same time it is argued that all countries need an effective state. Aid is therefore directed to support of institutional reforms of the civil service, in an effort to promote good governance and also improve conditions for democracy.

The Swedish Government is also concerned about the extent of aid dependence in many of the major recipient countries, and is looking for ways of reducing this. One change is the abolition of the old 'country frameworks', which guaranteed the recipient certain sums, normally over a three-year period. These are being replaced by 'indicative planning frameworks' to be determined for each country individually. There is also concern about the proliferation of activities. The object is therefore to reduce the number of sectors in which SIDA is involved.

The Swedish economy currently faces severe economic difficulties (including falling levels of productivity, high unemployment, a large government budget deficit, and a financial crisis). The situation is aggravated by generally lacklustre growth throughout the industrialised world. The development co-operation budget for 1993-94 was therefore reduced by SEK 1.5 billion (around US\$209 m. at the beginning of June 1993). This significant cut came at a time when, as a result of the continuing economic recession, the assistance needs of many developing countries were increasing. With this cut, total Swedish development assistance now stands at just over 0.9% of GNP. This does not mean, however, that the target, achieved for a number of years, of 1% of GNP devoted to development assistance has been abandoned; a large majority in the Swedish Parliament has confirmed that, as soon as economic conditions permit, this target will once again be met. Meanwhile, the real economic value of overall Swedish aid has also been undermined by a *de facto* depreciation of the Swedish krona by about 20%, and by the allocation of funds from the foreign assistance budget for a number of refugee programmes.

The cuts agreed for 1993-94 were designed with the overriding objective of protecting the poorest categories of aid recipients. Disaster relief and assistance channelled through NGOs remain at the same level as in 1992-93. Furthermore, the cuts have been made so as to have minimum effect on the efficiency of aid. Priority areas for development assistance are support for environmentally sustainable development, population activities, refugee and repatriation programmes, and the promotion of democracy and human rights (including a wide range of measures in support of women and children).

A major share of Swedish aid in recent years has been in the form of balance-of-payments support or budget support. Sweden has avoided earmarking this for specific purposes. Instead it is linked to general policy conditions. The importance of donor co-ordination is also emphasised in this connection. Balance-of-payments support often needs to be combined with radical debt-reducing or debt-rescheduling measures.

The current debate

Sweden's foreign assistance programmes have recently come under harsh, and largely unsubstantiated, domestic criticism aimed at undermining the considerable goodwill and popular support these programmes have so far enjoyed. A new parliamentary political party – 'New Democracy' – has given voice to and reinforced chauvinistic tendencies, with calls for a drastic reduction in aid to developing countries (down to 0.5% of GNP) and an increase in aid for needy countries closer to Sweden (that is, the Baltic states and Russia). On the other hand, the Left Party favours an increase in aid and the immediate resumption of the 1% GNP level.

A lively discussion, reflecting in part these diametrically opposed positions, has focused on the goals and priorities of Sweden's assistance programmes. Some NGOs have encouraged Swedes to protest against the alleged 'abandonment' of the 1% of GNP target by making direct voluntary contributions – of around SEK 150,000 (US\$21,000) – to the Ministry for Foreign Affairs.

Ambiguous in itself, the concept of 'the market' has come to define a major line of demarcation between critics and advocates of foreign aid in the Swedish debate. A major issue is whether the free market system creates growth, which in turn alleviates poverty. Related questions are: What conditions – if any – should be tied to aid? Is free trade more important than foreign assistance? How severe is today's debt situation? Why are East Asian countries developing, while Africa is not? Differing interpretations and assessments of the officially formulated goals and criteria of Swedish development assistance have been a major point of departure for the debate.

NGO representatives and a number of prominent Swedes recently signed an appeal for more aid to agriculture in order to stimulate food production. Continuous food shortages in sub-Saharan Africa call for such a move, they argued. On the other hand, representatives of SIDA and other governmental aid organisations usually argue in terms of the need for structural adjustment, economic growth and employment opportunities as ways of eliminating obstacles to, for example, efficient agricultural production. These obstacles include artificially low prices, unrealistically low exchange rates and policies that tend to benefit urban populations at the expense of the rural poor. On the positive side, however, it has been noted that some of these structural obstacles are in the process of being eliminated in many countries.

Critics and advocates alike claim that current aid policies are being formulated and implemented without the necessary 'comprehensive perspective' on development issues. Different priorities continue to appear, while calls are simultaneously heard for more 'concerted' efforts, for a greater division of labour between donors and for more co-ordination. All are agreed that foreign assistance must be long-term and anticipatory if it is to be effective. While the large majority of Swedes favour a generous foreign aid programme based on solidarity with the poor, the perceived efficiency of aid clearly affects willingness to sacrifice tax revenue for this purpose, especially in times of domestic economic difficulty. In this context, the need for project evaluation and systematic follow-up is increasingly emphasised. A new independent agency, SASDA, was therefore set up in 1993 to undertake

independent analysis of the effects and implications for the future of Swedish aid and also to investigate the efficiency with which aid is handled by Swedish aid agencies.

There is increasing concern about aid dependence, particularly among African economies. This continues to be very high for countries like Tanzania, where aid amounts to about 40% of GDP, a big increase since the mid-1980s. One way to lower the ratio would, of course, be to reduce aid. Alternatively, more resources could be provided to service the debt. Similarly there is concern about absorptive capacity and the poor state of the civil service in African countries. The ability of the administrative machinery to handle aid effectively is a major problem that needs to be addressed. Alternatively, aid forms that are administratively simple and do not overburden the apparatus could be the preferred channels.

One focus of the current debate has been the impact of aid on the exchange rate of the recipient country, the so-called Dutch Disease. Currency appreciation is a worry, since it hinders the export efforts that are essential for long-term sustainable growth. It has been argued that this is a reason to cut aid. Efforts to promote market economies are also strangled by aid conditionality (such as tying aid to purchases from the donor country), while other forms of conditionality (such as tying aid to respect for human rights or the development of political democracy) are becoming more pronounced.

Macroeconomic arguments put forward by economists have met with demands – mostly from NGOs and usually expressed with a degree of frustration – that the debate should focus on ‘people not structures’. They argue that the millions of people being repatriated to the rural areas in countries like Somalia, Sudan or Mozambique need hoes and seeds for sowing – not ‘structural adjustment’.

For official donors, protagonists in the debate recognise that a major dilemma nevertheless remains: assistance can be offered for alleviating a country's budget deficit or balance-of-payments problems, but not, for example, to promote a specific agricultural policy. The decision to stimulate rural development ultimately rests with the recipient country. This dilemma also leads to a number of moral questions. To what extent is the industrialised world responsible for the underdevelopment of the Third World? Is it reasonable to ask people in the developing countries to think like us, become like us? Goran Ohlin has summed up the dilemma succinctly: ‘The logic of foreign assistance is fundamentally incompatible with the logic of self-determination’.

The end of the Cold War has brought new opportunities to build a future for the world based on the founding principles of the United Nations. When the world body was created, the greatest challenge was to create a stable order of peace and security between East and West. Today, the abyss between the world's rich and poor stands out as one of the major – but as yet unresolved – political, social and economic issues of our age. The United Nations is called on to assume a more significant role, not only in the traditional area of security but also in helping solve the interrelated economic and social issues, and enhancing respect for human rights and international law.

International demand for a more responsible and effective use of resources for development has been expressed in the concept of good governance, which may include the elimination of formidable obstacles to development like the abuse of power, corruption, armed

conflict, and even the illegal outflow of capital. In this context, the principle that membership of the United Nations entails *obligations* as well as rights must be put forward strongly. The process of reform begun within the United Nations will determine the ability of the world community to meet its future challenges. Sweden has contributed to initiating this process, and – as has been stressed repeatedly by the Swedish Parliament – intends to continue lending all possible support to these efforts.

12. UK Aid in the 1990s

Adrian Hewitt and John Howell

Introduction

In 1979, government in the UK passed to a party whose leadership pursued a populist programme of deregulation, tax cuts and national revival. In the process, both government intervention in economic policy and the share and volume of public spending were to be reduced overall. Aid was to suffer more than proportionate cuts (Bose and Burnell, 1992), and the new directive 'Trade not Aid' was taken by some to mean that *British* firms' interests should be satisfied through the aid programme. Well-known critics of overseas aid were brought into government advisory circles, including Professor Peter (later Lord) Bauer and Mr (later Sir) Alan Walters.

There were, in fact, major public spending challenges to aid in the early 1980s (IGBA, 1982); but these were ridden out with some attrition. Today the same right-of-centre party remains in government, though under different management, and the UK still has a large aid programme covering over 100 countries, with its range of agencies and instruments broadly unchanged since the 1970s. With a few exceptions, British firms do not feel they have got their just deserts from the new aid-trade orientation (Morrissey et al., 1993). The UK aid programme has shown some resilience, although the aid budget for developing countries is now frozen at a modest £1,900 million and the balance between *revealed* spending priorities has changed over time.

Aid expenditure

Aid disbursements for developing countries represented an average of 0.40% of GNP over the period 1979–83, but by the mid-1980s had slipped to 0.31% (average for 1984–88). In 1993, at a spending level equivalent to \$3.2 billion, the ratio was still 0.31%.

As a share of public spending, the aid budget for developing countries represented 1.25% of UK public expenditure in 1979, 0.9% in 1987 and is estimated to be 0.78% in 1993–94. In addition to the budget for aid to developing countries, the Overseas Development Administration, since 1988–89, has also administered a new budget for assistance to the countries of Eastern Europe and the former Soviet Union. In 1992 UK aid to these countries amounted to 0.04% of GNP and is forecast to be 0.1% of public expenditure in 1993–94.

Total planned official development assistance expenditure on external assistance programmes, which comprise aid for developing countries, assistance to Eastern Europe and the former Soviet Union (FSU) and global environmental assistance, indicates a fall, in real terms, from £2,276 m. in 1993–94 to £2,137 m. in 1995–96 (House of Commons, 1994). Within these totals, aid for developing countries rises in 1993–94 to £1,900 m. and is then

frozen at that amount (in cash) for 1994–95 and 1995–96. The global environmental assistance programme is also set to fall (although the provision so far announced could be increased when the level and timing of the UK's contribution to the post-pilot phase of the Global Environment Facility are known). Assistance to Eastern Europe and the FSU is set to increase from £188 m. to £331 m. in 1995–96, making it, with emergency relief, the fastest growing part of the aid programme.

As before, the 1993 November budget was preceded by considerable public debate on aid spending with the Conservative right seeking major real reductions; the development lobby fearing such a course and mounting a write-in campaign against 'planned 15% cuts'; and the general expectation in press comment that overseas aid was due for reductions. In the event, overseas aid held to its planned levels despite a fairly severe spending round overall. The main criticisms centred upon the freezing of future levels and the prospect for diversion within the programme towards the FSU and Eastern Europe.

However, the government believes it has been supportive to developing countries in resisting pressure from its right wing and from some senior columnists to restrict aid to humanitarian assistance. It points to the DAC Chairman's Report (on 1993 flows) as a vindication of its claim that the 1980s reversals in aid spending have ended and that there exists a long-term commitment to overseas aid (the UK was the only major OECD donor to increase its oda disbursements in 1993).

Trends

There have been expenditure shifts over the last decade or so which could impair the performance and integrity of the Overseas Development Administration's *bilateral* aid programme in terms of its global contribution to economic development. The most striking changes concern the growth in allocations to the European Community. UK commitments to fund Lomé Convention aid spending began in 1975. Since then the share of the UK aid programme going through the EC has risen from zero to 23% in 1991 (House of Lords, 1993).

Within this, amounts attributed to EC spending outside the Lomé Convention were around 8% of total aid in 1987/88: by 1994/95 they are planned to rise to around 13%. But the December 1992 Edinburgh EC Council decision ('Delors II') to increase non-Lomé aid expenditures by 60% in *real terms* by 1999 will have a further major impact on the shape of the existing UK programme if the funding volume remains at best stagnant. The EC payments, together with IDA and other multilateral commitments, will push up multilateral spending from 45% currently to over half by the mid-1990s and towards the politically sensitive two-thirds level by the end of the century (so long as aid payments through the EC are deemed multilateral).

Multilateral aid

Without ever being explicit, the general view of the Overseas Development Administration over the past few years has appeared to be that somewhat unevenly administered multilateral

aid has been squeezing the excellently administered bilateral component and, in a perfect world, multilateral commitments should be held, if not rolled back. UK interest in subsidiarity, and task division, within the EC programme appeared to support this general line.

An internal review of multilateral policy was undertaken in early 1994 and in June the Minister made a presentation (at ODI) on 'The ODA and Multilateral Aid' (for text see Chalker, 1994). It began with a summary of commitments and continued:

Faced with this inexorable rise in our multilateral commitments, we have taken a hard look at the approach we should follow. I want to share with you the conclusions we have reached.

First, we should recognise the advantages of the multilateral approach. Multilateral aid brings together in a harmonised way finance from different sources. It often stimulates aid from non-traditional donors. With such a critical mass of finance comes increased (and non-political) bargaining power over essential conditionality, thus enhancing the prospects of aid being used in a sustainable way. At the same time recipients benefit from the provision of untied aid and from being able to avoid a range of different bilateral requirements.

Furthermore:

Multilateral institutions also frequently act as a focal point for the harmonisation of both multilateral and bilateral aid, to mutual advantage. More broadly, the multilaterals have been the natural leaders in a collective effort to tackle five major issues of global importance.

There followed a series of positive comments on the World Bank, GEF, IFC, EBRD, UN Department of Humanitarian Affairs, and recent 'improvements' in the European Community. There were concrete recommendations for further EC improvements; there were even a few warnings issued to other UN agencies and at least one regional development bank.

This was an important and timely speech. To quote again:

This year some 45% of the British aid programme is going through multilateral channels – a billion pounds – and these figures are set to rise further. We are now beginning the negotiations for the next European Development Fund. The replenishment of the International Development Association is on the agenda. New funds for the regional development banks are being put in place. We are thus entering a critical period which will have major implications for our entire aid effort.

British NGOs, academics and even parliamentarians were not so sanguine. To them, official support was suddenly surging for multilateral agencies such as the World Bank and the EDF which were themselves facing unprecedented criticism, while the bilateral programme, on which Britain's credibility as an aid donor depends, remained under threat.

Humanitarian aid

A further trend within the UK aid programme is the increasing proportion spent on humanitarian aid within both the bilateral and multilateral programmes. Less than 3% of the total was spent on humanitarian aid at the beginning of the 1980s, but this has now increased to around 11%. This reflects a significant reorientation of resources that would otherwise have

been used in pursuit of development and its longer-term goals. With the development aid budget currently frozen, these extra spending requirements mean at best that funds from the Overseas Development Administration contingency reserve are being called up.

Some of the increase was triggered by the end of the Cold War. In the FSU and the former Yugoslavia, conflicts which have substantially increased the global requirement for humanitarian aid have been seized upon for attention with aid spending by politicians both in power and in opposition. Commitments of the UN and its member states to peace-keeping and peace-enforcement operations around the world have increased dramatically over the last three years. As well as the voluntary contributions to the UN specialised agencies involved in such operations, the Overseas Development Administration has also been bearing part of the additional costs faced by the Ministry of Defence in maintaining forces in Bosnia and the RAF contingent which operated in Kenya/Somalia in late 1992; Britain also had to contribute, somewhat anomalously, to the financing of Belgian UN troops in Somalia in 1993, by drawing on its EC aid allocation.

Other factors may also be at work. A substantial proportion of the increased aid to Africa is accounted for by emergency aid and there are reasons for seeing the transformation of the international relief system into a welfare 'safety net'. At a time when the aid programme is being subjected to budgetary pressures, it is possible that the generous response to the increased demands for humanitarian aid may reflect a conscious emphasis on relief activities which have much greater popular support and higher media profile than the conventional programme and project aid instruments.

Such trends suggest a substantial reduction of the amount allocated to finance long-term development within the bilateral aid programme. Much of the buoyancy in UK voluntary contributions to developing countries can be attributed to successful campaigning on humanitarian emergencies, so it is hardly surprising that the official programme appears to follow this public concern. However, it does mean that a strictly defined 'development' function of the bilateral aid programme is weakened.

The 'Pergau' factor

Furthermore, there is a continuing attachment to seeking commercial benefits to the UK through the aid programme. Insofar as such considerations involve the UK in concentrating large tranches of aid on rapidly developing and/or better-off countries (such as Malaysia and Indonesia) the scope for poverty-reducing development aid is further limited.

A report of the National Audit Office (NAO) on UK support for the contractors of the Pergau dam in Malaysia (some £240 m. over some 12 years) showed that there had been objections from the Overseas Development Administration to the project (an 'abuse of the aid system'), links to Malaysian arms procurement in the UK, and possibly some irregularities in the final price of the contract. The parliamentary scrutiny which followed included enquiries by the Foreign Affairs Committee and the Public Accounts Committee. Press and TV coverage was exceptional, and 'Pergau' became as symbolic a term for aid failure as the 'Groundnuts Scheme' over forty years earlier.

For aid itself, there have been three separate issues: (a) the way that the Prime Minister, the Department of Trade and Industry, the Ministry of Defence and the FCO Diplomatic wing overruled the Overseas Development Administration in claiming that UK foreign policy and commercial interests must sometimes prevail in aid considerations; (b) the way that the Aid-Trade Provision has been used in practice to support certain UK firms with close links to government or party; and (c) the realisation that substantial allocations are being made, and pledged well into the future, towards relatively well-off countries where there is already a major flow of external private investment. The current overall issue is whether Pergau is simply a rogue element from a period of personalised aid diplomacy (Mrs Thatcher was a central figure but refused to give evidence to the enquiry), while the main programme remains 'developmental' in character and poverty-focused. In addition, Pergau has also raised 'transparency' as a major issue, and served to highlight potential conflicts in aid policy which had previously been ignored.

A review of the Aid-Trade Provision (ATP) in 1993 lent some support to this view. The Provision (to subsidise UK companies bidding in competitive markets for projects with 'economic development' objectives) has included large engineering contracts to countries such as Malaysia which should not normally attract UK aid. Following the review, the per capita income eligibility was reduced to \$700, well below the newly agreed OECD figure of \$2,500.

This represented a major change in policy and, long term, may have spelled the gradual phasing out of 'mixed credits' from the aid programme, as the hostile reception from some UK companies indicated. However, far from urging abolition of the ATP, the otherwise critical report of the Foreign Affairs Committee (House of Commons, 1994), recommended that it should continue, merely noting that under the new low-income eligibility criteria, the scheme would in future be targeted on China and Indonesia.

Poverty and priorities

Nonetheless, a focus on poverty, and on meeting economic development needs, remains evident within the UK programme. One measure is geographical allocation, where there has been a major shift to Africa over the 1980s. In 1980/81 Asia received 47% of bilateral 'country programme' aid: Africa 36%; other 17%. In 1990/91 the figures were Asia 34%; Africa 54%; other 12%. (Within Asia, India, with the largest concentration of poverty, has always been a major recipient, although now it is beginning to be challenged by China and Indonesia as a result of the trade orientation.)

The poor economic performance of Africa, at a time of rising aid allocations, and some rather mixed results in securing democratic transitions may be factors in what some UK observers see as 'aid fatigue', but before moving on to the question of public support, two points should be noted from the previous paragraph. First, 'other' is still a large item reflecting the links between the aid programme and long-standing political allegiances to countries in the Pacific and Caribbean in particular, where an aid relationship is deemed important for the UK's place in world affairs. Second, 'country programmes' means aid directly allocated by country. Almost a quarter of UK bilateral aid is allocated to other agencies (e.g. the Commonwealth Development Corporation, the British Council, UK research

centres) and instruments (e.g. Aid-Trade Provision, where UK companies are direct beneficiaries, and the Joint Funding Scheme for NGOs) in order that these can assist developing countries. This has meant a fairly large non-official development assistance aid constituency of support for UK aid. Furthermore, it ensures that a wide range and variety of support for the British aid programme will continue even when the political leadership or the popular press may appear to be inherently hostile.

The priorities for UK aid are set out concisely in the Overseas Development Administration's own departmental statement, which is now issued annually (FCO/Overseas Development Administration, 1993):

- to promote economic reform and longer-term economic growth;
- to promote good government;
- to help developing countries to define and carry out poverty-reduction strategies;
- to promote human development, including better education, health, and family planning programmes;
- to promote the social, economic, legal and political status of women in developing countries; and
- to help developing countries tackle national environmental problems.

These are explicit priorities for *aid to developing countries*. Assistance to the FSU and Eastern Europe and Global Environmental Assistance have separate aims and are given separate treatment in the Policy Statement (and are not shown here).

The promotion of economic reform and good government strongly reflects, respectively, the World Bank-led policies of the 1980s and the collective donor actions agreed in 1990, after the end of the Cold War (Foreign Secretary Douglas Hurd's House of Commons Speech of 6 June 1990; President Mitterrand's La Baule speech, also June 1990, and so on). However, the linkage between aid and human rights/democracy features here only under the rather weak heading of 'good government', even though it is visibly an occasional (but not consistent) feature of the UK's bilateral and multilateral aid programmes.

Poverty focus and poverty reduction were the keystone of the last full policy statement made by the government on the aid programme (*The Changing Emphasis of British Aid Policy: More Help for the Poorest*, 1975). They reappear in subdued form here. Note, however, that they also appear, for the first time, as an explicit European development aid priority, in the now ratified Maastricht Treaty on Union.

It is questionable whether these oda priorities, even if they are clearer, can be made strongly operational. To be fully operational, they require adequate resources. The stagnation of the overall programme and the simultaneously rising claims on the multilateral and EC portions of it mean that much of the bilateral programme has had to be trimmed. In these circumstances there has been limited opportunity to generate new spending priorities, although a certain amount of relabelling of aid actions as environmental activities (e.g. forestry and health projects) and good government (forms of technical assistance in public administration) has occurred.

Unspoken among these priorities is the objective of the Foreign and Commonwealth Office (enunciated by the Foreign Secretary himself) that Britain continue to 'box above its weight', i.e. retain a seat at all the top tables, stay on the UN Security Council, in the G-7, at the head of the Commonwealth, and so on. It could not disband its aid programme, nor could it allow its bilateral programme to run down too drastically, and retain credibility, so long as a high foreign profile remains a plausible and declared national policy. Even a prime minister who in her time was openly hostile to aid (in 1980 Mrs Thatcher described official development aid as 'a hand-out' in Parliament) quite rapidly understood this and thereafter sought ways of 'stretching' public spending allocations for aid, mainly via commercial interests (and mainly unsuccessfully – see Morrissey et al., 1993).

Public Support

There is little evidence of diminishing public support for aid in the UK. An ActionAid (1993) opinion survey confirmed early 1980s' findings of a public generally in favour of assisting poorer countries. Parliamentary debates and occasional newspaper editorials reflect a generally well-disposed attitude to aid, even if official aid (especially EC and World Bank aid) is subject to criticism at times.

The environmental groups in the UK with interests in developing countries are often critical of multilateral institutions and international business but they are supportive of larger official aid contributions directed towards poverty alleviation, population, conservation, etc. The Overseas Development Administration has been keen to include such groups in its own work and enjoys a close relationship with most of the large development and relief NGOs. The 'development public' is largely a creation of such NGOs, with impressive write-in campaigns and a fairly strong media profile especially through newer NGOs such as Comic Relief (effectively the successor to Geldof's Band Aid/Live Aid). It is not a well-informed public, and it is often sceptical of official aid's ability to assist the poorest but it is, nonetheless, a large and generally young constituency committed to the idea of aid contributions and confident that such aid can make a significant difference to poverty alleviation overseas. Few MPs feel able to dismiss such a constituency. So if threats to the aid programme have to be faced annually, faced they will be with some confidence for the future.

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13. US Foreign Assistance: Facing New Challenges

John Sewell and Catherine Gwin

The American foreign assistance programme is at a critical juncture in its history. The United States has maintained an official foreign assistance programme since the end of World War II. Over almost half a century, it provided nearly \$400 billion in economic and military aid to more than 100 countries. Channelling aid through nearly 30 programmes, the United States uses foreign assistance to promote a wide range of political, security, economic and humanitarian interests. However, with the end of the Cold War, it is critically important that a new rationale for the programme should be established that is clearly understood by the majority of American policy-makers and the general public. In late 1992, Senator Patrick Leahy wrote to both Presidential candidates saying that foreign assistance '... is exhausted intellectually, conceptually, and politically. It has no widely understood and agreed set of goals, it lacks coherence and vision, and there is a very real question whether parts of it actually serve broadly accepted United States national interests any longer'. This situation, and widespread demands for domestic austerity and budget-cutting, have led to deep funding cuts in the foreign assistance programme. The Clinton Administration has acknowledged the need to initiate fundamental changes in the programme and has begun the process of substantive reform.

Trends in levels and composition of foreign assistance since 1980

During the Cold War, the United States regarded both bilateral and multilateral assistance as important components of its overall foreign policy. Foreign assistance was perceived as a tool in the global competition between the United States and the Soviet Union. It was considered vital for increasing economic growth and political stability in strategically important and potentially vulnerable countries in the developing world, and also as a way to secure co-operation from countries that were considered critical to promoting American interests. For the United States, bilateral and multilateral assistance were regarded as complementary, with multilateral development banks and organisations seen as contributing to long-term international stability and support for the world's poorest countries, and bilateral assistance seen as a tool to target assistance for specific countries or regions.

In the last decade, considerable changes have taken place both in American bilateral funding priorities and also in support for the multilateral institutions. Under the Reagan and Bush Administrations during the 1980s, the Cold War rationale for foreign assistance was intensified, and the nature of the bilateral foreign assistance programme was substantially changed. The competition with the Soviet Union extended to proxy wars in Afghanistan, Central America, South-East Asia, the Horn of Africa and southern Africa. American economic aid took on increasingly active security dimensions in support of guerrilla and anti-communist activities, and the emphasis of the programme moved from primarily economic and development support to security and political assistance. In addition, during the 1980s

there was a strong shift away from focusing on government efforts to alleviate poverty, and toward private sector developments supportive of economic growth.

Under President Reagan, the foreign assistance budget was increased from \$10 billion in fiscal year 1980 to \$20.7 bn in 1985, with most of the increase going towards economic security assistance. By 1985, security programmes comprised 66% of the total assistance package, compared with less than 50% at the beginning of the decade. Bilateral assistance was heavily concentrated in such strategically important countries as Israel, Egypt, Greece, Turkey, El Salvador, Honduras, Mozambique, and the Sudan, with over \$5 bn going to Israel and Egypt annually. About \$3 bn of the bilateral programme was devoted to development and food aid programmes. However, a portion of this aid was also directed to countries that had particular strategic value for the United States.

The Reagan Administration was also initially far less supportive of the multilateral development institutions. Although American disenchantment with many multilateral programmes began before 1980, the Reagan Administration was ambivalent about the utility of providing funding for multilateral assistance. Direct funding for the Multilateral Development Banks (MDBs) went from \$2.3 bn in 1980 to \$1.5 bn in 1990. Also, although there was a slight increase in American funding for other international organisations, the United States was accumulating massive arrears. These trends reflected both a distrust that multilateral institutions were effectively promoting American interests and also a policy shift towards directing more funding for bilateral security and political programmes for specific countries. By the mid-1980s, however, the deepening of the debt crisis caused the Reagan (and later the Bush) administration (and to look more to both the IMF and the World Bank.

The Bush Administration continued the Reagan policy of using foreign aid as a political and security instrument of foreign policy. Foreign assistance continued to be dominated by funding for the Middle East and other strategically important programmes. However, with the break-up of the Soviet Union and the effective end of communism in Eastern Europe, budget deficits and growing domestic economic concerns led to reduction in overall US economic assistance. In addition, although the Bush Administration emphasised the importance of the United Nations and such multilateral initiatives as the Brady Plan for developing country debt relief, American arrears continued to increase.

The Clinton Administration and foreign assistance reform

President Clinton has clearly chosen to concentrate on domestic issues and many foreign policy initiatives and programmes receive little attention or energy from the Administration. However, during 1993-94, several foreign policy and foreign assistance priorities have been highlighted by the President and his immediate advisers. President Clinton has defined three areas of enduring vital interests: national security; economic revitalisation; and the promotion of democracy. He has emphasised the need to establish strong linkages between international engagement and clearly defined domestic interests. Secretary of State Warren Christopher has expanded on these themes and identified six foreign policy priorities: i) ensuring the economic competitiveness and security of the United States; ii) supporting reform in the former Soviet Union; iii) revitalising the US security relationship with NATO and Europe; iv) expanding

economic and political co-operation across Asia and the Pacific; v) forging an enduring peace in the Middle East; and vi) meeting the challenges of American security posed by global problems such as nuclear and conventional arms proliferation, environmental degradation, unsustainable population growth, narcotics trafficking, and terrorism.

The Clinton Administration has argued that the United States' overriding national security priority has shifted from containing communism to consolidating and enlarging the international community of market-oriented democracies. In presenting the policy of 'enlargement', Administration officials – including National Security Adviser Anthony Lake – point out that the US derives direct economic, political, and security benefits from the development of democratic and market-oriented countries around the world. They believe that market-based democracies are less likely to be militarily aggressive to regional neighbours and the United States, more likely to be internally stable and prosperous and therefore viable trading partners and sources of investment opportunities.

As part of this foreign policy reformulation, the Clinton Administration made a commitment to reform of the design and management of the foreign assistance programme. As a result, there were high expectations both in Congress and the NGO community that the Administration would move quickly to introduce comprehensive reform legislation and also make significant efforts to reorganise the foreign assistance apparatus. Those efforts are now under way – even though the Administrator of the US Agency for International Development, J. Brian Atwood, did not begin his tenure until May 1993, and Deputy Secretary of State Clifton Wharton – expected to be the primary Administration spokesman for foreign aid reform – resigned from the Administration in November 1993. In addition, evaluations undertaken by the State Department and the National Security Council regarding the overall foreign assistance programme and the role of USAID did not produce the comprehensive conclusions and recommendations – apart from reaffirming the role of USAID as the primary implementor of the US development programme within the Administration – that observers were hoping for.

Despite these difficulties, there have been several positive developments. USAID has begun to explore strategies to refocus its programmes and improve the cost effectiveness and efficiency of its operations, and Administrator Atwood has asked that the entire Agency serve as a 'reinvention lab' in Vice-President Gore's Reinvention of Government Programme. Atwood has also called for reform of USAID's oft-criticised contract and procurement system. The key feature of the reform process has been the identification of four 'pillars', or objectives, of USAID sustainable development programmes. They include: encouraging broad-based economic growth; stabilising world population growth; protecting the global environment; and supporting democratic participation. Administrator Atwood has emphasised that USAID projects and initiatives will be funded only after it is determined that they promote one or more of the stated objectives. In addition, ongoing initiatives will face similar evaluations and will be terminated if they do not meet performance standards.

Despite general agreement that USAID programmes must have clearer objectives and performance guidelines, the standards proposed by Administrator Atwood have been controversial. Specifically, there has been concern about the practicality of attempting to identify quantifiable results or rigid performance bench-marks for long-term sustainable development projects. During the past year, other significant reform initiatives have included:

The closure of 21 USAID overseas missions. Administrator Atwood has outlined three primary justifications for mission closures. First, several countries have been identified as assistance 'graduates' which no longer require a USAID mission. Second, several countries are identified as poor 'development partners', with governments that do not properly utilise foreign assistance or co-operate with USAID representatives. Third, USAID has consolidated several missions into regional entities.

USAID organisational reform and integration. Administrator Atwood has initiated several initiatives to rationalise the organisational structure of USAID. Of particular note has been the creation of a 'Global Bureau' responsible for integrating technical and research expertise that had previously been scattered throughout the agency, providing a variety of technical support for individual bureaux and field missions, and taking primary responsibility for addressing transnational development problems. The Bureau consists of the Office of the Assistant Administrator, the Office of Women in Development, the Office of Management, the Office of Programme and five 'centres of excellence': i) population, health and nutrition; ii) economic growth; iii) environment; iv) democracy and governance; and v) the development of human capital. In addition, during the past year, the Office of Transition Initiatives (OTI) has been created to provide countries with rapid response assistance to fill the gap between short-term disaster relief and peacekeeping operations and long-term development programmes. In another significant step, USAID consolidated its previously independent bureaux for Eastern Europe and the former Soviet Union into one bureau.

USAID 'rightsizing'. As part of a larger effort by the Clinton Administration to reduce the federal bureaucracy, Administrator Atwood has initiated a 5.2% overall reduction of USAID staff over the next two years.

USAID's internal reform efforts still have a long way to go. However, the agency's reputation has substantially improved and Administrator Atwood is widely respected. As a result, although USAID's institutional role continues to be debated by some individuals in the development community, the agency's position has been greatly reinforced during the past year.

The second major area of progress has been made in US policy toward the multilateral development banks (MDBs). Led by Under Secretary for International Affairs Lawrence Summers, the Treasury Department has worked hard to improve support for the MDBs in Congress and in the budget process. In recent years, Congress and many segments of the NGO community have been extremely critical of the MDB performance, and the Clinton Administration has made significant efforts to inform critics about recent MDB reforms and the rationale for US support for these institutions. A major priority has been to reduce US arrears to the MDBs, currently totalling \$847 million. The Administration has requested just over \$2 bn for MDBs in the FY1995 appropriations cycle and has proposed a schedule to clear the arrears within four years. Although Congress will probably cut a portion of the funds made available for this purpose, it appears that some progress will be made in this area.

The Clinton Administration has emphasised the need for MDBs to increase the focus on social development issues. While stressing the importance of building and maintaining strong macroeconomic performance in the developing world, Summers has also called on the MDBs to strengthen their efforts in promoting poverty reduction, good governance, environmental

protection, and viable private enterprise sectors. The United States has also stressed the need for continuing MDB efforts to improve project design and implementation, and has called for greater transparency and openness from the institutions.

The introduction of a new Foreign Assistance Act

The centrepiece of the Clinton Administration's efforts to reform the foreign assistance programme is new legislation to replace the 1961 Foreign Assistance Act (FAA). The Administration was strongly urged by congressional leaders, including Speaker of the House Thomas Foley, and representatives from the NGO community to produce the new legislation in time to allow for congressional consideration in 1994. On 2 February 1994, the Administration submitted H.R. 3765, 'The Peace, Prosperity and Democracy Act of 1994'.

In the legislation proposed by the Administration, the wide range of programmatic accounts – the Economic Support Fund, Foreign Military Financing, etc. – and country-specific authorisations contained in the existing legislation are replaced by broad organising principles or objectives of US foreign policy: (Title I) promoting sustainable development; (Title II) building democracy, which includes assistance to the former Soviet Union; (Title III) promoting peace, including support for Israel, Egypt, and others pursuing peace in the Middle East; (Title IV) providing humanitarian and crisis aid; and (Title V) promoting economic growth through trade and investment. Under the new framework, individual programmes would be justified and evaluated by their effectiveness in promoting one or more of the broad objectives. Title I relates most directly to USAID and the four 'pillars' of sustainable development – economic growth, population, the environment, democratic participation – are described in detail. With the new legislation, the Administration would have much more flexibility in establishing funding priorities and implementing individual programmes. As proposed by the Administration, the legislation would be a permanent charter and would not include the FY1995 authorisation bill for appropriations.

There has been a general feeling of disappointment in Congress and the NGO community regarding the Clinton Administration's legislative initiative. The Administration failed to present the new legislation in time for it to be passed by Congress before the end of 1994, and it has not promoted the reforms to Congress and the public with sufficient energy and organisation. The legislation takes important steps in identifying broad general principles of US foreign policy and foreign assistance, and in emphasising the promotion of sustainable development as an independent objective. The Administration has received strong support for its refusal to increase the linkages between development assistance and tied aid and export promotion programmes. However, the initiative fails to establish clear priorities among the various assistance programmes, it does not mandate significantly new and better co-ordination mechanisms among various US government departments and agencies, and it considerably increases Administration policy flexibility without ensuring sufficient accountability and congressional oversight. The Senate has begun consideration of the reform legislation, but it is unlikely that a bill will make anything more than token progress in 1994.

Foreign assistance funding priorities

Even with the reform efforts under the Clinton Administration, budgetary pressure on the foreign assistance programme has continued to be acute. For FY1994, the \$13 bn foreign assistance spending bill approved by Congress was \$1.4 bn less than requested by President Clinton, and almost \$1 bn less than that approved for FY1993. These cuts affected almost every programme and were particularly dramatic in view of the fact that political and economic transitions in the former Soviet Union and Eastern Europe and continued US support for peace in the Middle East actually led to higher overall demands for US assistance funding. With approval of a \$904 m. funding level for the former Soviet Union, and a \$5 bn funding level for Israel and Egypt, almost half of the entire FY1994 foreign assistance package was dedicated to only two regions. By contrast, the bilateral Development Assistance account was cut by \$226 m. from FY1993 levels, and the approved funding level for the United States' contributions to the MDBs increased arrears to those institutions by \$473 m.

For FY1995, foreign assistance funding is likely to remain relatively stable. Despite initial fears that the Administration was contemplating dramatic cuts – early estimates suggested cuts ranging from 6 to 10% – the Administration eventually asked Congress for a slight (\$44 m.) increase for international programmes. This request reflects a greater emphasis on environmental, population, and disaster relief programmes. In addition, the United States has committed \$206 m. in direct assistance, loan and credit guarantees to South Africa, and \$78 m. for the West Bank and Gaza Strip. Congress has begun consideration of the foreign assistance appropriations and has initially signalled that cuts to the Administration's request will be marginal. The reluctance of both the Administration and Congress to impose dramatic cuts reflects both the fact that further cuts would probably threaten relatively popular programmes in the Middle East and the former Soviet bloc, and the realisation that foreign assistance has faced draconian and unsustainable reductions in past years. Overall foreign assistance has been cut by approximately 24% since 1985, and funding for the MDBs has fallen by 40% since 1978 (not including funding levels requested for FY1995).

The political challenge facing foreign assistance reform

The fundamental challenge facing advocates of a strong American foreign assistance programme lies in building a viable base of political domestic support for the programme. Despite surprisingly strong congressional support for both the FY1994 and FY1995 foreign assistance packages, the fact remains that the majority of Americans do not understand how foreign assistance promotes their interests. Clearly, unless the Clinton Administration and Congressional leaders are able to explain the purposes and implications of these programmes they will continue to face drastic funding cuts. The challenge facing the reformers is formidable, and the political debate surrounding the programme is complex. A meaningful foreign assistance reform programme can only be initiated by the President. Only the Administration has the ability to reform dramatically the organisational frameworks of the various programmes, and also to lay out clear new foreign assistance priorities. However, the reformers must work closely with Congress, key special interest groups, and the general public.

The US Congress has substantial power to set foreign assistance priorities. It has the ability both to cut funds for programmes requested by the President, and also to specify, or 'earmark', funding levels for particular countries or projects. 'Earmarking' increased substantially in the 1980s. In FY1985, about 10% of development funding was earmarked. By contrast, in FY1993, approximately 57% of Development Assistance, 84% of the Economic Support Fund, and 96% of Foreign Military Financing were earmarked. However, in 1993, both Democratic and Republican leaders indicated a desire to give the Administration considerable latitude in setting foreign assistance policy. Several congressional leaders have called for restraint in 'earmarking'. In addition, they have indicated that a foreign assistance reform package will have to originate from the Administration, and that the President must demonstrate a strong commitment to reform before Congress will take action.

Special interest groups and coalitions with the ability to mobilise public opinion for specific programmes also play a crucial role in the reform debate. In 1993, the passage of the foreign assistance legislation in the House of Representatives was largely due to the efforts of two groups. The first group, supporters of assistance for Israel and Egypt, have been a powerful force over the last decade. The second group, a coalition of ethnic organisations, labour groups and manufacturers, farmers, arms control advocates, and environmentalists, have formed to support increased funding for the former Soviet Union. This situation presents a dilemma to supporters of foreign assistance reform and advocates of sustainable development and humanitarian assistance. During a time of budgetary austerity, these latter groups are both competing with the supporters of Israel, Egypt, and the former Soviet Union for limited funds, and are also dependent on them to secure passage of the overall foreign assistance package in Congress. As a result, they are forced to decide whether to support a package that provides almost half of the foreign assistance funds to three countries, or to oppose legislation that also provides funds – although diminished – to their programmes.

Proponents of additional funding for development assistance face a further difficulty in that the shrinking overall budget has often put them in direct competition with each other. In addition, as illustrated by the debate over funding for IDA 10, various environmental, population, and development organisations have often had strong philosophical conflicts, and been unable to present a unified position on specific programmes. Clearly, special interest groups can play either a positive or a negative role in initiating meaningful foreign assistance reform.

Public opinion is the final important factor in shaping a foreign assistance reform package. The American public does not support the foreign assistance package as it is currently constituted. Americans are worried about the domestic economy, particularly unemployment; the perceived ineffectiveness of government programmes; crime, poverty, and drugs in the inner cities; and the decline in US competitiveness and quality of life vis-à-vis other nations. There is a strong feeling that, during a period of domestic budget-cutting and austerity, spending on foreign assistance is inappropriate. Moreover, the poor reputation of USAID and a pervading scepticism about the overall efficacy and cost effectiveness of foreign aid in promoting American humanitarian, political, and economic interests around the world have led to demands for dramatic cuts.

According to a 1993 public opinion poll sponsored by the Rockefeller Foundation, for the first time since World War II a majority of Americans are opposed to economic

assistance. The survey reported that a majority of Americans believe that the United States spends too much on foreign aid and also consider that assistance is not effectively delivered to recipients. However, the survey brought good news to reform advocates when it also found that, with the end of the Cold War, the majority of Americans believe that foreign assistance should be used to fight global problems such as environmental degradation, to promote American economic interests, and to support democracy-building in the developing world and in the former communist countries.

Conclusion

Formidable difficulties lie ahead, but there are some reasons for optimism. In 1993 and 1994, both the Clinton Administration and Congress have had the opportunity to explore the issue of foreign assistance reform and a solid foundation of work has been created. In addition, the NGO community has become more cohesive in the past year and is considered to be a more constructive partner in the legislative process than it had been in previous years. Although there continue to be strong philosophical conflicts within the NGO community over key issues, including funding for the MDBs, threats of dramatic across-the-board funding cuts have led to greater unity.

However, despite a broad consensus that the US foreign assistance programme requires significant conceptual and structural improvements, the implementation of major reforms has been slow. Congressional passage of a new and comprehensive foreign assistance act will not take place before 1995. In part, this reflects the fact that both the Clinton Administration and Congress have been preoccupied with an ambitious and often divisive domestic agenda of health care and welfare reform, and also with legislation on crime. The United States also continues to struggle to define its role in the post-Cold War era and to show how the foreign assistance programme can be utilised to promote more effectively its interests and the interests of aid recipients. With the US foreign assistance programme faced annually with the threat of dramatic funding cuts, and with Congress and the public continuing to express doubts about the efficacy of foreign assistance, the drive for reform will continue into 1995.

14. Conclusions and Policy Recommendations

Reform of foreign aid is necessary and inevitable. The consensus of this Special Report is that the reforms to be implemented should be informed by serious investigation and a sense of history; should respond to the articulated needs of developing countries; and should aim not just for effectiveness but also for coherence (not least among donors and across the non-aid policies of those same donors). There is, however, no call for an ill-considered or hasty reaction to the claim that foreign aid is in crisis, for there is no consensus to support such a proposition across all donors.

This report presents nine key findings, some of which are elaborated further in this chapter.

1. The wide range of donor positions falls into three groupings. The North American donors (and the US in particular) see an urgent need for radical reform of foreign aid programmes to ensure their survival: they see a crisis of purpose as well as the more familiar budgetary struggles and efficiency concerns. At the other end of the spectrum, the aid specialists of Japan (and to some extent of the emerging East Asian donors) express well-founded concern that support for their rapidly expanding aid programmes might be unsettled by too much international talk of alleged 'crisis'. In the middle sit the European donors, heterogeneous as ever but almost all adopting the common position that piecemeal reforms over the longer term might suffice. There is a potential for aid fatigue in Europe but in many countries public support remains high and has undergone a youth-based renewal. Moreover, although Europe itself had sat in the shadow of the Iron Curtain, its donors' aid policies had been less dominated by this consideration, and so there has been less cause for a crisis of confidence about its development co-operation policies once the Cold War ended. Actual, and planned, aid expenditure reductions are a source of concern – not least because of the relaxation of peer group pressure to maintain current levels – but are not irreversible.

2. Official aid has to confront the issue of declining respect for national governments (in most donor countries and across the spectrum) and for politicians. Those governments in their capacity as official donors cannot expect to pursue the same aid policies unchallenged. A more informed public, closer media scrutiny and more active NGOs all require more transparency and greater policy accountability. Public institutions too no longer go unchallenged. Just as the OECD itself now has to justify its existence (and reform to meet that justification) so does the Development Assistance Committee. Many aid-related institutions are 'mature' in the sense that they are well into middle-age. Nor can the other international institutions remain aloof: some members of the UN family will have to be declared redundant and even the most powerful multilateral bodies, the World Bank and the International Monetary Fund, must redefine their purpose and their *modus operandi*, and also attend to the division of labour between them as regards development assistance.

3. The current period of reflection about the aims and purpose of aid should be seen as an opportunity to rationalise aid policy so as to focus fully on development assistance. In the process, unwelcome adjustments to the aid process, which were tolerated before in the adversarial and containment considerations of Cold War politics, can now be abandoned. With

renewed confidence, donors can now mobilise more effectively to address global problems. There is, nonetheless, a tension between those who believe that aid should remain an instrument for reducing poverty and promoting economic growth and those who consider that the framework of aid provision should incorporate a wider global agenda of peacekeeping, democratic progress and interdependence on matters such as environmental conservation and crime prevention.

4. Unanimity exists among analysts in the policy research institutes that there is a need for a longer-term and broader approach both to the planning of development assistance and for its evaluation. Initiatives such as debt relief, while necessary, should not be funded at the expense of long-run investment in development. Similarly, the cost to aid budgets of the surge in relief aid in recent years is a matter of some concern. Politicians concerned to curry favour with their electorate know that emergency assistance has a certain telegenic appeal; but it can be not merely costly but wasteful compared with investing in development with aid money. If such populist reactions are not kept in check, moreover, the public perception of aid will become synonymous with relief (and, very often, with chaos, conflict and failure) rather than with development.

5. Declining confidence in the multilateral system is to some extent the by-product of the tendency towards excessive faith in markets and entrepreneurs in the 1980s. But this is not to gainsay the need for institutional reform. Some organisations, such as UNICEF, have retained their innovatory edge; others – UNDP being one good example – undertook major reforms before they could be accused of succumbing to inertia. But there are many others – some of the multilateral development banks are in the front line – where reform is being demanded from their members both as owners and as clients. Increasingly they will be subject to unsolicited reform proposals – and other more pressing challenges – from non-governmental actors, not least from within developing countries.

6. NGOs are already important influences on development assistance policy, both in donor countries and, particularly, at the level of grassroots development in matters such as the provision of rural credit and the appropriate choice of technology in developing countries where aid is applied. It is expected that developing country NGOs will become increasingly important as vectors of aid and also as bodies which articulate development needs more effectively. Sometimes this will present them with a dilemma: local NGOs may have to forgo aid in order to prevail upon their own governments more effectively. Southern NGOs could, however, be a key element in increased South-South co-operation, for aid has to be less donor-centred in future.

7. A return to the fundamental components of aid-giving is now anticipated. After a long experiment with using aid funds to persuade governments to introduce policy changes, aid should be reoriented towards the satisfaction of human needs. Some donors already see a role in strengthening the social services in developing countries after decades of neglect (including by donors). Most are agreed that human resource development should be a priority area, but donors can also have a valid role in financing the basic infrastructure from which poor people derive benefits. Some claims have been made for greater attention to population (or 'reproduction') in development: this is valid within a broader human development strategy, although local sensitivities must always be respected. It is now felt that at issue is not the

reluctance of developing countries to request such assistance, but rather the lack of donor resources allocated to this area.

8. The donor public needs to be better informed about the opportunity in development co-operation which the current historical changes represent. Similarly, the public is often ill-informed about the successes of development assistance. Failures of relief aid in Africa tend to get a more enthusiastic press than, say, the less 'newsworthy' fact that Korea's steady and spectacular growth was aid-based. Much of the responsibility for putting cogent arguments for aid before the media and decision-takers rests with the research bodies and implementing agencies which know aid at first hand.

9. New coalitions of public interest groups are forming in donor countries. They are in favour of 'real aid': unpolluted long-term development assistance programmes which focus on the sustained relief of poverty. They recognise that the failures of the Cold War era arose because aid was too donor-centred, to the extent of being focused more on donor projects than developing country programmes. But they are running ahead of the political and intellectual leadership in most countries, so the reverse concern – that 'fatigued politicians', inclined to raid aid budgets for self-interested reasons, may eventually undermine public support – has to be addressed.

The current situation in the OECD donor countries

For better or worse, the present moment in development co-operation is one of profound transformation. But the manifestations and perceived causes of this transformation vary significantly among countries.

In the US there appears to be a high degree of aid fatigue and loss of public support. However, unexpected but promising new constituencies are emerging among a new 'Sustainable Development' coalition of NGOs, new members of Congress and African-American groups. In Canada, as in the US, there have been substantial cuts in aid but this is less due to aid fatigue (the majority of Canadians support aid for poor countries) than to a political shift towards domestic spending priorities. In both countries these domestic priorities have crowded out aid budgets. In the US, the legitimacy of spending money abroad at a time of domestic spending cuts is increasingly being questioned.

A critical issue noted for North America is the lack of a consistent rationale for foreign aid and corresponding education of the public on development issues. Aid for development's sake alone is not given high priority among the public and therefore it is easily cut in times of fiscal restraint, despite its relative insignificance in overall budgetary numbers. In the US, the general public has not been meaningfully engaged in either the rationale for aid or the perceived conflicts between 'Third World' development and domestic issues in the North, particularly unemployment. There is concern that domestic self-interest might lead to active public opposition in the face of possible jobless growth, especially when aid rationalised by self-interest fails to produce the promised rewards. The counter trend, of increased concern for global problems (such as the environment, AIDS, drugs, refugees, etc.), has as yet an unclear effect on support for development aid.

For European countries, there are varied levels of fatigue *potential*. In general, public support and engagement remain high, countries outward-looking, and aid levels still relatively steady (although set to decline in real terms in most countries), but underneath lies a severe lack of both political and intellectual leadership. With the exception of the UK, the rationale for aid in these countries is based less on foreign policy concerns, and more on a commitment to poverty alleviation, and linked, as in the case of the Netherlands and the Scandinavian countries, to a domestic welfare state. However, growing concerns about effectiveness and the spillover from 'fatigued politicians' may eventually undermine public support.

With increasing international involvement in both peacekeeping and oda, the situation in Japan is quite different from that in North America and northern Europe. Public support and interest are very high, especially among young people, possibly as a result of the 'lateness' of Japan's entry into international arenas. Support is reflected in new postal savings schemes, whereby Japanese citizens can choose to contribute interest earned on postal accounts to development efforts via NGOs. There is also increased development education in schools and universities.

Several non-country-specific factors have also contributed to the general malaise. There is widespread concern about the growing impact of aid ineffectiveness (or the perception thereof) on public support and a general agreement that there needs to be greater attention to enhancing the effectiveness of aid agencies and more emphasis on successes – particularly on 'high pay-off areas' like population.

An important factor noted for all countries is the nature of constituencies and mechanisms for mobilising support. The present circumstances dictate the need for forging broad coalitions and NGOs are crucial for constituency building and public education in the North. NGOs are increasingly strong, intellectually and financially, and active in both donor and recipient countries, but a 'mixed blessing' in some. In the US and Canada NGOs have been good advocates for reform but are often too narrowly issue-oriented. In the Netherlands, efforts to forge an integrated approach and collective action such as the 'Rainbow Coalition' have been thwarted by divisiveness among NGOs, while key ministers have swung erratically between supporting poverty focus and long-term development on the one hand and conceding the case of oda funds for security and quasi-military purposes on the other.

Current issues

New claimants

Assistance to new claimants in Eastern Europe and the former Soviet Union is necessary and desirable but should be additional and separate from oda, preferably drawn from left-over Cold War defence budgets, or generated from the private sector and then 'married' with public funds.

At present, the diversion of oda resources, both financial and intellectual, is more potential than real, but the situation varies among donors. It is currently not a problem in Japan. In the US, however, oda diversion has been reflected in cuts to the multilateral

development banks in order to fulfil the Clinton Administration's commitment of \$1.8 billion in aid to Russia. Even where aid 'pollution' (i.e. the transferring of other ministries' spending obligations into the development budget) is not immediate (as in the Netherlands and Denmark where since 1992 there has been a clear distinction between oda and non-oda expenditures), the pressures are real and diversion factors would at the very least be likely to have an impact on the growth rates of oda (particularly in Germany). Moreover, whole new subject areas, such as political monitoring and the global environment, have emerged as legitimate claimants for aid allocations.

While the former Soviet Union and Eastern Europe may eventually return as donors, this will take several years and, in the meantime, oda budgets will also be pressured by 'legitimate' claimants as a result of newly created nation states, e.g. Eritrea and the Central Asian countries, and the democratic transformations in others, such as, already, South Africa.

Global problems

There is widespread consensus on the urgency of global problems such as narcotics, population, migration, the environment, etc. and on the importance of the global response. The consensus shows signs of tension at this point, however. For most, the purpose of official development assistance should remain the alleviation of poverty in developing countries through the promotion of economic and social development. Thus the existing DAC measures of aid (which remain fastidious about developmental purposes if not especially rigorous on what constitutes a 'developing country') should be retained and, within aid allocations, pressure should be brought to bear to ensure that non-developmental factors do not intrude. The poverty-focused framework for aid has long been accepted by most development research institutes; the economic arguments in support of aid to developing countries are well rehearsed and generally accepted; and the ethical and redistributive arguments are felt to command widespread public support.

Against this, there is a view, perhaps still in a minority, which argues that this framework of aid as a mechanism for addressing the economic problems of poor countries is treated with increasing scepticism outside the development profession; and that there is a need to widen the framework of aid provision to incorporate a global (rather than a poor country) agenda, with oda being deployed to assist in the process of building a new global consensus on such matters as conflict resolution, environmental and demographic challenges, disease control, etc., as well as poverty reduction.

The intellectual underpinnings of this broadening of the purpose of aid are becoming increasingly clear. There are, first, arguments (emanating from the UN itself) that 'human security' requires new approaches to sovereignty and peacekeeping and that development assistance should be linked to financing security measures, demobilisation, arms control, etc. Second, there are arguments (particularly evident in the US but also in the European Union) that aid should be used explicitly to promote human rights, democratic forms of government and civil societies (or social cohesion), on the grounds that these represent a new global consensus on 'governance'.

Whether or not these different views on the purpose of aid are in conflict remains a matter for debate. But there is clear concern that a focus on global problems could detract attention from the poorest countries or populations (which are less likely to be the largest contributors to global problems) and that aid allocations governed by this approach might reflect donor countries' perceptions of need rather than those of the recipients.

However, the global approach could clearly serve as a useful mobilising paradigm for development co-operation. Reflecting the declining prominence of 'national sovereignty', this new rationale, based on notions of international solidarity and member 'rights and responsibilities', could make conditionality more effective and energise aid allocations. Within this framework, the role of oda and poverty alleviation must be clarified and the relatively small pool of concessional resources reserved for the poorest countries.

Bilateral and multilateral agencies

A more interdependent world without competing superpowers would suggest a greater role for multilateral problem-solving. It is generally agreed that multilaterals have theoretical and structural advantages over bilateral assistance, which is criticised as incoherent and too often baldly politicised. Multilaterals have better potential for consistent, co-ordinated, relatively neutral and universally applied aid. Furthermore, with formal allocative systems such as that of the IDA, based on both need and performance, the multilateral development banks are often stronger anti-poverty actors than are the bilaterals.

In practice, however, there is considerable room for improvement. Within the UN agencies, there appear to be unclear objectives and overlapping functions and an institutional culture of clientage rather than ownership. There are problems with the multilateral development banks, not least the World Bank, regarding an over-emphasis on project design and disbursement at the expense of implementation, a high degree of centralisation with little representation in the field, a lack of accountability and openness, and too much reliance on expatriate expertise. There is a likelihood of a greater role for the regional banks in the future – especially for regional integration – but they too need strengthening, and some are even showing signs of delinquency in their lending policies.

Also at hand is the issue of expanded European Union foreign aid programmes. The agreed 60% increase over the next few years could, if badly handled not only exacerbate existing problems with administration and policy co-ordination but also result in diversion from the bilateral aid programmes of EU members.

A clear division of labour between multilaterals and bilaterals is desirable whereby each should focus on and further develop its respective strengths. For example, it is suggested that bilateral agencies may be better equipped to deal with political issues, human rights and military linkages under the overall heading of 'governance issues' through conditional lending, but that principles of 'aid governance' should be applied to donor countries as well, particularly regarding the influence of commercial interests.

There is some support for a new, more radical paradigm, such as the UNDP idea of 'development compacts' between groups of countries in the North and South, which could

combine the best aspects of the above systems by providing long-term, predictable flows of resources with better co-ordination and mutual accountability. But the potential of such 'compacts' requires review.

Effectiveness

'Quality of aid' issues give rise to concern, but compounding factors such as external shocks make aid effectiveness difficult to measure by standard development outcomes. Nor do standard development outcomes easily measure what aid has *prevented*. Measuring effectiveness is also complicated by unclear objectives *or* by a rigidity of objectives that overlooks unexpected yet desirable outcomes. In order to judge effectiveness accurately, a longer-term, broader perspective is needed and development assistance must be considered in the context of the wider macroeconomic picture and the development policies of recipient countries. However, insufficient resources are devoted to this end. Furthermore, the standards for judging foreign aid programmes often appear higher than those applied to other government agencies or private enterprises.

The problem is recognised as not merely one of 'damage control', however. Although current budget cuts mean 'doing more with less', several ways to improve aid effectiveness are being discussed:

1. Adopting a longer-term, process-oriented approach, with greater emphasis on project implementation, including mechanisms and incentives for monitoring and ongoing evaluation;
2. Strengthening indigenous institutions and developing (and using) local expertise;
3. Increasing local participation. However, this should ultimately be the responsibility of local governments and is therefore rather an issue of institutional strengthening and capacity building;
4. Minimising aid dependency. Aid dependency is recognised as being more a result of poor quality (i.e. low investment in capacity building) than of excessive quantity. Therefore, despite the traditional reluctance to fund recurrent expenditures, it is suggested that budget support for certain costs, such as education, can have positive results especially if it is limited to a fixed time-frame.
5. Improving donor policy coherence. Often donor trade and procurement policies undermine their own assistance efforts.
6. Reducing the transaction costs of bilateral assistance delivery.

Bank lending to aid foreign direct investment in developing countries is now increasing rapidly, at least in Asia and Latin America, after a decade of depressed non-oda flows. Aid should therefore be concentrated in future in the countries which have not been able to attract international private financing (especially Africa and the poorer parts of Asia); and its effectiveness should be judged within that context, where it is fulfilling an obligation which commercial actors have refused because of the unacceptable risks involved.

Crisis or opportunity?

The perception of a crisis depends on one's perspective. The Japanese, for instance, do not perceive a crisis in aid, but rather a history of successes (in East Asia) to be duplicated elsewhere. Sceptics, on the other hand, argue that the unique circumstances of the 'Asian miracle' (massive resource transfers, managed trade, and the delay in the transition to democracy) suggest that the model may not be so easily applicable elsewhere.

In other countries, the perceived budgetary, intellectual and confidence crisis is described as real (in the US especially) or potential (in much of Europe). There is wider agreement, however, that the 'crisis', conceived of as a 'transition' to a new pattern of global development, provides an opportunity for a redefinition and revitalisation of development co-operation. Any new framework must reflect the new world order, addressing economically driven personal insecurities in the North and regional insecurities in the South that have surfaced since the end of the Cold War.

In sum, three major components of new models for development co-operation seem to be necessary:

1. The rationale: a common agenda of human development and security which promotes not only economic growth but also democracy, reduced military expenditures, and capacity building (among others), and focuses on issues of employment, migration, population, poverty, the environment, health, social and economic inequity, and human rights;
2. The governing framework: a partnership approach with member rights and responsibilities and mutual accountability; and
3. The guidelines for resource allocation: separate and additional funds for new claimants and global problem-solving, with oda reserved for the poorest countries and modelled on the principles of 'real aid': poverty-focused with accelerated graduation, unpolluted, untied, participatory, inclusive of social concerns, and based on coherent donor policies.

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