

# THE FINANCING OF DEVELOPMENT

## Private Flows and Official Development Assistance

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# **1**

## **General features of development cooperation**

### **1.1. BASIC ELEMENTS OF THE CONCEPT OF DEVELOPMENT COOPERATION**

The concept of development cooperation does not have a content that is defined outside the thinking and values that dominate society. For this reason, the best way to explain the scope and objectives of development cooperation is to understand it as a reflection, on the one hand, of the idea that people have at each historical moment of how relations between poor countries and rich countries should be; and, on the other, of the importance and scope given to development on the agenda of the problems of international society. Development cooperation has been loading and unloading content over time, so to know what it means, we must follow its evolution in recent decades. Thus, when you want to specify what development cooperation is, it is not possible to offer a tight and complete definition, valid for any time and place. And it is that development cooperation does not respond to a previously coined concept, of which its contents can be precisely defined.

The fact that it is not possible to speak of a universally accepted concept does not mean that there are no references that define what is meant when speaking of cooperation. But before analyzing this precision, it is convenient to highlight this evolutionary character and history that development cooperation has, to better understand how to interpret these references.

A first approach to understanding development cooperation consists in thinking about the two elements

that form their own denomination: cooperation and development. The term cooperation shows that it is a relationship between people or organizations characterized by the existence of common interests among those who make it up and, in principle, due to an absence of hierarchy or exploitation of one part over the other.

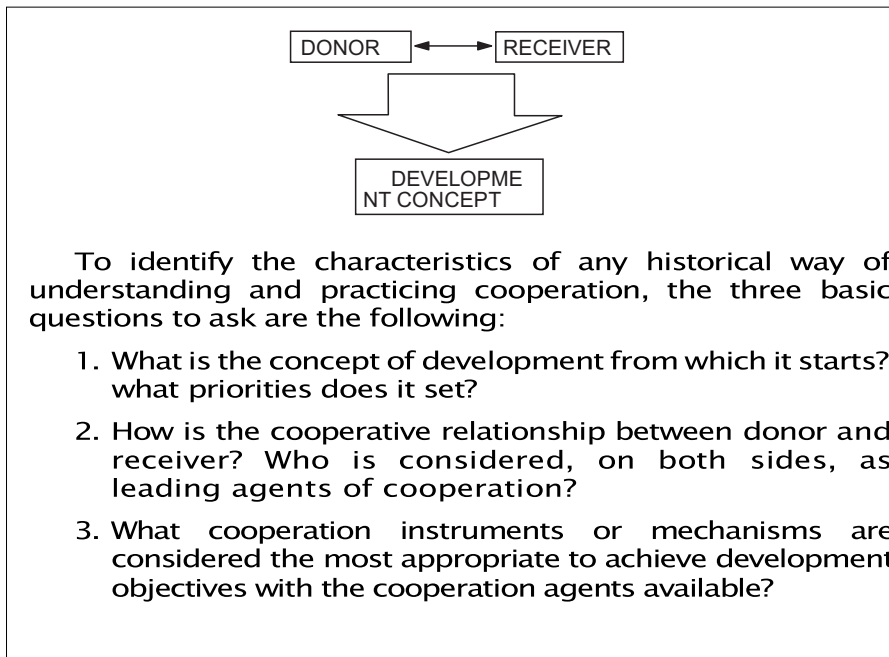
But the above does not say much about the content of that relationship. Cooperative relationships can occur for very diverse purposes, including cooperation to commit crimes, as collected in many criminal codes. For this reason, the second term is fundamental: development, which defines the objective pursued by this relationship and decisively marks the contents and scope that cooperation may have. Development cooperation thus implies the conjunction of two components: one that establishes a formal relationship (cooperation) and the other that fills the objective and content of that relationship with meaning.

Although this approach is insufficient to outline the concept of development cooperation, it places us on a valid track to continue unraveling its ins and outs. The insufficiency lies in the fact that both the concept of development and cooperative relations are susceptible to multiple concretions. Especially, with regard to development, the debate around its concept has been permanent after the Second World War and there is no way to propose a formulation that is accepted unanimously.

That is why it was pointed out before that development cooperation is filled with content depending on the dominant thought of the concept of development, which will determine the characteristics and priorities of cooperation. In fact, cooperation strategies have evolved in accordance with the consensus or hegemonic positions of thought on development.

The following scheme can serve as a guide to ask what the different ways of understanding development cooperation have been, characterized by the priorities in the objectives and the modalities in which they have been expressed. A first important observation is to point out how the cooperation relationship has been blurred in reality as such, having functioned fundamentally as a donor–recipient relationship, with some contributions of a cooperative nature, more or less accentuated depending on the case.

Graph 1. Elements of development cooperation



## 1.2. EVOLUTION OF COOPERATION STRATEGIES

The objectives pursued with development cooperation vary according to who the donor is, as well as with the perception that they have of what are the development priorities and the degree of commitment to their realization. In addition, these positions have been changing over time, either because the ideas they had about development have evolved, or because the commitment made is understood in a different way.

Let us see in a quick, non-exhaustive historical tour, how different cooperation strategies have been configured, which respond to the different conceptions that have been produced around development.

1. At the beginning of development cooperation, in the fifties and sixties, the objectives it pursued were fundamentally the values and achievements of industrial society as Western countries had achieved it. More specifically, economic growth was, without a doubt, the central priority

of all efforts. Once the economies were able to grow, it was assumed that a favorable dynamic for development would be generated. With these premises, the aim of development cooperation was to help the economies of developing countries take off, so that they could enter into a continuous process of growth. This basic concern for growth did not completely forget the need for a certain component of social development. But this was always considered as a complementary aspect of economic development. Development cooperation was dominated by the importance of the economic dimension and the objective of growth. Another issue is that different interpretations were given about the most suitable ways to achieve that goal.

2. In the late 1960s and increasingly in the early 1970s, the previous conceptions that considered that economic growth should be the central focus of development began to be questioned. Especially among the donor countries and agencies most concerned with social development, there was an inability to eliminate—and not even alleviate—the extent and intensity of poverty which, despite the positive indicators of the economy, was resistant to decline. In an attempt to combat it, much more attention was paid to integrated rural development programs and social programs for health, education, drinking water or sanitation.

This concern led to the formulation of the basic needs approach. The seventies are characterized by the presence of the social dimension of development in the donors' agenda in a much stronger way than before. Attention to the poorest sectors of the population reached the World Bank itself, which, under the presidency of McNamara, designed its strategy under the name of basic needs. This trend was evident in the OECD donor countries that decided to allocate aid equivalent to 0.15 percent of GNP to the poorest countries.

Despite this shift, still in the 1970s, when selecting which countries, the cooperation was aimed at,

development policies were not considered, development that were promoted in the receiving countries. It was the Nordic countries (Sweden, Norway and the Netherlands) that initiated the policy of considering in a special way those countries that really undertook policies directed at all social groups and particularly at the poor sectors, so that prioritize aid to those countries that offered greater guarantees to make cooperation policies effective in the fight against poverty.

3. The eighties come back to place macroeconomic objectives at the forefront, as was the case in the 1950s and 1960s. There are several reasons that explain this change of emphasis but, among all, the indisputable hegemony of Western neoliberal thought stands out. The theory was joined by the structural crisis of the economies of many developing countries, which led to the imposition of profound structural economic reforms that, in a few years, changed the panorama of the economies of those countries.

The role played by the World Bank and the International Monetary Fund in this operation was decisive. The fact that developing countries faced enormous difficulties in coping with their foreign debt payment obligations, led them to have to negotiate, to access new credits and be able to comply with the previous ones. In order to qualify for the new loans, the two international institutions mentioned imposed as a prerequisite that economic reforms be implemented, always inspired by the neoliberal economic model. Development cooperation was marked by its dependence on these reformist objectives, while adapting to the new conception that gave a central role to the market and private initiative, cutting back on the functions of the state, especially in regards to social policies.

4. The end of the eighties and the nineties will set other goals for cooperation. New aspects are proposed to consider when allocating cooperation funds, which are summarized in the following three elements: good governance, human rights and democracy. The incorporation of these



elements represent an important step, since it removes one of the budgets that until then were considered basic, such as non-interference in internal affairs with a clear political content.

It must be remembered that the conditions imposed by the World Bank and the Fund already implied a strong interference in domestic politics, although limited to economic and social aspects. Its extension to the most delicate political issues, due to its special relationship with the sovereignty of each country, did not occur until the 1990s.

With this, there is a direct relationship between what is understood to be development and the values that Western countries consider basic for an acceptable development. The Development Assistance Committee (DAC) of the OECD affirmed, in 1989, the existence of a vital connection between open and democratic political systems, human rights and the efficiency and equity of economic systems. It argued that participatory development implies more democracy, a greater role for local organizations, respect for human rights, competitive markets and dynamic private initiative. These ideas were developed in subsequent years and, although they were not consolidated into specific regulations, they did imply the adoption of new references for cooperation.

Together in addition to these three central objectives —human rights, democracy and good governance— of what can be called the second generation of conditionality aid, in the 1990s another objective has been introduced that has gradually acquired a growing presence in cooperation: concern for the environment. It was not until the publication of the report *Our Common Future*, in 1987, that it appeared as a priority issue for development cooperation. After the Summit on Development and the Environment, held in Rio de Janeiro in 1992, the inclusion of environmental conditionality increased.

However, it cannot be said that there is a clear strategy of how development and environment issues should be related, although no one questions that link. The way of understanding it marks the way of establishing conditionality when determining cooperation.

### 1.3. THE COOPERATION AS A MEANS OF FINANCING DEVELOPMENT

Development cooperation cannot be equated with the simple transfer of resources from a country or from an international organization to another beneficiary country. In fact, the history of cooperation has been characterized by proposing initiatives whose objective was to regulate economic activity in a way that would have fair distributional effects. These types of measures may have as much or greater importance for development than mere transfers of financial resources. An example would be what was once the novelty of the Generalized System of Preferences, which granted certain customs advantages to products from developing countries to facilitate their access to the markets of developed countries. The same applies to other agreements that have positive consequences for the development of the least developed countries,

When today we talk about aid or development cooperation, four large groups of aid are usually distinguished according to their content: financial aid, technical aid, food aid and humanitarian aid. Although technical and humanitarian aid have increased their percentage of the total, the reality is that financial aid is by far the most important, accounting for almost three quarters of the total.

Table 1. Types of development cooperation

**Financial help:**

It is any transfer granted in the form of grants or concessional credits to finance activities aimed at the development of the recipient country. It can be in the form of financial resources or actual content – goods and services – transferred from donor countries to the beneficiaries. It is channeled through projects and programs.

**Technical help:**

It is the transfer of technical knowledge to the receiving country to contribute to its development. It ranks second in importance, after financial aid. It has usually had four components:

- Provision of experts and advisers.
- General and professional training.
- Supply of material and equipment for the above components
- Pre–investment activities such as resource identification and investment orientation.

**Food Aid:**

It is the contribution of food products to countries in need in order to enhance their supply and guarantee their food security, transferred as is, or within the framework of a specific development project.

**Humanitarian aid:**

It is the one dedicated to emergency situations caused by natural catastrophes, internal or international conflicts with large–scale population displacements, famines, epidemics, etc., combined with fragile or deficient social, economic and political institutions.

In recent years, spending on humanitarian aid has seen a growing rise in the bilateral disbursement figures of developed countries, which also include spending for the maintenance and restoration of peace.

This structure of the aid, dominated by the financial dimension, and the fact that the non–financial initiatives mentioned above, in addition to not having been very prolific, are impossible to evaluate in terms of their effects, explain the dedication that must be granted to financial flows when analyzing development cooperation. This does not mean that changes in regulatory frameworks of all kinds, economic, social and political, and that are related to the opportunities offered to developing countries. A more or less flexible legislation for immigration in developed countries, the nature of agreements on the protection of natural areas and forest reserves,

Thus, with the exceptions and precautions made, the financial dimension of development cooperation is its central chapter. Not only because, ultimately

the transfer of financial resources is an acceptable indicator to measure the possibilities offered to developing countries (because the more financial resources they have, the greater number of development programs and projects they will be able to promote), but also because it shows the political will and commitment of the developed countries in the task of achieving the development of all countries.

That is why it makes sense to analyze development cooperation as an important element within the set of external financial resources that are made available to developing countries. A consideration of cooperation that is not framed in the set of flows accessed by developing countries would be incomplete and would not allow a proper vision and assessment of its scope.

#### **1.4. THE FINANCIAL NEEDS OF THE DEVELOPING COUNTRIES**

One of the characteristics of developing countries, and which explains their difficulties in overcoming their situation, is the lack or insufficiency of domestic savings to devote to investment in new projects. A country can be classified as poor according to many parameters but, from a dynamic approach, poverty is found when there is no possibility of creating new opportunities for wealth. The greatest drama of an economy is that it consumes everything it produces, and that this decision is due not to a free choice, but because it needs to consume everything produced in order to survive. When that happens, the economy reproduces itself but without growing; it is a stagnant, subsistence economy.

As long as it does not manage to release part of its production to allocate it to new activities, that country will not be able to escape from its poverty trap. This is an extreme case, but it serves to illustrate the consequences that the inability to generate savings implies for an economy. What has been said is equally applicable to the countries that, even when they manage to save to some extent, do so insufficiently to adequately face the growing needs of the population.

In any of the situations (absence and insufficiency of domestic savings) if these countries could not access to

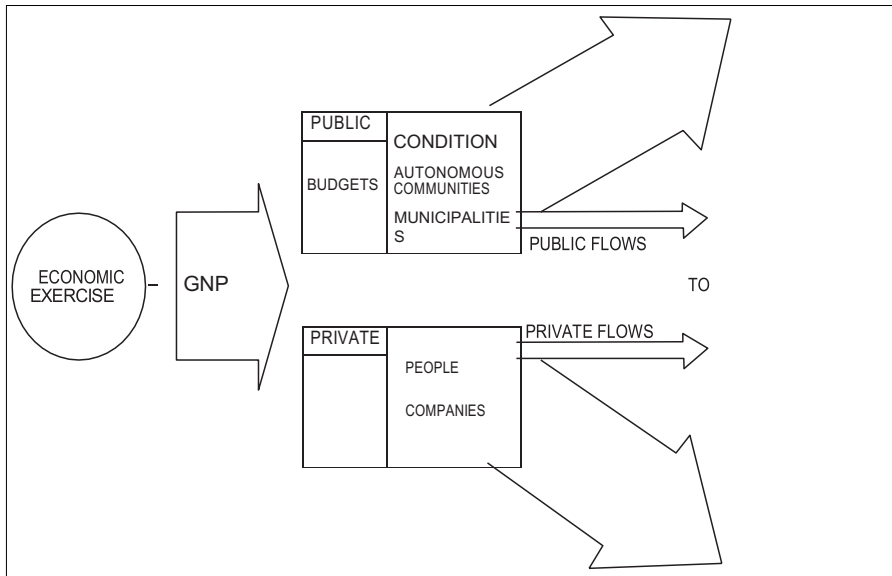
receive the savings generated in other economies would be doomed to remain for a long time —if not always— as economies incapable of providing minimally humane living conditions for their population. When affirming the need for external financing, it should be noted that it is a necessary but insufficient condition. The relationship between development and resources is not automatic. Resources may be available and used inappropriately

Historically, many of the countries now considered developed resorted to foreign savings to finance their development. The United States relied heavily of external flows in the mid–nineteenth century; Russia resorted to the savings of other countries to finance its development at the end of the 19th century.

The study of the savings generation process in the most powerful economies and its channeling towards the weakest economies is what is called development financing. How can developing countries access foreign savings? What conditions are set for this access? Through what procedures or institutions make decisions to regulate that access?

The following diagram summarizes the process. generation of external flows from their origin

Graph 2. Origin of flows for development financing



in developed economies. It offers a global view of the process and makes it possible to understand the factors that determine why these flows to developing countries increase or decrease, and why access conditions are hardened or softened.

Although the graph is expressive enough, it is worth making a brief explanation of it. The source of any external financing lies in the capacity of certain countries to dedicate part of the resources they produce to financing activities outside their territory. Therefore, the results of its economic activity, normally measured in terms of Gross National Product (GNP), constitute the first reference. A part of that GNP goes through taxes, fundamentally, to form part of the budgets of public institutions. Within the public sphere, three spheres are distinguished: state, regional and local. The decision of the different institutions to allocate a part of the public income to the financing of development is what constitutes the public financing of development. The GNP resources that do not go to public bodies remain in the hands of private individuals and organizations. These may, in turn, decide to dedicate part of them to activities in other countries, with or without profit.

# **2**

## **private financing of development**

## **2.1. GENERAL CHARACTERISTICS OF THE PRIVATE FLOWS**

Private flows are those that come from the activities of the private sector of the economy and that are allocated in different ways to developing countries, by decisions of economic agents in the private sector (savers, companies, banks, etc.). The World Bank defines them as negotiated flows in market terms from private sector resources. As when speaking of public financing, a first basic difference must be made regarding the onerous or free nature of the flows. Thus, it is necessary to distinguish between the flows that are channeled through the market, and those that are granted on a concessional basis, that is, without charges or with charges lower than those prevailing in the market.

In the case of private flows, this distinction is of little importance since the vast majority is carried out through the market, with only the funds collected by non-governmental organizations and other non-profit associations being granted for free. This type of flow is of little importance from a quantitative point of view, as it does not exceed 5% or 6% of the total. In this case, it is not worth pausing to specify the criteria that determine when the flows can be considered concessional, since it is quite evident whether they seek to obtain profits or whether they are channeled as donations or on a concessional basis. When referring to private concessional flows, we limit ourselves to the own funds available to the



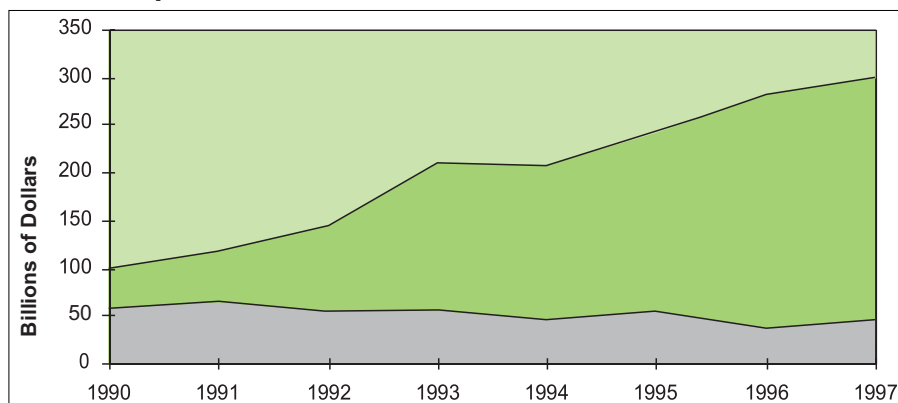
non-governmental organizations, without considering the subsidies or co-financing they may receive from the public sector, which are obviously considered public flows even when managed by private organizations.

The fact that almost all private flows are channeled through the market implies that its recipients, the developing countries, must have sufficient capacity to be able to comply with the conditions established by the market. The market does not distinguish levels of development or need, but only captures those who are willing to pay the price that is established for money as a result of the game of demand and supply. Market conditions are, in principle, the same for everyone, which means that there are no differences between countries. But the capital market presents some differences with respect to other markets. Those who invest their money will seek to do so in those countries where they can obtain the greatest benefit. Whoever lends his money will flee from those countries that do not offer him a guarantee of recovering his loans, or, in any case, it will demand tougher conditions and a higher price (higher interest) that compensates for the greater risk it assumes. In short, in the capital market it turns out that those most in need are those who are worst placed, with the greatest difficulties in accessing the resources that could complement or make up for their lack of domestic savings.

The current importance of private flows as a component of development financing is highlighted when comparing their behavior in relation to official or public flows. If the evolution of total financial flows from developed to developing countries is analyzed, it clearly shows an upward trend in the 1990s. But there is a marked difference according to their public or private nature. Flows of official origin have stagnated, while flows of private origin have been more dynamic and it has been their behavior that has made the total amount of external financing grow. The following graph shows the evolution of both.

This first analysis gives us a double reference to the current structure of financing development. The first, the indisputable hegemony of private agents, not only as to quantities but, what is more important,

**Graph 3. Capital flows to developing countries: public and private 1990-1997**



Financing	1990	1991	1992	1993	1994	1995	1996	1997
Public	56.4	62.7	53.8	53.6	45.5	54.0	34.7	44.20
Private	41.9	53.6	90.1	154.6	160.6	189.1	246.9	256.00
<b>Total</b>	<b>98.3</b>	<b>116.3</b>	<b>143.9</b>	<b>208.1</b>	<b>206.2</b>	<b>243.1</b>	<b>281.6</b>	<b>300.34</b>

*Source:* World Bank; Global Development Finance 1998.

as development initiatives; and, consequently, the decline of the public function of development. The second reference, the need to better understand the behavior of private flows if we want to have a vision of current development processes. To do this, it is necessary to distinguish the various mechanisms by which private capital is directed towards developing countries. The distinction is important because the effects to the recipient vary significantly from one another.

The main categories of commercial private financing, that is, those that come from companies and private banks or financial organizations of various kinds, can be grouped into the following three:

- a) Foreign Direct Investment (FDI).
- b) Portfolio Investment (CI) in its two modalities:  
investment in social capital and investment in bonds.
- c) Loans or credits.

In official statistics, another one is usually added: export credits, but due to their scant relevance to the total, we will not consider them. As can be seen, the flows are channeled fundamentally in two ways: investment and credit. Loans or credits are a well-known concept, but investment modalities are not.

The investment, in turn, can be: portfolio investment or direct investment. Portfolio investment consists of the acquisition of shares and other titles, but without the intention of controlling the property of the company, but with the sole purpose of having a profitable investment. Direct investment implies becoming part of the ownership of a company in such a percentage that it participates in its control. The line that separates both forms is not clear, with the criteria varying according to the countries that set from 10% to 25% of the total capital of the company to consider it as direct, to others that do not establish any percentage and they consider it by evaluating the character of the investment.

## **2.2. FOREIGN DIRECT INVESTMENT (FDI)**

It is understood that the investment in a country other than the origin of the capital responds to the category of FDI when those who carry it out have a lasting interest in the management of that investment, which is manifested when with that investment at least the 10% of the voting power of the company, according to the criteria of the World Bank. Although it has already been said before that the criteria to define it change according to the countries.

For many years, FDI has been much more important to developing countries than CI. FDI is closely related to the activity of multinational or transnational companies (TNCs). Although it is considered that they were born in the middle of the last century, their expansion has taken place in the second half of this one.

### **2.2.1. Why invest in developing countries?**

External investors, of which the TNCs are today the main agents, may have multiple reasons for deciding to place their capital in another country and, likewise, for choosing the country that best suits their interests.

## **3. 4**

Here we highlight those factors that can be considered, in general terms, as the most relevant in the behavioral strategies of TNCs, and which are the following:

- a) The TNCs are attracted by strong economic growth in host countries and seek to capture emerging markets in other countries. Investment by TNCs in developing countries has occurred, in most cases, as a consequence of the growth of markets in those countries for products in which those companies had superior technology.
- b) The macroeconomic stability of the economies where they go to invest is a decisive aspect for TNCs that consider it essential to have confidence in the future, so that they can predict the evolution of their investments in the medium term. In addition, they value the existence of a framework of liberal trade policies in the recipient country, which includes the facility for currency conversion and the repatriation of profits, the release of tariffs for the inputs that are needed for the production; and, increasingly, the incentives offered by governments to external investors.
- c) Investments in developing countries also serve to consolidate the strategic positions of TNCs in a geographical region, so that the chosen country can become a platform for expansion to control the market of developing countries nearby.
- d) The lowest production costs and transport constitute an important element to settle in a certain country. But perhaps it is not the most important or, at least, it is not taken in isolation and without the previous factors being present. This is not to ignore the cases of labor exploitation in many developing countries. But the bulk of foreign investment is destined rather for production processes that require a certain qualification of the workforce and a service infrastructure that allows agility in management and marketing. If these conditions are met with lower costs than in other countries, then without a doubt it constitutes a decisive factor for investment.

### 2.2.2. Foreign investment and development

Without pretending to make an analysis of all the factors that drive TNCs to invest in developing countries, the above factors provide a framework for understanding the links between FDI and host country development objectives. The first consideration is that the decisions of the TNCs when placing their investment are made based on their interests and not on the priorities of the country. This leads to the question to what extent these investments serve the development of the host country, which do not necessarily have to coincide with its interests. It may be that the effect on the country's development is somewhat collateral or secondary to foreign investment, since FDI is established based on the interests of TNCs, and not based on the country's development interests.

This automatic non-correspondence between FDI and development needs is revealed by analyzing the distribution of investment among developing countries. The risk factor is one of the most important when choosing TNCs, and foreign investors in general, their destinations. TNCs take special care to avoid risk in their investments. In the classification of countries with the greatest risk for investors, the most needy countries are logically found. Not surprisingly, in a 1991 ranking, the top ten countries at risk were: Guinea-Bissau, Zaire, Haiti, Ethiopia, Uganda, Myanmar, Iraq, Sudan, Somalia and Liberia, which, in turn, instead, most are in the group of poorest countries in the world. If it is risky to invest in them, foreign investment will not come, no matter how serious their development needs, and therefore their resources. But the market does not capture these needs, only the risk involved in the investment.

Developing countries (and not only them, but also developed countries) strive to attract foreign investment, because they consider that it brings them important benefits. Among them, it can be highlighted, on the one hand, that the population accesses to goods and services that they could not get before, or that they now does in better conditions of quality and price. On the other hand, the government obtains higher tax revenues. New investments stimulate new local investments and can create positive knock-on effects. Other external advantages can be the transfer of technology, promoting production for export, thus obtaining more foreign currency, etc.

But not everything are advantages. It may be that the goods and services produced by the TNCs are not the most necessary for the majority of the country and are directed to the sectors of the wealthiest classes. Governments do not always obtain higher revenues due to the fiscal facilities granted to investors to attract them. The greater strength of the TNCs in relation to local companies causes them to displace them from the sectors with the greatest initiative in the economy, or when they go to a strategic sector that requires a large investment, there is a tendency for the TNCs to enjoy situations de facto monopolistic. The technology they use is not always the most appropriate and therefore their connection and transfer to the local environment is difficult.

### **2.2.3. The perception of FDI from developing countries**

Reluctance towards the presence of TNCs was great in the 1960s in many developing countries, because they considered that they barely benefited from their presence and, instead, their demands and power negatively conditioned both economic and political life. The perception of loss of sovereignty with the presence of TNCs occurred especially when they invested in activities of the primary sector, such as: plantations, extensive crops, mines, oil, etc.

The work of Eduardo Galeano, *The open veins of Latin America*, vehemently expresses this situation, contributing in his narration many examples of what the presence of TNCs in Latin American countries meant, what was called the bleeding. This graphic and dramatic image was also used by the Nobel Prize winner Pablo Neruda in one of his poems to express the drain of resources that the presence of foreign capital meant for Latin American countries: «and thus the bled republics are emptied through the ports ».

That is why in many developing countries, in the decades of the 1960s and 1970s, measures were taken to control their presence. Limits were placed on investments in certain sectors that were considered strategic, or investments were required to be allocated to certain areas or activities. In many cases, foreign capital

had to be associated with local capital, always having control of the majority. Even the countries of Southeast Asia (South Korea, Taiwan, Singapore and Hong Kong) They put this type of limitations and conditions on foreign investment, in order to channel it towards the sectors that interested them and to control their activity. The limitations also affected, in many cases, the repatriation of profits.

Table 2: The open veins of Latin America

The “Government Economic Action Program”, drawn up by Roberto Campos, provided that, in response to his beneficent policy, capital would flow from abroad to promote the development of Brazil and contribute to its economic and financial stabilization. New direct investments, of foreign origin, amounting to one hundred million dollars, were announced for 1965. Seventy arrived. For the following years, it was assured, the level would exceed the forecasts of 65, but the convocations were useless. In 1967, 76 million entered; Evasion for profits and dividends, technical assistance, patents, royalties or royalties, and use of brands exceeded new investment by more than four times. And to these blood letting should be added, still, clandestine remittances. The Central Bank admits that, outside of legal channels, one hundred and twenty million dollars emigrated from Brazil in 1967.

What left is, as can be seen, infinitely more than what entered. In short, the figures for new direct investments in the key years of industrial denationalization –1965, 1966, 1967– were well below the level of 1961. Investments in industry gather the majority of North American capital in Brazil, but they add up to less than four percent of total United States investment in world manufacturing. Those of Argentina barely reach three percent; those of Mexico at three and a half. The digestion of the largest industrial parks in Latin America has not required great sacrifices from Wall Street. They bring few dollars and take many.

*Font:*Galeano, Eduardo; The Open Veins of Latin America; pp. 351–2.

But in the 1980s there was a shift in the perception of the presence of TNCs. The countries that had established controls to foreign investment they saw how capital was directed towards other countries. In fact, a restrictive policy in the reception of flows was passed to other

targeted policies to the capture of external flows. Government policies that establish incentives for foreign capital have become widespread in the 1990s and it can be said that there is competition between governments to attract investment. These incentives are fundamentally fiscal, offering more beneficial conditions, and financial, facilitating or contributing local capital.

To understand this change, we must bear in mind that, during the 1980s, the foreign debt crisis greatly limited private capital flows through loans, with which FDI was the only possible source of capital. As a result, countries began to establish agreements with the TNCs, making their previous policies more flexible.

#### **2.2.4. Do we have to control the TNCs?**

The relationship between TNCs and host countries—both developed and developing—is a changing relationship that must continually seek new balances. The deep dynamics of productive transnationalization gives rise to unforeseen situations in which governments are unable to control the conduct of TNCs. A contradiction arises in the interest of countries in receiving foreign investment, especially in the weakest countries. These need capital but the activities of the TNCs are increasingly volatile, less stable. Investments pay off quickly and your interests may find new, more advantageous locations after a few years. The sudden disappearance of a company causes a very strong impact in the country, especially in the region where it was based, which hardly finds compensation.

But developing country governments have failed to establish a framework that can deal with such situations. On the other hand, developed countries have advanced in the elaboration of guidelines for the activity of TNCs. The most recent manifestation of attempts to establish a framework that regulates relations between governments and external investors has been the Multilateral Agreement on Investment (MAI).

The MAI replied to an initiative of the most developed countries, grouped in the OECD, which began in



1994. In fact, the proposals presented responded more to the interests of TNCs than to those of developing countries. As expected, representatives of the last countries did not take part in its preparation. When the document was released, the reaction of developing countries and many non-governmental organizations was highly critical. The contents of the agreement left the recipient countries in a position of inferiority, which in practice implied a hegemony of the TNCs. The MAI was paralyzed thanks to the great rejection caused and if a new agreement is to be achieved, the negotiations must be restarted, but this time with the participation of all the affected parties.

Two considerations that result from the experience of what happened with the MAI should be highlighted. The first is to reiterate the importance of aspects that are not strictly financial when evaluating the development possibilities of countries. In this case it showed how important, if not more so, than the mere fact of the arrival of external flows is the way in which they come. The norms that regulate the presence of foreign capital and its realization are central to calibrating its effects as positive or negative. The second is that concern for development cooperation cannot be limited to simply looking at the evolution of official or concessional flows. Just as in the 1980s non-governmental organizations adopted a very active position on the issue of foreign debt, understanding that it stifled the development possibilities of indebted countries, now they have understood that the MAI could – have very serious consequences for development and have acted accordingly.

### Box 3. Multilateral Agreement on Investment (MAI)

In the last two decades, Foreign Direct Investment (FDI) flows have increased dramatically, not only among developed countries, but also from the North to South. The idea of establishing an agreement in this field, the Multilateral Investment Agreement, was proposed by the United States at the end of the 1980s, and later taken up by the OECD. The MAI would represent a new giant step in the process of liberalization and deregulation of the world economy.

Although the preparatory meetings for this agreement began amidst the greatest secrecy in 1988 within the OECD, the official negotiations did not begin until May 1995. The working group was made up of trade ministers from the OECD countries, joined by the European Commission and the World Trade Organization (WTO), invited as an observer. The draft agreement that came to light in 1997 was the result of a long negotiating process in which the US continued to maintain the initiative, both in terms of issues and in the framework of the negotiations.

The contents of the agreement became known in October 1997, thanks to the efforts of some NGOs who managed to leak it via Internet. The secrecy surrounding such a transcendental issue for the economy was even denounced by the European Parliament.

On the other hand, although the MAI is an agreement that intends to affect all the countries of the world, it was only negotiated by the developed ones. Asian countries protested in Hong Kong in 1997 at the audacity of the richest nations in drafting such an important agreement without first consulting the majority of the countries, or inviting them to participate in the negotiations.

#### **The aims and principles of the MAI**

The main objective of the Agreement is the deregulation and liberalization of foreign investment, which means that all investors will have the right to operate in all member countries with minimal regulation, and they will be treated equal to or better than companies or national citizens.

The MAI proposes to apply to investors the usual rules in matters of international trade: investors must benefit from the same treatment as national companies, without allowing positive discrimination towards national investors. The agreement would also prohibit imposing any result obligation on investors (such as exporting a percentage of production, or carrying out technology transfer), or making positive discrimination on production processes, such as favoring—for example—the use of less polluting techniques.

The public policies of the states where the investments are installed would hardly have an impact on them: according to the MAI, the discrimination that an investor may be subjected to as a result of measures taken by a political authority will be judged, both in law and in fact. On the other hand, any signatory to the agreement who wanted to withdraw from it could not do so before five years, and the agreement would continue to apply to them for fifteen years.

One of the most criticized points of the MAI is the mechanism it proposes to settle differences between states, the same one that would resolve conflicts between companies and states: neither associations nor citizens could use the Agreement to attack TNCs, to which the MAI grants numerous rights and no duties. Finally, investors could choose between taking their differences—among themselves and with the states— before various international instances, more appropriate for market conflicts than for state sovereignty, such as the International Chamber of Commerce.

Although the investments of the TNCs do not always contribute directly to the development of the country, they constitute a capital inflow that does not create debt. When they get benefits The services are due to the result of the good progress of the activities undertaken and, if this does not occur, it is not possible to demand other obligations from the recipients. For those countries with a certain level of development, FDI becomes an important factor of modernization and expansion, although it is increasingly observed that the stability of investments has shorter terms, and the struggle for attracting this type of investment requires constant attention from governments due to the great competition that exists to attract them.

When reference is made today to TNCs, reference is not made exclusively to large multinationals (oil, automobiles, chemicals, etc.) whose names everyone knows. These mega-companies have a great weight in the world economy, but increasingly the presence of small and medium-sized companies on the international stage has become a reality. The number of companies that decide to establish themselves in other countries grows every year and, in this sense, they are also multinational companies, although of a smaller dimension. The behavior of these small and medium-sized companies presents quite different aspects from that of the large ones, which may be of special interest to developing countries.

### **2.3. THE INVESTMENT IN PORTFOLIO**

Although this form of investment has experienced a great expansion in recent years, it is not an exclusive phenomenon of our times. Already in the 19th century it was an important form of foreign investment. The investors

Europeans bought shares and company bonds in the United States, Canada, Australia, New Zealand or Chile, which were the countries whose economies were beginning to flourish. There was a dynamic market for bonds issued by governments that were looking for a way to finance their public investment projects and that, normally, were of long duration (up to almost 100 years) and fixed interest.

In the first half of the 20th century, capital markets experienced many vicissitudes, and portfolio investments proved too risky. Thus, for many years after the Second World War, private portfolio investment in developing countries was seen as an unreliable venture. In the 1960s, these investments barely accounted for a tenth of direct investments.

However, in the 1990s the phenomenon of portfolio investment in developing countries has increased enormously and very rapidly. This has been due in large part to the proliferation of investment funds in developed countries, which have searched the stock markets of the so-called emerging countries (countries whose economies presented encouraging prospects in the medium term) for new assets in which to diversify their investments.

In principle, portfolio investment, like any way to obtain external resources, is welcome. But the way in which it is carried out presents some peculiarities that put us on guard as soon as to its advantages. The first and great drawback is the volatility of its behavior. Investors seek short-term profit and as soon as changes occur that cast doubt on it, they will migrate to other securities from any other country that are more advantageous. For example, in the case of bonds, this phenomenon of volatility is typical when the differences in interest rates change in the recipient country in relation to others. In addition, today short-term bonds have increased, with very short maturities, even three and six months, which adds one more point of instability to this type of investment. On the other hand, these investments carefully select their destination and are usually concentrated in a small number of countries,

Another consideration deserves the investment in shares of companies that, even though they also pose problems of

volatility, always has greater stability and offers advantages over loans, since they have to be repaid regardless of whether economic conditions are good or not. On the other hand, in the investment in shares, in the event of positive results, only payment obligations will be produced, which is known as dividends.

#### **2.4. THE EVOLUTION OF PRIVATE FLOWS**

The importance of private flows in the financing of development has had a very different behavior over time. In the 19th century and the first decades of the 20th century, they were the main source, if not the only one, of financial resources for developing countries. It must be remembered that at that time a large part of the countries that we now call developing were still under a colonial regime, so the scope referred to is almost confined to the countries of the Americas.

The financial centers of Paris and London were the ones that provided resources that were mostly channeled through portfolio investment, while direct investment came second. For some countries, the external flows received accounted for very important in relation to its economy, such as Argentina where, in the first decades of this century, these flows allowed the financing of 40% of all its capital investment. These resources were directed to the creation of infrastructures and production plants for the export of raw materials.

The First World War meant a cut in the remittances of external financial flows, but these were reestablished in the twenties, where private capital returned to the countries of Latin America, now coming from the new financial center that was USA. The crisis of the 1930s logically hit external financing, and the Latin American countries could not meet the payment of the debt obligations contracted, producing the first great external debt crisis, which would later be repeated in the 1980s.

This made the capital withdraw from going to the developing countries due to the distrust in recovering their investments, opening a stage in which private flows did not have a presence in the financing of development that lasted until the seventies.

The seventies marked a radical transformation in the scheme of international financing for development. Not only was there a large influx of capital, but this occurred with the resurgence of private banking as an instrument that provided resources to developing countries. The internationalization processes of the financial system changed the capital market. The progressive opening of the countries, which became more flexible when it came to allowing both the exit and entry of capital, facilitated the access of third countries to external funds. Added to this was the influx of the so-called petrodollars, coming from the dollars entered into the oil-exporting countries as a result of the rise in fuel prices, and which supposed —when deposited in Western banks— a considerable increase in the supply of credit,

Consequently, there was a large-scale indebtedness of many developing countries that saw how credits were offered to them in advantageous conditions by international private banks. To get an idea of the increase that took place, it is enough to point out that, while in 1970 the credits received by the developing countries totaled 500 million dollars, nine years later they had reached the amount of 40,000 million; that is, the debt multiplied by eighty times in less than a decade.

The flows were mainly channeled through loans, surpassing direct investment which, after the Second War, had been the main route of access for foreign capital to developing countries. The 1970s is, in short, the decade of private financing for development, while official funds stagnated. But when international economic circumstances changed and interest rates suddenly rose, many countries found themselves unable to meet their payments. Mexico declared default in 1982, and alarm spread throughout the financial world, fearing that other countries would follow suit. The negotiations to find a formula to save the situation were not easy and lasted throughout the 1980s. The cost to debtor countries, that they had to negotiate in inferior conditions, it was very hard and they still have not managed to overcome it. This foreign debt crisis once again provoked a further decline in private flows that lasted until the early 1990s.

## 2.5. PRIVATE FLOWS IN THE NINETY'S DECADE

Developing countries, considered as a whole, recovered from 1991 on the inflow of private foreign capital flows. In those years there was a strong change in the trend of net resource transfers which, from being negative due to the aforementioned external debt crisis in the 1980s, became positive, with spectacular growth in the following two years (1992 and 1993) and which, after a relative stagnation in 1994 and 1995, picked up again.

From a global perspective, the return of private capital flows to developing countries represents, in principle, a positive symptom. The inflow of capital allowed some countries to overcome the restrictions they previously had on accessing external resources, which had serious negative consequences for production and growth. But the assessment of this process cannot be limited to analyzing the absolute quantities. It is necessary to get to know the composition and characteristics of these flows, the causes that motivated them, their short-term or sustainable nature towards the future and the set of effects they have on the receiving economies.

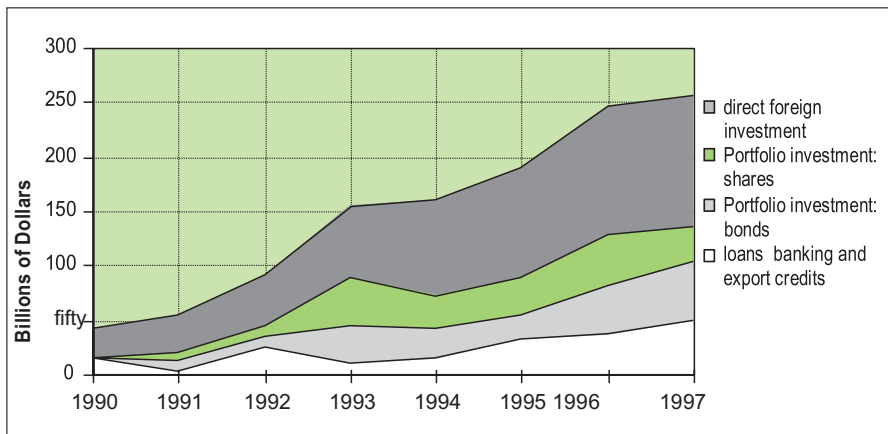
This change in the trend of destination of private flows to developing countries, starting in 1991, it occurred together with important modifications in the instruments for channeling capital. This aspect is extremely important in the analysis of private flows, since their grouped presentation in a single figure can lead to misleading interpretations of the phenomenon. It is not indifferent, as has been seen, the form in which foreign capital arrives. These flows contain very diverse financial instruments that respond to different motivations and objectives and that, in turn, entail very different obligations for the countries that receive them. For this reason, it is important to differentiate what type of flows are arriving in each specific country, in order to be able to analyze the effects, more or less positive, in view of their development needs.

The most spectacular change occurred with the increase in flows destined to portfolio investments. Between 1987-90 and 1991-92 the increase in the capital that went to other countries through this type of investment was 500 percent. The change was of such magnitude, in such

short space of time, a new term emerged in the lexicon of investors, the so-called «emerging markets», to designate the new prospects for investment in bonds and titles, especially in certain countries of Latin America and East Asia.

Since they constitute the current main source of financing, knowledge of the internal composition of private flows will allow knowing and differentiate their effects on developing economies.

Graphic4. Structure of private capital flows to developing countries 1990–1997



	1990	1991	1992	1993	1994	1995	1996	1997
portfolio investment								
Actions		3.2	7.2	11.0	45.0	32.6	32.5	45.8
Bonuses		0.1	7.4	8.3	31.8	27.5	23.8	45.7
Direct foreign investment bonds								
Straight		23.7	32.9	45.3	65.6	86.9	101.5	119.0
and credits to the former carrying		14.9	6.1	25.5	12.2	13.6	31.3	36.5
<b>Total flows</b>		<b>41.9</b>	<b>53.6</b>	<b>90.1</b>	<b>154.6</b>	<b>160.6</b>	<b>189.1</b>	<b>246.9</b>

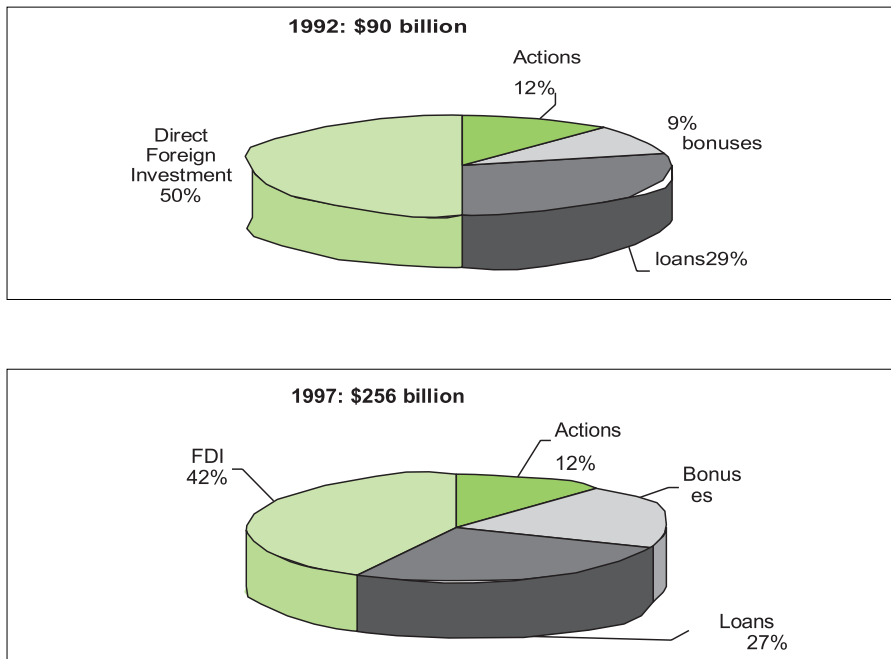
Source: World Bank; *World Development Indicators 1998*.

The characteristics of the current financing structure for development with a view to their effects on the development objectives of recipient countries are as follows:



a) The FDI becomes the most dynamic and stable channel of external financing. Its behavior offers a different trend from portfolio investment, since when it fell in 1994 and 1995, direct investment–maintained growth, which made it possible for total private flows to continue increasing. The key questions to know the implications that it has for the development of a country are: how to promote the factors that attract the necessary investments and how to ensure its stability.

Graph 5. Structure of private flows: distribution according to sources, 1992 and 1997



Source: World Bank 1998.

b) The CI, after a very strong impulse in 1993, begins to decline later. The drop-in investments in shares is noteworthy, falling by half in 1995 compared to 1993. On the other hand, bond issues from developing countries increased, having an increasing weight within private flows. But these bonds are even more unstable than investments in shares, due to their short maturity and because capital seeks returns on them.

high in a short time. As soon as they find other countries whose bonds offer higher interest or confidence in a country's bonds is broken, the capital of this type shows especially volatile. This behavior highlights the unstable nature of this form of investment.

- c) bank loans to developing countries have remained at stable levels, becoming a relatively small source of finance compared to what they were in the 1970s. In the second half of the decade, commercial credits have had a strong increase. But within loans there has also been an important change, with the weight of medium- and long-term bank commitments for developing countries decreasing, from 24.6% in 1991 to 12% in 1994. This figure means another element to add to the trend of instability in private flows.

## **2.6. THE DESTINATION OF PRIVATE FLOWS BY REGIONS AND COUNTRIES**

The global consideration of private capital flows can be misleading if it is not pointed out, at the same time, that the flows have not been distributed among the countries in an equitable manner or according to their needs. Its behavior has been characterized by targeting a small number of middle-income countries in two regions, East Asia and Latin America, in addition to China and India.

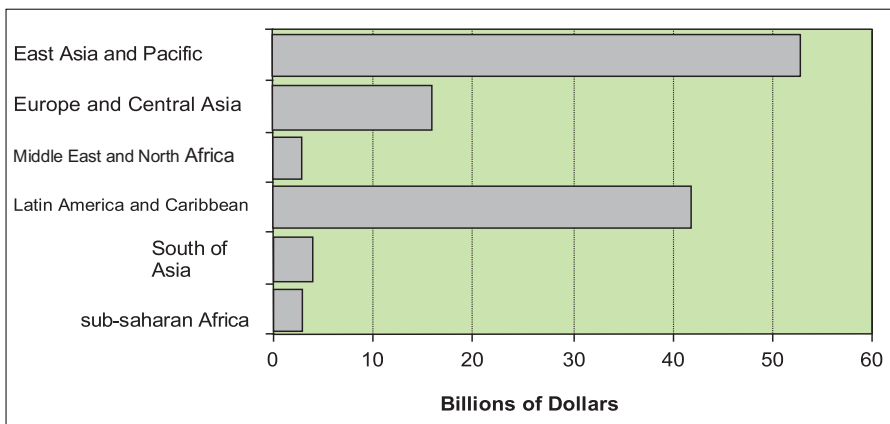
The concentration of flows in some regions and, within them, in certain countries is a characteristic of the behavior of private capital. For this reason, it is not correct to affirm in a generic way that developing countries have experienced better access to capital markets, and that private capital finds a special interest in leaving their countries of origin to invest in the countries that need them to finance their development.

The trend towards concentration in certain countries or regions has worsened in recent years, which is an important example of the trend towards polarization produced by the current economic system. East Asia has

Past to absorb more than half of the private external resources, reaching 59% of the funds in 1995, when in 1993 it was 41%. For its part, Latin America saw its share of these resources fall from 38% in 1993 to 20% in 1995, although it has recovered somewhat in recent years. These are the two regions that account for most of the private flows, while the poorest regions —Sub-Saharan Africa and South Asia— receive a very small percentage of the total.

The evolution of external flows in the three most important receiving regions is shown in the following graph, where this concentrating trend of private flows can be seen, which is even more acute in the case of FDI, in favor of the Asian region and Latin America.

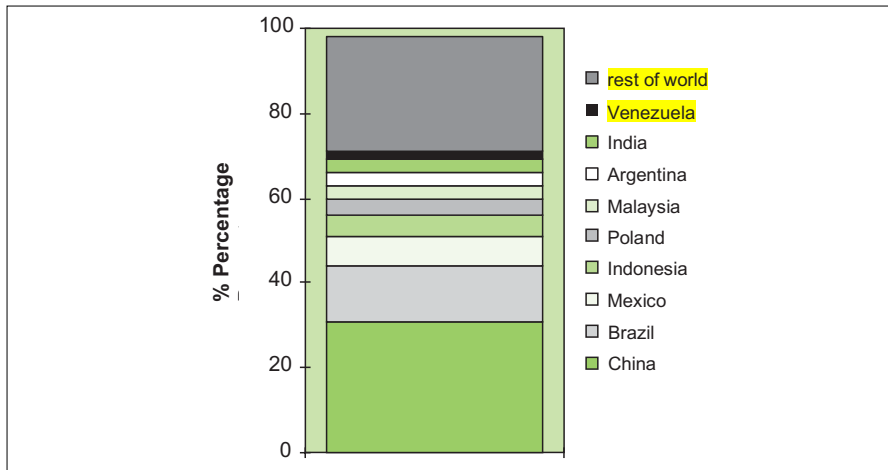
**Graph 6. Foreign Direct Investment by region 1997**



The concentrating process becomes more acute if it is considered that furthermore, within these two privileged regions, investments are concentrated in a small number of countries. The top ten host countries alone account for more than three quarters of foreign investment.

In absolute terms, China and Brazil have been the largest recipients of foreign investment, although looking at flows relative to population, Hungary and Malaysia received more capital per capita. Five countries were the recipients of more than half of the FDI; China being an extreme example, since it alone has received a third of all FDI in several years.

**Graph 7. Ten largest recipient countries of Foreign direct Investment 1997**



Sources: World Bank, *World Development indicators*, 1998.

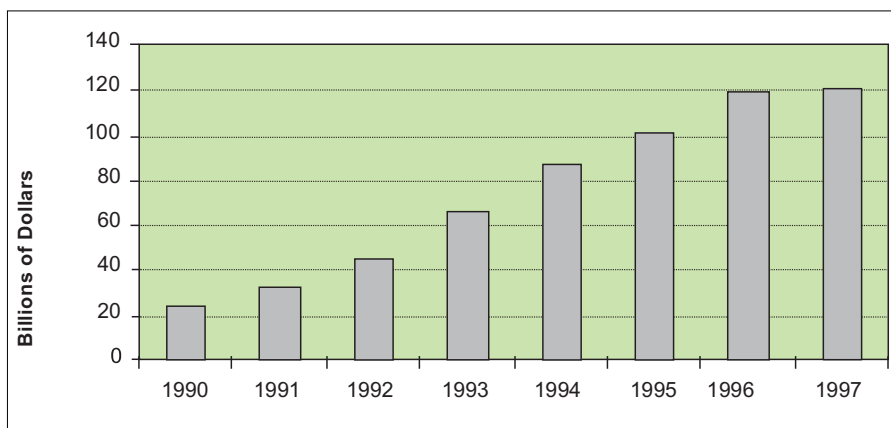
Foreign investment also selects countries for their economic capacity. The flows have been directed mainly to middle-income countries, although it must be recognized that there has been some improvement in the distribution of flows. Thus, while in 1991 and 1992, the ratio was 3 to 1, favoring the middle income relative to the low income, in 1995 it was close to 2 to 1.

**Box 4. The power of Foreign Direct Investment**

FDI flows followed a linerising to developing countries. Its increase responds, on the one hand, to factors that have a limited influence over a period of time, of a conjunctural nature, such as the privatization process in many developing countries, especially in Latin America, which attracted foreign capital to buy the public enterprises. But, on the other hand, in recent years FDI flows have shown a more stable behavior than portfolio investment, which reveals that it also responds to other factors. This behavior is explained by the globalization strategies of transnational companies, which do not vary their investment due to circumstantial considerations; growing world trade; and, in some cases, the economic behavior of recipient countries, according to the World Bank. According to these data,

Like the other forms of financing, FDI to developing countries is but a reflection of a general trend among industrialized countries. Total stocks resulting from foreign flows via direct investment totaled 2.7 billion dollars in 1995, double the level existing in 1988 and with a tendency to increase. Today FDI represents 10 percent of the world product. Some economists argue that FDI has become as powerful an instrument as trade in global economic integration. But along with these data, we must highlight the enormously uneven behavior of FDI, concentrating on very specific regions and countries. Even today it continues to be a phenomenon typical of developed countries that absorb two thirds of the flows that make it up,

Graph 8. Evolution of Foreign Direct Investment 1990–1997



Source: World Bank, *World Development indicators*, 1998.

# **3**

## **Public or official financing for development**

### **3.1. CONCEPT AND MODALITIES OF FINANCING OFFICIAL**

Public or official financing is that which comes from public budgets, whether from central administrations, regional or autonomous administrations, or municipalities.

#### **a) The distinction between funding and aid: the concessionality**

Public financing is not always classified as Development Aid, since it does not have to be free in principle. Governments or public international financial institutions grant credits under conditions that entail a significant burden for those who receive them, even or similar to the loans granted by private banks. This is the case with a large part of the loans granted by the World Bank or the International Monetary Fund. Although the truth is that most public financing is done in terms of what is called concessionality, which means that it is granted under more favorable conditions than those established by the market; or, even, completely free of charge, when it is done in the form of a donation.

When determining what is and what is not development aid, it is important to determine when it is understood that public financing is made under one or another condition. The criteria to qualify whether or not it is concessional cannot depend on the particular opinions of each donor government.

so the donor countries themselves have agreed on the requirements that the credits must meet if they are to be considered as development aid. Currently the definition of official development assistance (ODA) accepted by the world's largest donor countries is that offered by the Development Assistance Committee.

The CAD establishes the terms that a transfer of resources must meet in order to be considered as concessional. It defines the level of concessionality as the measure of "softness" of a credit, that is, the difference that exists between the conditions offered by the market and the conditions offered by the concessional credit. Concessional credits are, therefore, those that offer advantages or benefits for the borrower—the one requesting the loan—when compared to loans granted under market conditions.

It is understood that a loan of money transfer is concessional when it includes at least a 25 percent donation or gratuity element. Consequently, all those financial transfers of public origin that are granted with equal or greater levels of concessionality, are considered Official Development Assistance (ODA).

Table 5. The level of concessionality according to the CAD

The liberality or donation element measures the degree of concessionality of a transfer compared to market conditions. In a very simplified way, since the procedure is more complex, let us suppose that the prevailing interest rate in the market is 10%. The element of liberality does not exist in a credit that is granted at that 10% interest rate and, on the contrary, it is one hundred percent in the case of a non-refundable grant or donation (which does not require a return). The so-called «soft loans» or concessional loans fall between these two limits.

But, in addition to the interest rate, there are other factors that influence the conditions of the loans and, therefore, their degree of softness or concessionality. These factors are: the amortization period (the years of duration of the credit, in principle, the longer this period is more advantageous because the annual charge to be repaid is smaller), the grace period (the period granted to make the first payment), the built-in bank commissions and the possibility of returning *the loan in local currency*.



In general, a credit is not considered to contain an element of liberality of more than 25% if its repayment period is less than ten years, unless its interest rate is below 5% (this is, less than half the standard market interest rate).

#### **b) Refundable and non-refundable financing**

From another point of view, official financing for development can be of two types: reimbursable and non-reimbursable. The non-reimbursable, as its name indicates, is by definition of a concessional nature, since it involves transfers in cash or in kind that do not create any legal debt for the beneficiary, are made non-refundable with the character of donations. On the other hand, reimbursable transactions have the nature of loans made by governments or public institutions, national or international, which, in turn, may be concessional or not.

It is important to be clear about this first distinction between official development financing and official development aid. First, because although they have similarities because they are both financial relationships, in reality their characteristics are very different, with completely different consequences for the recipient countries. Development financing is the most general denomination, which covers any form of financing, while development aid is the specific one that is made in concessional terms. Although both are intended to achieve the development of recipient countries, the costs of one or the other modality for them vary substantially. Second, because the majority of governments and international organizations do both types of financing, concessional and non-concessional, and it will be necessary to separate them to know the real scope that they fulfill in the face of cooperation with the development.

#### **c) Bilateral and multilateral cooperation**

Finally, public funds can be channeled directly by governments to recipients (whether they are governments of recipient countries or other organizations), in which case it is considered to be a cooperation of

bilateral type. Or the funds are allocated to multilateral organizations, so that the administration of these resources leaves the decision field of governments and remains in the hands of international public institutions. This second way of operating is what is known as multilateral cooperation. Virtually all multilateral cooperation is channeled through the organizations and agencies of the United Nations System and the European Union.

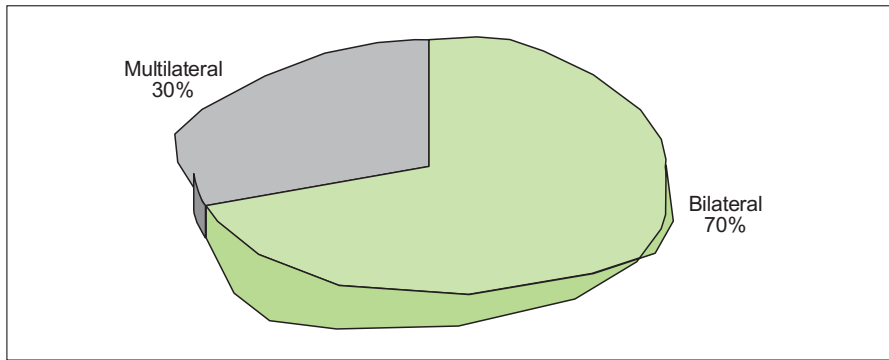
#### Box 6. What are multilateral institutions?

According to the DAC Glossary, multilateral agencies are considered to be those institutions formed by the governments of countries, which direct their activities totally or significant in favor of development and aid to recipient countries. They include the multilateral development banks (World Bank, Inter-American Development Bank and other regional banks), the agencies of the United Nations System and regional groups, such as the European Union and the Arab agencies.

A contribution from a DAC member country is considered to be multilateral when that contribution is combined with that of other countries and its disbursement is made at the discretion of the international agency.

Multilateral programs are, in principle, more adequate than bilateral ones to solve many of the problems of development, especially when they cannot be solved within the limits of a country and have their roots in processes that cross states. However, given that multilateral programs entail the loss of control by the governments of the destination of the aid, the reluctance of the donor governments to increase their quotas to them is understandable. This explains why, for several decades, in general, bilateral cooperation has accounted for an average close to 80% of total public financing, while only the remaining 20% corresponds to multilateral cooperation. In recent years there has been a certain rise in multilateral cooperation over bilateral, as can be seen in the following table, and the percentages are 70% for bilateral and 30% for multilateral.

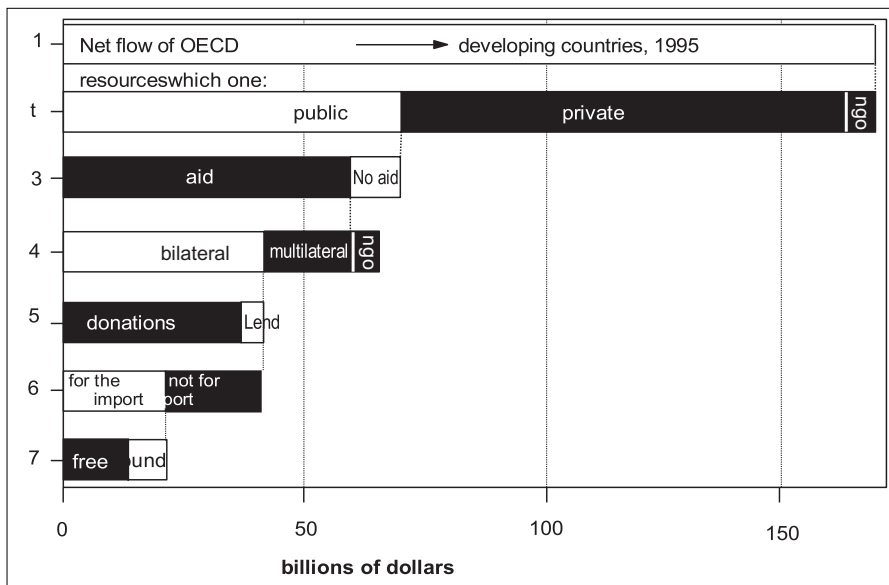
Graph 9. Official Development Assistance: structure 1995–96



Source: DAC, 1997.

After having described the basic concepts of private financing and official to development, there is an overview of all the channels through which resources reach developing countries. The following diagram offers a general view of these financing channels, while representing them considering the weight that each one has over the total flows.

Figure 10. Overview of financing for development



Source: sutcliffe, Bob: 100 images of an unequal world, Intermón 1999.

### 3.2. THE EVOLUTION OF OFFICIAL FLOWS

Official financing for development really emerges after the Second World War, although before there would have been some isolated demonstrations. It is at the Bretton Woods Conference, held in 1944, where it is institutionalized for the first time, with the creation of an international bank—the World Bank—, an organization responsible for providing resources for development needs.

The idea of an international development bank was, in some way, a response to the disenchantment produced by the behavior of private flows that, after having the experience of seeing how they withdrew from the market in the thirties and following showed that they did not fulfill the role of financial intermediaries between developed and developing countries. There was a certain pessimism about what its role might be in the future, so it was thought that it was necessary to promote another type of intermediation, based on multilateral public resources.

But the creation of the International Bank for Reconstruction and Development (IBRD, later better known as the World Bank), did not automatically mean that it would work as an instrument providing funds for development. It was only in the 1950s that public funding through multilateral channels began to be discussed, but, despite everything, its presence as a funding body was very limited.

Instead, In the mid-1950s, it was developed countries that assumed an important role as providers of funds to developing countries, but on a bilateral basis. The growing tension between the two blocks, Soviet and Western, and the expansion of that rivalry to the geographical areas where were the recently independent countries as a result of the decolonization process. The new political and social currents that emerged in those countries of the so-called Third World War were perceived as a threat to the world balance because they understood, from the Western perspective, that if they came to power they would support the Soviet position.

Western countries, and especially the United States, promoted official development aid, channeled bilaterally,

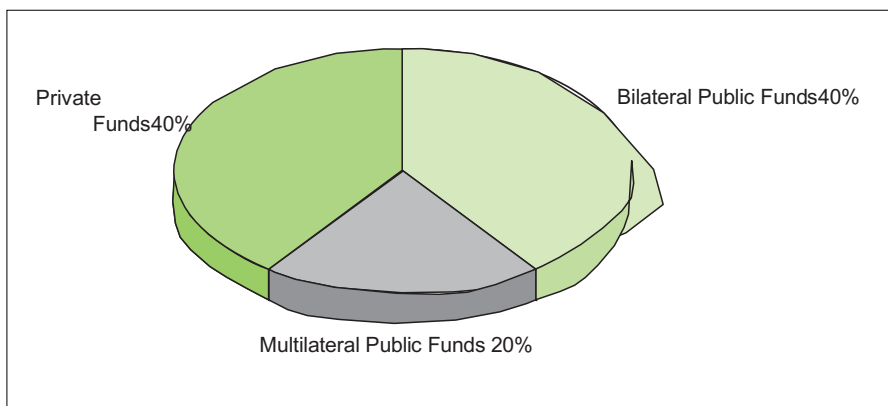
, as an instrument to neutralize Soviet influence and to achieve alliance with the governments of those countries. European countries developed these relationships above all with their former colonies. France and the United Kingdom were the countries that showed the greatest activity in this field, but we must not forget the northern countries such as Belgium, the Netherlands and the Scandinavian countries.

All of this led to the creation of new bodies in charge of managing official flows. In each specialized organisms were created in the country and regional banks were born from the multilateral perspective.

Definitely, the 1960s were a period marked by the leading role of public sources in financing development, both bilateral and multilateral, but with greater force from the former. In the early 1960s, more than two-thirds of external financing to developing countries came from official sources, with bilateral origin being the most important.

Broadly speaking, the structure of development financing in the 1960s was as follows:

Graph 11. Structure of financing for development 1960–1970



Source: DAC, 1997.

### 3.3. BILATERAL COOPERATION

Bilateral cooperation is the one managed directly by the governments and, although all the donor countries assure that their main objective is the contribution to the development of the receiving countries, the truth is that this type of cooperation

(especially when established with recipient governments) normally has a political dimension that goes beyond the considerations of development cooperation and sometimes even contradicts them. This statement is not intended to delegitimize bilateral cooperation, but to introduce an aspect that is necessary to understand its operation.

The motivations that have served as the foundation (and that still remain in part) donor countries to have cooperation programs constitute a complex framework. Reasons of international security, which had a decisive weight in the cold war, as well as commercial interests and, at the same time, a sense of historical responsibility for the colonial past and a certain feeling of humanitarian solidarity intervene in it.

The analysis of the political implications of the DC is part intrinsic to its study. These implications do not always have to be criticized, but the truth is that in many cases there is a tension between cooperation interests and political interests, mainly because the objectives of cooperation require a medium and long-term strategy, while the political objectives respond to short-term commitments and with objectives other than those of development.

But even if this is so, the truth is that bilateral aid has been and it remains an important source of resources for low-income countries that cannot access capital markets or attract outside investors.

### **3.3.1. The political dimension of bilateral aid**

The fact that bilateral aid is influenced by the political motivations of donor governments is an issue that nobody doubts, which does not mean that all bilateral cooperation practices have to be considered critically or negatively. For example, when France grants preferential treatment to overseas territories, such as Guyana (which receive much higher aid per person than other countries with much lower income per person or with greater needs) and does so because of its special political and cultural ties to that country. Or the fact that the development aid of the European Union is concentrated in the former colonies, and that of Japan is directed towards Asian countries.

However, on other occasions, these favored deals hide objectives that go far beyond pursuing development. Development cooperation becomes an instrument of foreign policy, which means that in some cases the granting of aid does not respond to the real needs of the potential recipients, but is granted by virtue of considerations of political and military strategies, that is, within a logic of power. This explains why Egypt and Israel are by far the countries that receive the most bilateral aid from the United States (see Table 7); or that US aid to Central America dropped drastically immediately after the fall of Sandinismo or the end of the civil war in El Salvador, when those countries continued to have the same or greater needs than before.

Table 7. US bilateral aid

In 1996, official development assistance funds from the United States channeled bilaterally had the following allocation (in millions of dollars):

<i>Africa</i> . . . . .	1,020
<i>Asia and the Middle East</i> .. . . .	2,580
<i>Of which: Israel</i> . . . . .	1,200
<i>Egypt</i> . . . . .	815
<i>Latin America</i> . . . . .	508
<i>Eastern Europe and Newly Independent States</i> ..	1,280

As can be seen, Israel received more aid than the entire African continent and two and a half times that given to Latin America.

In general, it can be blamed on governments that do not consider the situation of need of the peoples as a priority criterion, since otherwise it is inexplicable that, within the group of developing countries, 40 percent of the richest among them receive twice as much aid per person than 40 percent of the poorest countries; or that only a quarter of official aid is directed to the ten countries in which three quarters of the world's poor are concentrated. This point is analyzed in more detail when dealing with the evolution of ODA in the 1990s.

### 3.3.2. The Development Assistance Committee (DAC)

The Development Assistance Committee (DAC), created in 1961, is the main body of the OECD, which brings together the economically strongest countries in the world, to deal with issues related to cooperation with developing countries. The mission of the DAC is to promote that international efforts in support of sustainable economic and social development are coordinated, integrated, effective and adequately financed. DAC members are supposed to have some common goals in their aid programs.

To this end, the CAD bodies meet with various types of periodicity according to the different hierarchical levels. Delegates from member countries do it quite frequently, at least 15 times a year; The meeting is held annually at the level of the responsible ministers in each government for cooperation or agencies, in order to analyze the work of the CAD in the face of current problems. In addition, it holds other types of work meetings with experts, specific work groups, networks, etc.

The current members of the DAC are: Germany, Australia, Austria, Belgium, Canada, Commission of the European Communities, Denmark, Spain, United States, Finland, France, Ireland, Italy, Japan, Luxembourg, Norway, New Zealand, Netherlands, Portugal, United Kingdom, Sweden and Switzerland. Participating as permanent observers: The International Monetary Fund, the World Bank and the United Nations Development Program (UNDP).

The role of the CAD must be considered, since it is not limited to being a center of information, documentation or advice for governments, but rather designs the guidelines for official development aid for the countries that comprise it. That is why it can be said that, together with the World Bank and the UNDP, it constitutes the nucleus where international development cooperation policy is drawn up.

The document entitled *The role of cooperation for the development at the turn of the 21st century (Shaping the 21 Century)*, collected in the 1997 Report, represents the new consensus of the donor countries and agencies around the objectives of the DC for the next century and is fundamental as a reference to know the cooperation policies that the different donor countries put into practice.



Table 8. Main activities of the DAC

The DAC contributes to the aid policies of member countries through four types of activities:

1. It lays down the general policy guidelines, mandatory for the members in carrying out their development cooperation programs. Pre-1992 guidelines are contained in the Development Aid Handbook: DAC Principles for Effective Aid (DAC, 1995). As of that date, the new guidelines that are approved are published in the "Development Cooperation Guidelines" collection.

Topics covered in the guidelines include the following:

a) the Development Aid Manual: DAC Principles for Effective Aid (1995), where the following are collected:

- Principles for aid coordination with developing countries.
- Principles for the preliminary examination of projects.
- Principles for new orientations in technical cooperation.
- Principles for program aid.
- Good practices for studying the environmental impact of development projects.
- Guiding principles on women's participation in development.
- Procedures for the acquisition of merchandise for official development aid.
- New measures for tied aid.
- Principles for the evaluation of development aid.

b) In the Series of *Guidelines for Development Cooperation*, There are documents like:

- Participatory development and good governance.
- Support for the development of the private sector.
- Conflict, peace and development cooperation.
- Gender equality and empowerment of women.

2. It carries out periodic critical reviews of the development cooperation programs of the member countries. At three-year intervals, it examines:

- the application by each member of the guidelines of the DAC policies.
- program management.
- the coherence of the other policies with the objectives of the developing.
- trends in the amount and allocation of resources.

The DAC publishes a summary of the results and conclusions of these examinations that makes to member countries.

3. It offers a forum for dialogue, exchange of experiences and the development of an international consensus on policy and management issues of concern to members.

4. Publishes statistics and reports on aid and other resource flows to developing countries and in transition. These statistical data are recognized as official sources for the study of development financing.

### **3.3.3. Strategies and modes of cooperation**

Find out what they have been, and they are, the common guidelines that mark the cooperation practices of the donor countries is a difficult task, given that each one establishes its strategies autonomously. But if one starts by considering long periods of time and considering only the main references, certain trends can be identified that mark the cooperation of most countries. In addition, over time the donor countries have been coordinating their cooperation policies and currently it can be said that there are a series of general coordinates, although each country continues to maintain its autonomy.

In this sense, we can speak of the evolution of modes of cooperation. Fundamentally, this evolution is closely linked to the trajectory of the contents of the conditionalities that always, in one way or another, accompany cooperation. Development aid has almost never been granted unconditionally, so that the recipient is not obligated to the donor to behave in a certain way. In the case of loans, in addition to the obligation to repay the money, very different conditions have been imposed on the use of the loans or, even, conditions that had nothing to do with the loan.

#### *a) The strategy of the first decades*

Until the end of the 1970s, then it was thought that the most appropriate way to achieve the objectives of cooperation was to channel resources according to sectoral priorities (health, education, sanitation, production, etc.) and to the target groups that were identified as the main beneficiaries (farmers, mothers in rural sectors, etc.). As priorities changed

recipients, the type of cooperation resources was also modified. In other words, if it was established that the objective was rural communities, cooperation work required a certain type of resources; if later the objective was education, it will require other types of resources.

It was argued that the best way to make the aid effective was ensure the relationship between the specific objective or target group and resources. And, for this, the most suitable instrument that was known was the project. The project establishes the specific objectives to be pursued, the means to be put into play, the agents responsible for it and the expected results. The project methodology dominated cooperation practice for many decades.

*b) The first generation of conditionalities*

The big change occurs when we go from looking exclusively at the direct effects that these transfers produce, to focus on seeking other objectives, such as imposing that recipient countries carry out certain economic reforms, a condition that is attached to the granting of aid. This change was not sudden, but occurred gradually, accelerating its implementation especially in the 1980s with the imposition of the conditionalities determined by structural adjustment. Now the aid was not going to be so much alleviating or solving specific problems, as achieving a change in the orientation of the economic policies of the recipient countries, because the donors understood that these reforms were the only ones that could guarantee development.

The change in strategy evidently had implications for cooperation models. At the end of the 1970s and, above all, in the 1980s, many of the developing countries experienced situations of serious economic crisis that, in some cases, could be described as catastrophic. A good number of them were impelled to carry out profound reforms, although the fall in this situation was due both to the failure of their internal policies and to the profound change in the international environment. This scenario led to the overcoming of the inhibitions that still remained in the countries donors to take a more active position in enforcing what was considered economic orthodoxy.

Now the conditionality of aid is openly proposed, and it will serve as one more instrument to manage the crisis. In adopting this way of acting, the leadership role assumed by the International Monetary Fund was decisive and a little later it will be joined by the

World Bank. The coordinated action of both multilateral institutions marks a way of understanding and to practice cooperation that continues to this day and has influenced all donor countries, which have adopted the practice of conditionality as understood by multilateral organizations.

This first generation of cooperation conditionalities meant that recipients had to commit to carry out deep and precise reforms of economic policies if they wanted to receive the aid. It can be said that, in most developing countries, their economic policy was carried out under international control and administration.

Table 9. From the project to the programs

At the beginning of the cooperation, the majority mechanism for shaping the relationships between donors and recipients were the projects. This way of acting, which marked cooperation during the 1950s and 1960s, left a lot of room for initiative the donors, since it allowed them to determine the specific objectives towards which the aid was directed. Evidently, this supposed, in some way, an interference in the economic sphere of the recipients by conditioning the aid to the execution of specific and defined projects, but it was also a very limited interference, which, in principle, did not affect the general policies or the economic framework of the country.

At the end of the 1960s and the beginning of the 1970s, a change in perspective took place, opening up the panorama to support programs and certain sectors. In theory, aid through programs gave recipient governments a greater role in planning and implementing programs. But, in practice, those governments were rather trapped in carrying out programs that were largely imposed by a conception and with external conditions.

Progress was made towards the preparation of what is known as a country program, which sought to define a cooperation strategy between donors and receiver in the medium and long term, establishing the sectors to which the aid was destined. This meant that, in some cases, the relationship between donor and recipient was more open and the participation of the recipients became more real.

But It did not happen the same with all countries. While some were able to maintain a face-to-face dialogue with relatively small donor countries, many of the poorer countries lacked the power to negotiate their terms with the strong Western economies or multilateral development agencies. In practice, the weight and influence of donors, both bilateral and multilateral, was the dominant note.

In addition, the increasing channeling of aid through broader programs, it increased the degree of interference in the domestic policies of recipient countries, moving from an intervention in sectoral policies to an intervention in national policies. Donors placed increasing importance on recipients implementing certain policies that they saw as essential for aid to be effective.

*c) the second generation of the conditionalities*

In the late eighties and early nineties, the intervention was extended to the political sphere, with what has come to be called the second generation of conditionalities, which can be summarized in the following three: democracy, human rights and good governance. These conditions reflect the objectives that, in principle, the donors value most, although this does not mean that they are always the ones that are best fulfilled by themselves. These new objectives are closely related to those of the first generation, and they were considered necessary for the proposed economic structural reforms to achieve the establishment of an open market economy.

Table 10. Conditionalities

Conditionalities need not always be viewed negatively. The mistake lies in thinking that by pursuing a truly disinterested goal and that it is believed basic for human coexistence worthy of any society, the imposition of any mechanism to achieve it can be justified.

Firstly, because the ineffectiveness of the imposed conditionalities has been demonstrated many times, when the recipient of the aid has not participated in the definition of the objectives that are set and considers the conditionality as a burden from which he will try to escape. fulfilling it formally in the best of cases. Secondly, because conditionality runs the risk of exporting values and results that respond to a certain cultural conception, but that do not have to be the most appropriate for other societies.

If, in addition, one considers that the different types of conditionalities do not disappear when new ones appear, but rather accumulate, even if different emphasis is placed on one over the other, it is understood why this issue of conditionalities becomes a central issue in the study of cooperation, especially bilateral cooperation. To make matters worse, this proliferation of objectives to be achieved occurs just at a time when official development aid has stagnated and has even begun to decline in real terms.

Part of the legitimacy that was argued to defend this political intervention was the discredited lack of democratic legitimacy of many governments in developing countries. It is true that despotic governments and repressive and authoritarian regimes were unfortunately quite common in some regions. But we must also remember that much of their power came from the control they exercised over the modern sector of the economy of their countries and that, for this reason, they were accepted as acceptable and necessary partners for a long time. Until very recently, these regimes were accepted by some multilateral agencies and donor governments as interlocutors and counterparts for the promotion of economic projects and programs.

The policies of Western donor countries on the issues of democracy and human rights have been coordinated to a certain extent, but there has not been a consistent practice of them, especially when it came to aid conditionality. This means that it has not been carried out with clear and transparent criteria, and that differentiated treatment has been given due to considerations outside of the objectives that it claimed to defend. The case of the policy followed by Western countries with China may be an example of what is being indicated, when the demand for respect for human rights declines in the face of the economic interests that a good relationship with the Chinese government.

Although the declarations of the donors offer many elements that coincide, the expression of the objectives of the conditionalities is made within an equally high degree of generality. When talking about democracy, social justice, elimination of poverty, etc., the central concepts included in these matters are very broad and sometimes they are defined in very different ways according to the actors. Thus, it turns out that, when translated into operational terms, the definition of objectives and concepts presents many deficiencies, which means that in practice it is not easy for these declarations to be translated into concrete commitments, and critical evaluations that allow proposing new, more effective policies to achieve the theoretical results and objectives formulated.

#### **3.3.4. The tied help**

One of the most debated issues of bilateral cooperation has been the issue of tied aid. Aid is said to be tied when the recipient does not receive the funds

so that it can dispose of them freely, but is obliged to spend them on the purchase of goods produced or services offered in the donor country.

Just as with respect to the conditionalities, the debate was raised about their goodness or opportunity (that is, it was not condemned a priori even though its practice offers many points of criticism), it can be said that there is a consensus in qualifying tied aid as a bad practice of cooperation. Unfortunately, it has been a common practice to condition the aid to the purchase of products from the donor country in order to obtain what has been called the "return" of the aid, which implies, directly or indirectly, obtaining its profitability.

In a strict sense, aid that is closely linked to the purchase of a certain list of goods raises serious doubts that can be considered as such, especially if the goods included in that list have been selected taking into account the interests of the donor country rather than the needs of the recipient country. In this last case, it should be said that there is a covert form of export subsidy or a mechanism to dispose of surpluses, rather than a genuine cooperation policy.

But this type of tie not only with the products, but sometimes also extends to services. For example, when it is required that the transport be carried out in ships of the donor country, even though this is more expensive than doing it by those of third countries.

The inconveniences or disadvantages for the recipient countries of tied or tied aid go far beyond assuming a higher relative cost, since they can have negative consequences much greater than the simple fact of having to pay more. Thus, for example, imposing a certain technology that is not suitable for the country's conditions, either for climatic reasons or because its complexity makes it difficult to function, means that — in the medium term— this aid becomes ineffective or even causes direct damages.

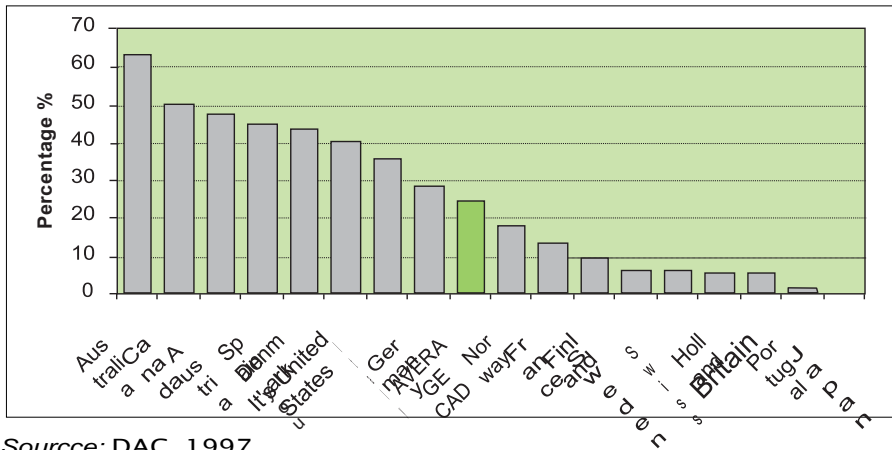
It should be noted that this practice has been declining over time. In the 1970s it reached enormous proportions, since it is estimated that close to 80 percent of US bilateral aid was granted under these conditions. From the beginning, the DAC proposed on several occasions agreements for donor countries to commit collectively to reduce the percentages of tied aid. Progress on this point has been relative

and slow. On the one hand, it was possible to get rid of this practice of multilateral programs, but has remained in bilateral programs.

In general, donor countries that are more competitive in international markets are the ones that are most critical of tied aid, since they perceive it as a form of unfair competition. For example, Japan has been the most prominent champion in proposing to abolish this aid.

At the beginning of the 1990s, tied aid accounted for around 26% of bilateral aid from donor countries, although with great differences between them: like Sweden, which barely accounted for 4.4%, while countries like Italy (74%) and Austria (66%) had very high percentages of tied aid. In 1991, donor country governments agreed to ban tied aid going to upper-middle-income countries; but it continued to be a practice when it was addressed to low-income countries, although steps have also been taken in these cases, that seek the progressive disappearance of this practice. The trend is clearly downward, since the period 1992–96 tied aid represented 9.6% of total ODA, while in 1996 that percentage fell to 4.6%. The topic of suppressing tied aid is still currently being discussed in the DAC, and the reticence of some countries prevents progress in achieving its suppression or substantial reduction for the least developed countries. The current situation of tied bilateral aid can be seen in the following graph:

Graph 12. Percentage of tied aid over bilateral ODA 1995



Source: DAC, 1997.



### **3.4. SPANISH COOPERATION**

#### **3.4.1. Source**

The institutionalization of the development cooperation system in the Spanish State is a very recent phenomenon. The year 1976 can be considered as the starting date of the Spanish Official Financing for Development, when the government of UCD approves the decree law that launches DAF credits (Development Aid Funds), which will be the most important part of cooperation for a long time.

Before that date, development cooperation in Spain during the 1950's and sixties was reduced to the relationship with the ex-colonies (Philippines, Equatorial Guinea, Latin America) that some consider that it contained more folkloric traits than those typical of an authentic cooperation policy. This relationship was very timidly similar to that maintained by other European metropolis, and the financial support was much lower than that offered by them.

In the 1980's, the formation of institutions responsible for implementing development cooperation policy. These are the years in which Spain actively joins the different international institutions and United Nations agencies related to development cooperation: the Inter-American (1976), African (1984) and Asian (1986) Development Banks, UNDP, FAO, etc.

It should not be forgotten that, until 1981, it was considered a possible recipient of development aid by the World Bank, and until 1985 by the Development Assistance Committee. The incorporation to the then European Community supposes, logically, the progressive participation in the communitarian organisms of cooperation to the development. With the acquisition of member status of the CAD, the Development Assistance Committee of the OECD, in 1991, the Spanish State joins the club of donor countries.

#### **3.4.2. ODA management agencies**

The current structure of the organizations that manage Spanish cooperation reflects its peculiar composition.

and the evolution followed in recent years. Two central components of this structure can be pointed out. In the first place, the great importance that the FAD credits had from the beginning, always managed by the Ministry of Economy (previously by the Ministry of Commerce), explains the great weight that this ministry has, what has been, and still is, the subject of much criticism. The tension between the powers of the Ministry of Foreign Affairs and the Ministry of Economy and Finance is one of the characteristics of the management structure.

On the other hand, the participation of many ministries in cooperation activities to the development has led to great complexity that has not always been managed to coordinate with sufficient efficiency. For this, two interministerial commissions have been created: one for the granting of FAD credits, the Interministerial Commission of the Development Assistance Fund; and another, the Interministerial Commission for International Cooperation (CICI), created in 1986, to coordinate all the activities of the different ministries with powers in the area.

Figure 13 shows how the Development Cooperation Program is managed. Behind the Council of Ministers are the two aforementioned Commissions. The administration, as can be seen, is basically distributed between the Ministry of Economy and the Ministry of Foreign Affairs.

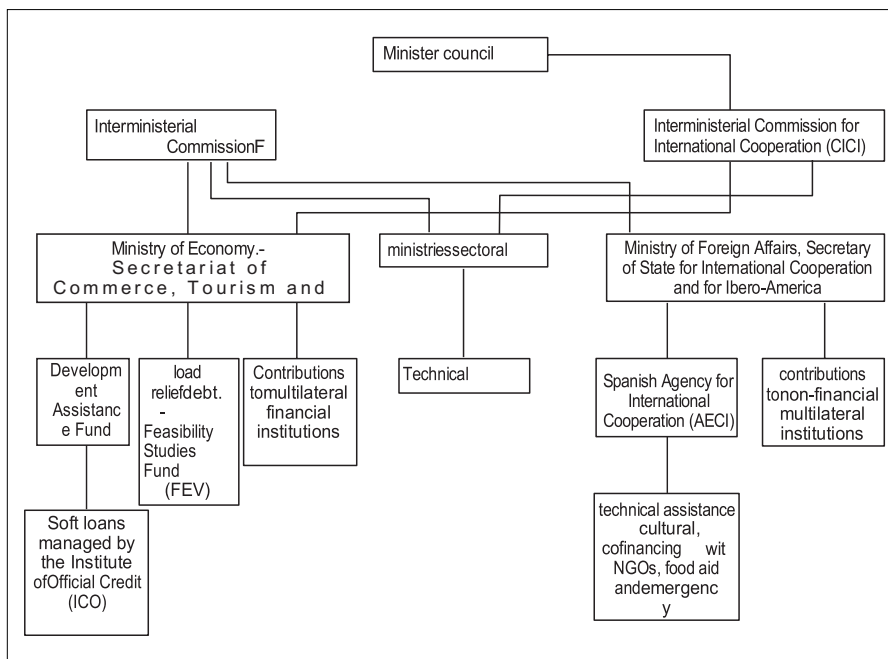
In the Ministry of Economy, the Secretary of State for Trade is responsible for regulating part of development aid. Specifically, the FAD credits, which depend on the General Subdirectorate of Financial Promotion for Exports; debt relief programs; and contributions to international financial institutions, such as international development banks. The intervention of the Secretary of State for Trade in the management of development aid is highly questioned by some sectors of opinion, who consider that —given its commercial nature— it maintains an excessive weight in the decision-making spheres of the destination of aid.

In the Ministry of Foreign Affairs, since its creation in 1985, and to date, SECIPI (Secretariat of State for International Cooperation) is the highest political body for development cooperation and is responsible for its direction, programming, control and evaluation. In the graph—

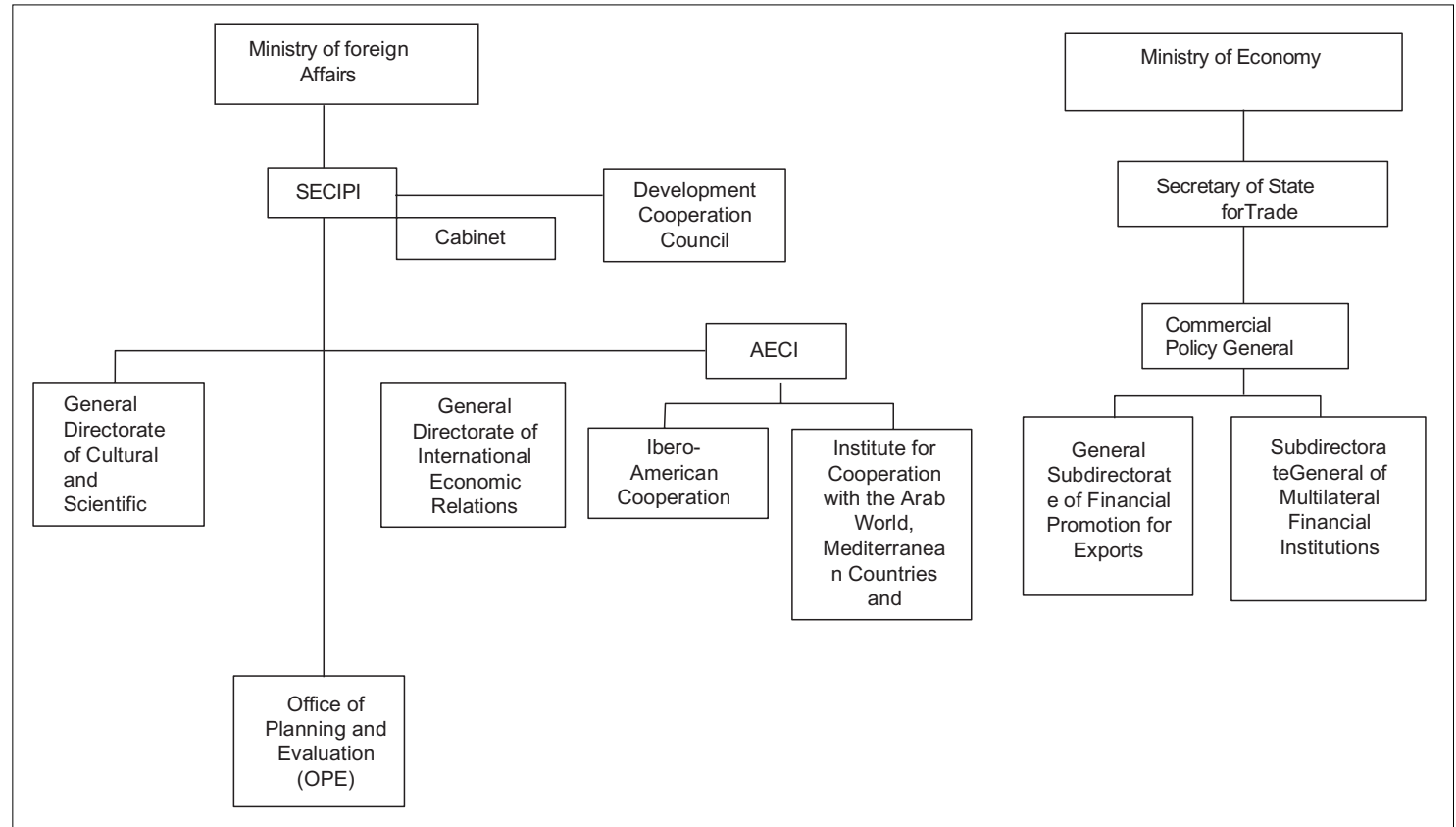
co14, describes the management organization chart in the two ministries with responsibilities in the development cooperation program.

The AECI (Spanish Agency for International Cooperation), created in 1988 as the executing institution of the non-reimbursable bilateral aid policy, reports to SECIPI. is what defines and manages development programs and projects, and has a wide network of Technical Cooperation Offices (OTC), installed in 20 countries of preferential destination of Spanish non-reimbursable bilateral aid. Within the AECI there are two institutes that geographically divide their spheres of competence. The Ibero-American Cooperation Institute, in charge of cooperation with Latin American countries; and the Institute for Cooperation with the Arab World, Mediterranean Countries and Developing Countries, which, as its name indicates, is in charge of the rest of the countries.

Graph 13. Administration of the Spanish Development Cooperation Program



Graph 14. The Development Cooperation System



The existence of so many bodies with competences in the matter produces a great organizational complexity in the issue of official cooperation, which translates in practice into a manifest lack of coordination between the institutions, which still lack a legal framework that gives coherence to all of them in a true cooperation policy.

Currently, Official Development Assistance funds (ODA) of Spain are distributed according to the Annual Plan for International Cooperation (PACI) that is approved by the Council of Ministers of the Government. The Planning and Evaluation Office (OPE), dependent on SECIPI, has promoted the preparation of the four-year Master Plan, provided for in the Cooperation Law, in order to give greater coherence and strategic sense to cooperation. Within this objective of rationalization and transparency, efforts are being made to implement evaluation systems that allow better knowledge of the results of the projects carried out, as well as a qualitative analysis of their use and impact.

The development of the Cooperation Law should serve to cover the current shortcomings in design and management, and offer a more coherent, transparent and effective cooperation. The next few years will witness if this path is followed, for which the effective participation of all cooperation agents will be essential.

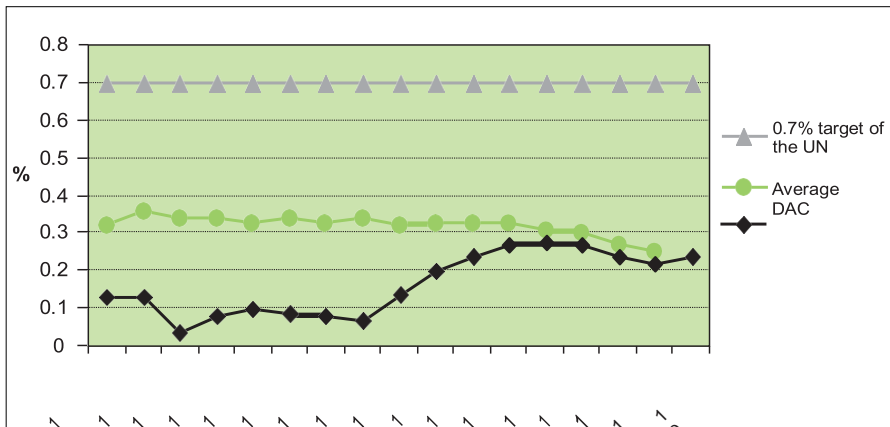
### **3.4.3. The evolution of Spanish ODA: from growth to stagnation**

Initially, at the beginning of official development cooperation, Spain began its journey with a considerable volume of resources in 1981, only to suffer a severe setback in 1983 and a prolonged stagnation until 1988. In the period 1988 –1992, the resources devoted to cooperation increased considerably, tripling those of the previous period. No OECD country increased their resources this quickly, but instead froze their budgets at that stage. In fact, the government had set itself the goal of reaching 0.36% for the year 1992. When this was not achieved, the Parliament proposed as a new level for 1995 that the aid reached 0.35%. But neither this time the wishes coincided with the reality that was pettier.

A large part of the increase in the early 1990s was due to the tremendous boost given to FAD credits, as can be seen in graph 16. Spain, a recent arrival in the group of donors and with a growing presence in international forums, deployed at that stage a policy of support for the internationalization of the company, and turned the FAD credits into an instrument for penetrating the markets of the developing world. On the other hand, joining the European Community meant that it had to increase the funds allocated to cooperation in order to comply with community requirements.

Starting in 1992, when the maximum volume of aid was reached, Spanish ODA entered a stage of relative stagnation that continues to this day. As can be seen in graph 15, since 1993 the trend of Spanish ODA funds has diverged from its approach towards meeting the objective of reaching 0.7% of Gross Domestic Product. Although in absolute terms, total ODA has grown by more than 24 billion pesetas, the reality is that if what it means as a percentage of GDP is considered, it has fallen from 0.28% in 1993 to 0.24% in 1997. This trend corresponds to the behavior of most of the donor countries that have been reducing or stagnating their contributions to the DC. For 1998, an increase in this percentage was estimated 0.26%, but it does not seem easy to reverse the trend and, much less, resume the path towards the ideal target of 0.7%.

Graph 15. Evolution of Spanish ODA, as a percentage of GDP

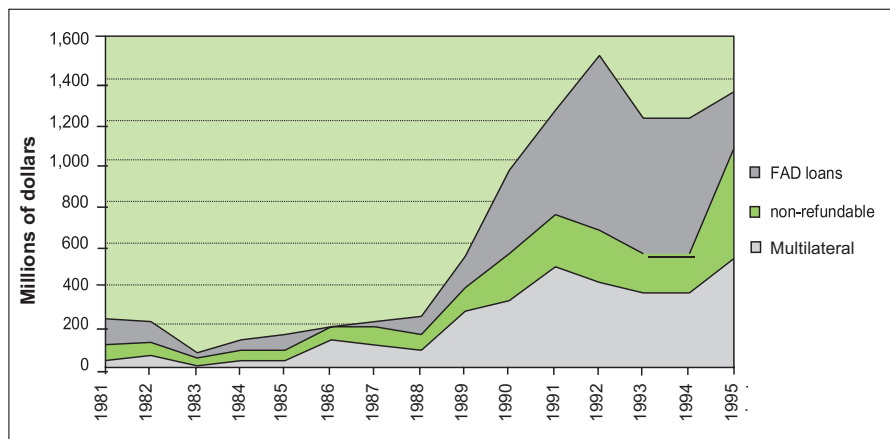


Source: CAD Review, Series #3, 1994 and 1997 Annual Report.

### 3.4.4. The composition of Spanish ODA

The relatively short experience of Spanish cooperation, and at the same time, the great variations that it has experienced in the last decade do not allow us to affirm that it has very defined characteristics. In addition, the publication of the Cooperation Law opens a new phase in which there must be greater programming and a different definition of cooperation. But even so and everything, certain features can be pointed out in the current Spanish ODA that differentiate it from the DAC countries. If their data is compared with the corresponding CAD averages, the great difference in the importance of non-reimbursable cooperation in the Spanish case stands out. Although the percentage of flows granted free of charge has been growing, it is still clearly below the average for donor countries. In recent years, this volume has gone from representing only 17% of all ODA in 1992 to 45% in 1996. Despite this improvement, it is still far from the DAC average, which represents 60% of total ODA.

Graph 16. Evolution and composition of Spanish ODA 1981–1995



Source: OECD, PACI Follow-up 1995.

Consequently, reimbursable cooperation has a great role in the Spanish ODA as a whole, which is explained by the importance of the

FAD credits in Spanish cooperation policy. But these FAD credits have reduced their role in recent years, and they tend to further decrease their share of ODA, given the general trend among OECD countries to reduce tied aid.

Finally, multilateral cooperation has followed an irregular behavior. Between 1986 and 1991, the contributions to multilateral institutions and the commitments involved in joining the European Community translated into a notable increase in this chapter, which came to account for more than 40% of total ODA, while the multilateral average contribution from the DAC countries was around 30%. Currently, Spanish multilateral aid tends to match, albeit with oscillations, that of the rest of the DAC countries and it seems that they want to maintain this trend. What should be highlighted is that within the multilateral contributions, the percentage dedicated to international financial organizations is double that given to non-financial organizations, showing a differentiated behavior at this point from the average of the countries of the DAC. Likewise, another point of difference with the DAC countries is that the bulk of Spanish multilateral aid has been allocated to the contributions made through the different channels to the European Union, which have accounted for between two thirds and three quarters of the all of that help.

In any case, as it has already been said, these analyzes have a relative value until a cooperation strategy is established. However, they serve as a sample of current trends, and as a frame of reference for the evolution that they follow from now on. In the coming years, it is likely that there will be changes in the structure of cooperation. To analyze them, Graph 17 offers an outline of what the basic components are and, consequently, of the reference points for detect the trends that are taking place in the future of Spanish cooperation.

Table 11. FAD credits

**What are they?**

Development Assistance Funds (FAD) are credits that are offered to developing countries on more favorable terms than those offered by the market, and are therefore considered concessional; but the use of the funds is conditioned in whole or in part to the acquisition of goods and services produced by Spanish companies.



### **Its importance**

FAD credits continue to represent the largest economic amount of Spanish ODA, although their volume has been declining since 1993, when it reached to account for more than half of all ODA.

### **Source**

FAD credits (Development Assistance Funds) were created in August 1976, destined to the granting of credits and other aid from the Spanish State to other states or to foreign public institutions. The FADs are credits that must be repaid in full, and whose concession is linked to the acquisition by the beneficiary of Spanish goods and services. An Interministerial Commission (CIFAD) is the one who decides and evaluates the granting of FAD Credits, with the approval of the Council of Ministers. With this government support, the opening of markets that, under normal conditions, are difficult to penetrate is thus guaranteed.

In its early years, operations with FAD credits were linked to Spanish public companies and to the export of military equipment, under very harsh financial conditions for the recipient. Their amount increased spectacularly from 11,000 million in 1982 to 109,000 million in 1991. Most of these concessions were controlled by five companies: ENASA, FOCOEX, Astilleros Españoles, Dragados y Construcciones and CASA.

### **Destiny**

The FAD have been invested primarily in the sectors of economic infrastructure and production and military aid. This section —the most questioned by public opinion and by the CAD itself— accounted for 17.5% of the total FAD between 1977 and 1992, reaching 53% in 1983 and 76% in 1981. There are even countries to which the Spanish State has only provided FAD credits for exclusively military aid, such as Egypt, Jordan, Lesotho, Somalia or Zimbabwe. In other African countries such as Somalia, Angola, Mozambique and Uganda —which have experienced or are experiencing bloody civil wars— this percentage of military aid represents 50% of the total FAD granted.

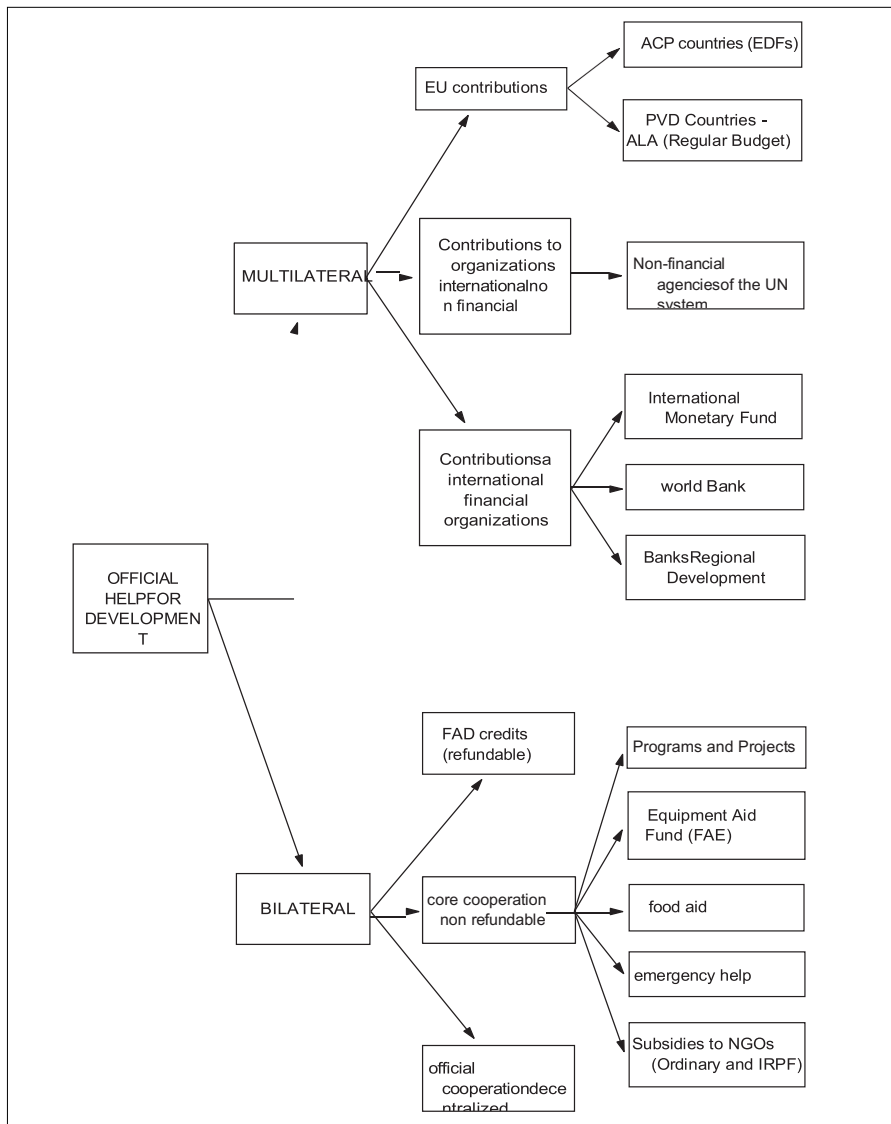
### **Evolution**

With the entry of Spain into the Development Assistance Committee of the OECD in 1992, it harshly criticized the policy of Spanish development in its 1994 report, and especially the FAD, which did not adapt to the CAD regulations with regard to linked credits. The new control of the CAD over them meant a decrease in their total amount and a greater dedication to social content. The last CAD Report of 1998 acknowledges that credit conditions have been liberalized, but they continue to have a commercial character.

Currently, several non-governmental organizations carried out a campaign to achieve the reduction of these credits for the purchase of military equipment, as well as parliamentary control and transparency in arms exports.

Sources: Intermón and Gómez Gil (1996).

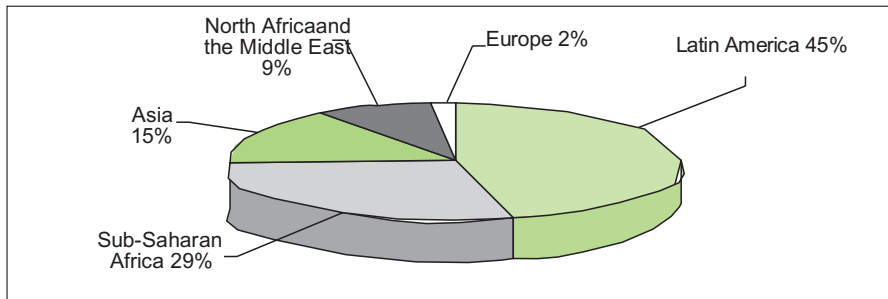
Graph 17. Diagram of the instruments of Spanish official aid for development



### 3.4.5. Spanish ODA orientation

The geographical destination of bilateral ODA presents no surprise. As expected, official Spanish cooperation, like the other European metropolis, was directed towards those countries with which it historically maintained colonial relations, that is, the countries of Latin America, and Equatorial Guinea. Later, integration into the European Community made it necessary to diversify aid. But, even with fluctuations, it continues to have Latin America as its preferred destination, followed by Sub-Saharan Africa and Asia. Graph 18 shows the distribution by region in 1996, which, broadly speaking, represents the current structure of distribution by destination, since if the data from the last decade are taken, the percentages are very similar.

Graph 18. Main recipient regions of bilateral spanish ODA 1996



Source: OECD, 1998.

The analysis of the fate of cooperation by country highlights that: a) within each region there are clearly privileged countries; b) there has been a change in the order thereof; c) there is a great dispersion of aid among more than ninety countries, in most of which it can be said that the aid is merely testimonial. The aid is concentrated in a few countries, since more than half of the bilateral aid, in the years 1995–96, went to ten countries. Some of those at the top of the list are due to circumstantial reasons, such as the case of the Congo in 1995, which was the one that received the largest amount for benefiting from a foreign debt cancellation program, but since it did not continue, it subsequently disappeared from the list of major recipients.

Latin American countries are seeing themselves displaced in preference for Spanish aid. Since the beginning of the 1990s, China and Indonesia have become preferred countries for bilateral aid, which is explained by the fact that they constitute new markets with great investment possibilities, where significant amounts of FAD loans have been granted.

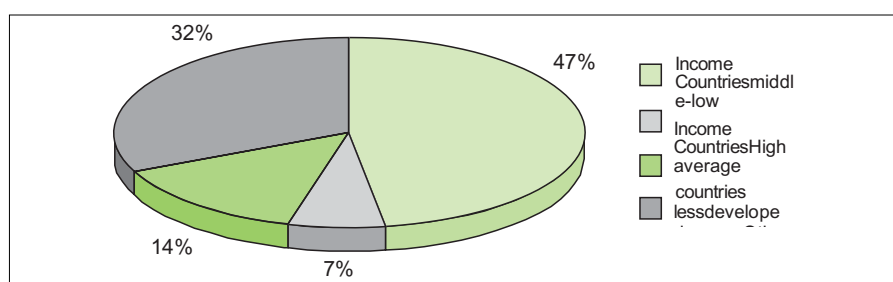
Graph 19. Main beneficiaries of net disbursements of Spanish bilateral ODA 1995–1996

countries beneficiaries	% of aid bilateral accumulated	% accumulated
Congo, Republic*	7.6	7.6
China	6.7	14.4
Ecuador	6.4	20.7
Indonesia	6.3	27.0
Argentina	5.2	32.2
Nicaragua	4.8	37.0
Colombia	3.9	41.0
Bolivia	3.8	44.8
Angola	3.5	48.4
Territories under Palestine administration	3.3	51.6

\*It should be noted that the first place of the Republic of the Congo must be that the external debt was forgiven in that year; normally not a priority country.

Source: OECD (1998).

Graph 20. Distribution of Spanish bilateral ODA, according to income level of recipient countries, 1996



Source: OECD, 1998.

The prevalence of commercial interests when choosing the recipient countries of bilateral cooperation, given the importance of FAD credits is obvious if one takes into account how it is distributed according to their income levels. More than half of that

help is intended to middle-income countries, almost 54%, while less developed countries receive only 14%. This aspect of the structure of the allocation of aid according to the income of the countries is one of the most critical aspects of Spanish cooperation. The share of aid directed to the least developed countries is clearly lower than that of the rest of the DAC countries.

Table 12. An assessment of Spanish cooperation

«Any judgment that claims to be fair about Spanish development cooperation must start from the acknowledgment of the remarkable effort made throughout these last years. At the beginning of the 1980s, Spain was still a potential recipient of foreign aid; today it is the twelfth donor by mobilized resources, participates in the main multilateral organizations —financial and non-financial, actively contributes to community cooperation policy and is a member of the OECD donor club —the CAD— submitting to an internationally agreed discipline. In sum, between the early 1980s and the present, Spain had to generate the material and human resources, instruments and institutions necessary to develop this field of public action.

Special relevance has been the progress experienced by the resources allocated to the official aid between 1988 and 1992, which made Spain the country with the fastest increase in aid, in a period in which the dominant trend among donors was clearly recessive. The short time in which such a transformation was carried out marks many of the features and deficiencies that still characterize the Spanish development cooperation system. (...)

(...)Even though the figures have experienced notable progress in the past, it should be noted that we are currently experiencing a process of freezing, and even retreat, of the resources allocated to aid. If the volume of current resources is considered, the aid in 1996 — 159,000 million pesetas— is similar to that granted four years ago, in 1992. And if it is expressed in terms of the relative intensity of the effort, the coefficient with respect to GDP fell from 0.28% in 1993 to 0.22% in 1996. It is necessary to reverse this trend (...) and, in particular, it is necessary to prevent the desirable international standardization of Spanish cooperation, which necessarily entails a reduction in the role of FAD credits, negatively affects the volume of total resources available for aid».

*Source:* Alonso, JA, in Intermon «The reality of aid 1997» p. 41.

### **3.5. DECENTRALIZED COOPERATION. THE BASQUE AUTONOMOUS COMMUNITY**

#### **3.5.1. Concept and characteristics**

Decentralized cooperation arises as a reaction against to the limitations of the excessively centralist and vertical approach with which official development cooperation had been conceived. Its appearance is not a coincidence, it answers a the new realities of the societies.

Decentralization and democratization are two processes that are underway in most countries. The emergence of new decentralized agents in developing countries, representative of civil society, implies the appearance of a new force capable of making proposals for development and with the capacity to act to execute them. These agents include trade unions, local communities, neighborhood associations, etc.

The crisis of the State, the liberalization of the economies, the decentralization processes are factors that propitiate the growing role of civil society and stimulate the search for new work bases between civil society and the State, for one hand, and decentralized agents and international aid, on the other.

It is important to highlight the double aspect from which decentralized cooperation is proposed: a) on the one hand, the existence greater space for local agents in developing societies, who are recognized as having a greater role and responsibility in development tasks; b) on the other, a rethinking of the role of cooperation agents in the societies of donor countries, who must ask themselves to what extent and how they should modify their behavior to better respond to the challenge of reinforcing and promoting the role of the first .

The decentralized cooperation proposal seeks that non-governmental organizations, decentralized public administrations, rural or urban professional associations, cooperatives, companies, unions, and, in general, all the active forces of society participate in the social and economic development of developing countries. In this sense, the call is both for the agents of the societies of the North as for those of the South.

Decentralized cooperation is not intended to be simply a new instrument, but rather a different approach, a

new approach, complementary to the traditional forms of conception and practice of cooperation. The key words of the new approach are: institutional pluralism, participatory development and decentralization. It was the Lomé IV convention that introduced decentralized cooperation, which reflects the new existing orientation regarding the role that the State must play, the protagonism that they must acquire affected groups and individuals and the more active engagement of civil society in development. But the reality is that its implementation has not had the development that could be expected.

Table 13. Decentralized cooperation in the European Union

1989–90: the concept of decentralized cooperation appears in Articles 20 to 22 of the Lomé IV Convention and is mentioned in most of the national indicative programs drawn up by each country to establish development cooperation priorities.

1991: decentralized cooperation is introduced in the articles 7 to 10 of the decision on the association of the OCTs (Overseas Countries and Territories) (91/482/CEE of the Council of July 25, 1991).

1992: decentralized cooperation is recognized in article 3 of the Regulation (EEC) of the Council (No. 443/92 of February 25, 1992) relative to financial and technical assistance and economic cooperation with the developing countries of Latin America and Asia (PVD–ALA).

1993: budget line B7–5077 is created for decentralized cooperation for all developing countries, with the aim of promoting this modality.

From 1993: the first decentralized cooperation programs are started within the framework of the EDF.

Decentralized cooperation as it is known today in the Spanish State refers to which is carried out by the territorial administrations other than the State, specifically the Autonomous Communities and the group of Local Entities. This type of development cooperation falls within the previously described framework of decentralized cooperation, although it is only part of the different modalities that it implies. Although its implementation is very recent, it is clearly on the rise and has acquired in recent years

a considerable volume with respect to total development aid.

Arises in the Spanish State at the beginning of the eighties, as a result of the first twinning of Spanish municipalities with others in Latin America and the Saharawi Democratic Republic. Until 1994, its quantitative importance was less but, since that date, it has increased notably. The Governments of the Basque Country and Navarra were the first regional administrations to launch their own cooperation programs, and they were followed by those of the Generalitat de Catalunya, the Community of Madrid and the Junta de Andalucía.

The qualification of decentralized is confusing, suggesting a detachment of powers from the central government to local governments, when it would be more correct to speak of a non-central cooperation, since each regional government or municipal entity decides on its budgets in a sovereign way, without the intervention of the central government.

Although decentralized cooperation has other specificities, the most relevant distinguishing feature and its greatest comparative advantage with respect to central cooperation is its greater proximity to the citizenry. In addition, being more distant from the obligations of the central government in terms of foreign policy and international relations, it allows — in principle— regional or local administrations greater fidelity in fulfilling the objective of developing the poorest towns and solidarity among peoples.

Decentralized cooperation has become a characteristic and differential feature within Spanish ODA. Its approach to society and the fact that most of its programs are channeled through NGOs, mean that this cooperation provides quality aid in terms of the search for sustainable human development, the awareness of the population and the low link to political or commercial interests.

### **3.5.2. Evolution of decentralized cooperation**

In 1993, the 17 autonomous communities of the State already had consolidated cooperation programs, and as of 1994, all of them allocate part of their budgets to development cooperation. Since then, the quantitative importance of the cooperation of communities

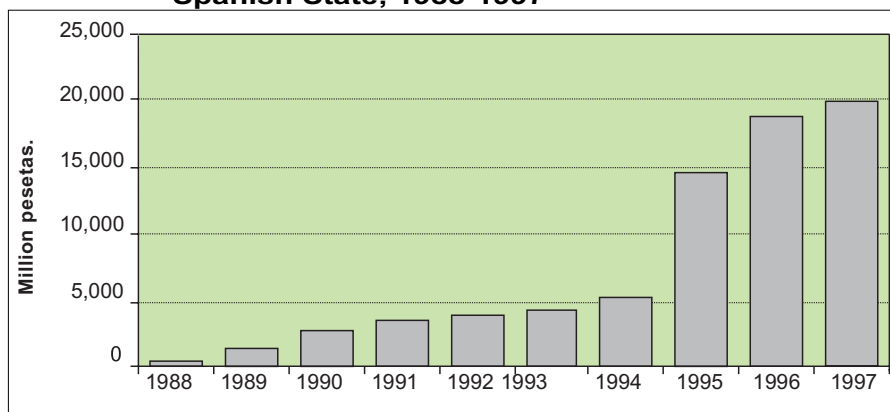


Autonomous and local entities has increased, unlike the trend observed in government cooperation (Graph 21).

The 3,418 million pesetas disbursed for this concept in 1991, passed to be 14,401 million in 1995 and for 1997 they reached the total figure of 19,639 million, which represents 10.3% of the total ODA of the Spanish State.

The most significant increase in the total volume of decentralized cooperation occurred in 1995, when the figure almost tripled, as a result of the impact on citizens of the mobilizations in favor of 0.7% in the winter of 1994, and the crisis in Rwanda, which encouraged numerous regional and local administrations to join this trend.

Graph 21. Evolution of the **decentralized cooperation in the Spanish State, 1988-1997**

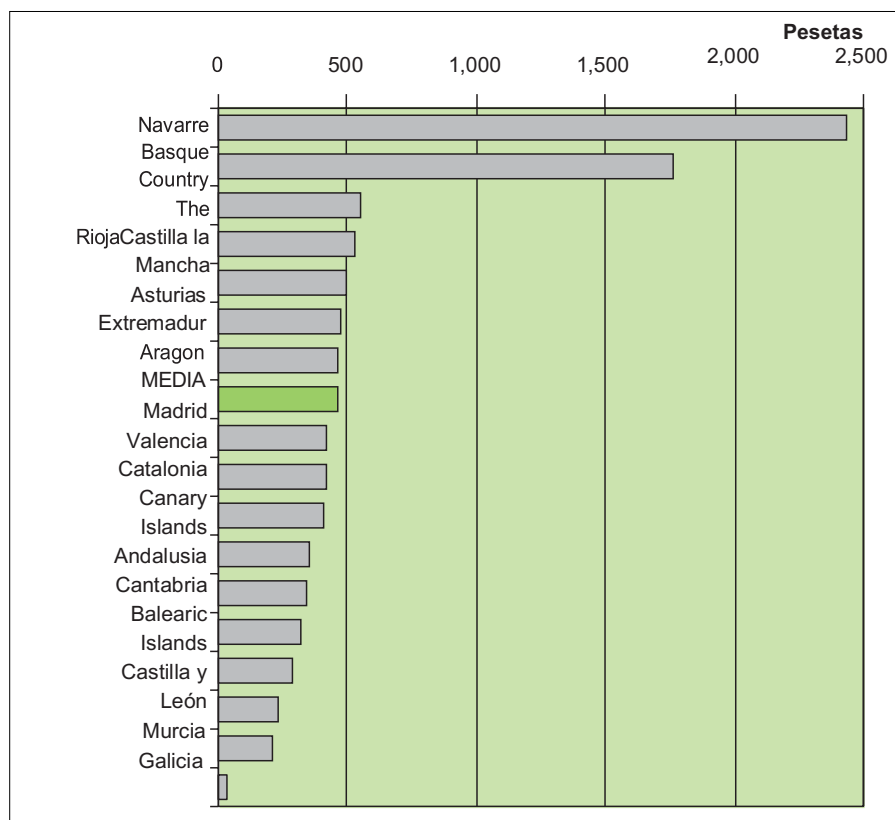


Source: PACI 1997.

Without wishing to establish comparisons, given that the fiscal autonomy regimes between the different communities vary a lot, it is interesting to highlight the data of what the figure that each one allocates represents per inhabitant the figure that each one allocates to cooperation. Graph 22 shows the data for 1996, in which the effort made by the Basque Country and Navarre stands out, as well as Extremadura, Castilla-La Mancha, Asturias and La Rioja. It should be noted that, just as for the states there is a certain "moral commitment" to allocate 0.7% of GDP to development aid, neither the city councils nor the autonomous communities are subject to that rule,

although many of them have adopted that symbolic goal and they come closer to it than many central governments.

**Graph 22. Distribution of ODA per capita by Autonomous Communities**



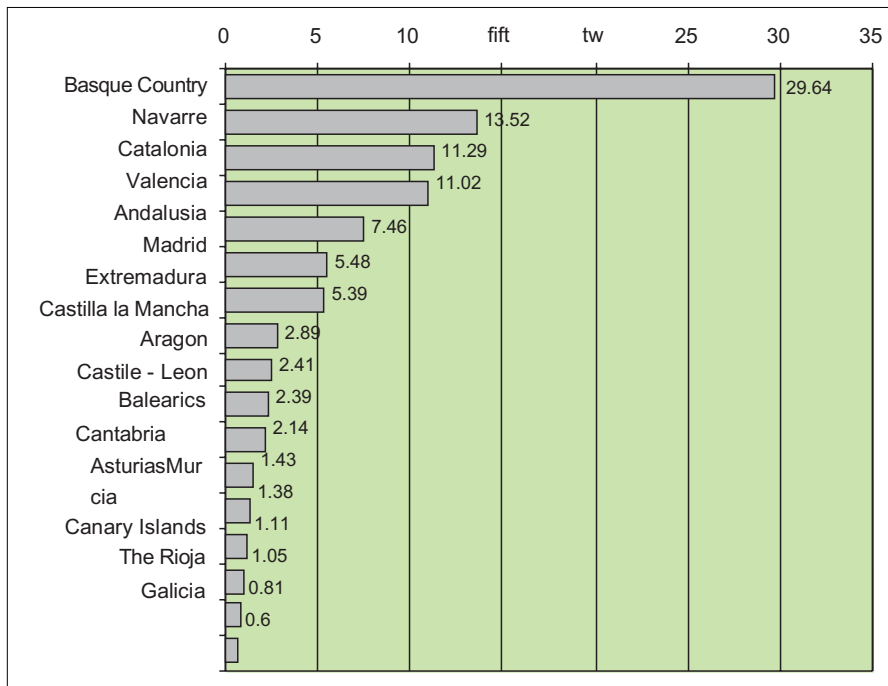
Source: From: Intermón, 1997.

The importance of the contributions of the Autonomous Communities should not make us forget the specific role of town councils and county councils within decentralized cooperation, which, like the former, have multiplied their dedicated items cooperation since 1994. In 1996, the total decentralized cooperation amounted to 18,500 million pesetas, of which just over 11,000 million came from the regional governments and some 7,500 million from municipalities and councils.

Among the city councils, it is worth noting the leadership exercised by the Vitoria-Gasteiz city council, which was the first to meet the goal of 0.7% of its budgets and which has currently even exceeded it. Within the Spanish State, together with it, the city councils of Seville, Madrid and Zaragoza promote important cooperation programs. It would be unfair to forget the important role of the smaller municipalities that, even when their budgets contain smaller amounts, nevertheless imply a huge effort.

In addition, they tend to be very active in getting closer to their counterparts and in raising awareness among their citizens. In 1995, small municipalities such as Benicasim (Castellón) or Santa Lucía (Las Palmas) had cooperation programs involving more than 1,000 pts. per inhabitant, which almost doubled the amounts per inhabitant allocated by Zaragoza or Madrid, which, in turn, were the municipalities of large cities with the highest contribution per inhabitant, if we exclude Vitoria-Gasteiz.

Graph 23. Decentralized cooperation 1997: percentages by Autonomous Community



Source: JA Alonso, «Draft diagnosis of the Basque system of cooperation».

Table 14. Harmony with the municipal processes of the south

When two municipalities enter into a relationship, harmony is assured; and with it the possibility of establishing cooperation agreements with a great knowledge of the role of the municipal institution. Never before has the municipal institution collected and crystallized social concerns in a vast portion of the planet, giving itself – in some countries even for the first time in its history – the concrete possibility that municipalities become useful instruments to solve citizen problems.

The decentralization of the State is today the cornerstone of all municipal policy in Latin America. The fever of decentralization, almost a dogma, shakes the municipalities, and points to the possibility of building concrete and real alternatives that from the municipal power, when it represents the interests of the popular layers, introduce the changes possible today ...

The new Latin American municipalities, lacking resources and mired in neglect for decades, they now appear as a new partner for international cooperation in a double sense. On the one hand, as subjects demanding external support, to the extent that the Municipal Administration is the first to have to catch up in terms of training its human resources, modernizing its procedures and adapting its functions. On the other, as local development agents, capable —among other things— of articulating and promoting popular participation in aid programs.

Support for emerging municipalism is a field of great interest to which municipal cooperation can and should contribute its efforts and its own experience. And this with the least ingenuousness, since the municipalities continue to be in many cases vehicles of despotism, and of corruption on a local scale. As in any other relationship established with cooperation programs, the choice of the counterpart is determinant.

*Source: González Parada, JR, and Corral, JC (1998); Decentralized cooperation in Spain (pages.65-6). In: González Parada (1998); Decentralized cooperation. A new model of North-South relations? The Books of the Waterfall, Madrid.*

The risk of excessive atomization and dispersion of decentralized cooperation, especially municipal cooperation, has led to the creation of networks or groups between city councils in various communities, forming what are called Cooperation Funds. Its role has been very important in improving the quality of cooperation from the municipalities, by allowing more coordinated action and, also, more efficient management. The first to be formed in 1986 was the Fons Catalá de Cooperació al Desenvolupament, which has around 160 associated town councils. Later, the Euskal Fundoa (Basque Fund) was born in 1988, the Fons Valenciá, in 1992, the Fons Menorquí, in 1993, and in other places efforts are being made in the same direction. For its part, the Spanish Federation of Municipalities and Provinces (FEMP) always

showed an interest in decentralized cooperation and created the International Solidarity Section.

The usual way of executing decentralized cooperation budgets is through non-governmental organizations, since around 85% of these funds are channeled through them. In the last two years, some administrations, such as the Basque Government or the Generalitat Valenciana, have opened their calls to other different entities, such as universities, unions or companies. In any case, it should be noted that the vast majority of decentralized cooperation is carried out free of charge, without charges for the recipients.

Other administrations have also started direct cooperation programs, although sometimes they are limited to economic support for a specific program, reproducing the model of the central government and without a unification of criteria between the corresponding ministries.

The most frequent situation is that cooperation depends directly on the Ministry of the Presidency, through Foreign Action departments, as in the CAV; or the Ministry of Social Welfare, as in Navarra or Castilla-La Mancha. In each case, the Administration's commitment to tasks such as providing information and raising awareness about its activities and about the problems of the South in general, expresses the degree of involvement of each one with development cooperation.

Given its youth, decentralized cooperation faces problems of its own growth, which are specified in the lack of technical services specifically trained for cooperation, which supervise programs and projects, and the insufficiency of management structures that streamline the process.

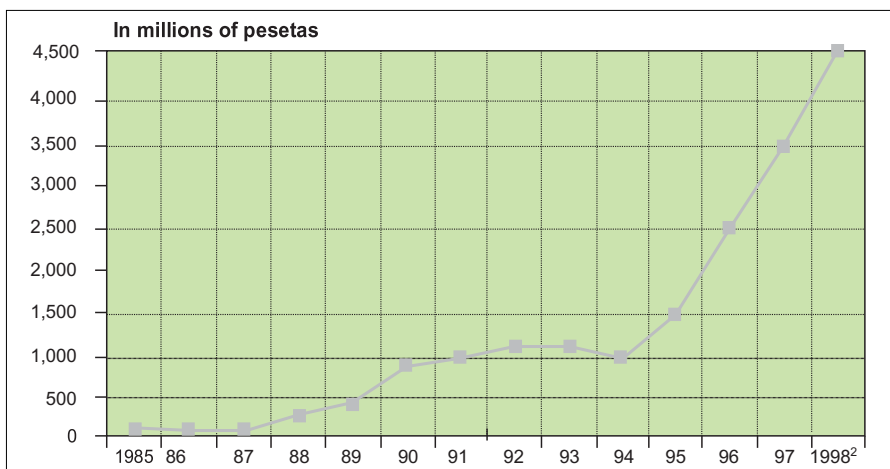
### **3.5.3. The cooperation of the Basque Autonomous Community**

The origin of Basque cooperation dates back to the beginning of the 1980s, although the long tradition of activities in favor of developing countries carried out for decades by a good number of Basque people, moved by their religious convictions and humanists. In many cases, the mere presence of Basque emigrants or exiles in Africa, America or Asia has been the trigger for this collaboration that is still in force.

In the early 1980s, several NGDOs began a campaign to request to the autonomous institutions the progressive application of 0.7% of the budgets for the support of the neediest countries. The first result was the allocation in the years 1985, 1986 and 1987 of a specific item of 10 million pesetas for cooperation with developing countries.

In 1988, a new campaign by the NGDOs managed to get the Basque Parliament to reach a consensus on its commitment to achieving the 0.7% target, and agreed to create a loan of 300 million pesetas to finance development aid. This item, pioneering throughout the state, constitutes the beginning of Basque public cooperation.

**Graph 24. Evolution of the budget for aid to the development of the Basque Government 1985-1998<sup>1</sup>**



<sup>1</sup>This graph does not include the budget items of the cooperation programs of the City Councils nor the surplus of the fund that the Provincial Councils of Araba and Bizkaia allocate to cooperation once their contribution to FOCAD has been made.

<sup>2</sup>The estimate for 1998 assumes 0.7% of the operating budget planned.

*Sources:* Basque Government, Report 1998–1997. Basque Public Cooperation.

In 1990, the regional government created the FOCAD (Development Cooperation and Aid Fund), and in October of that year, in collaboration with the Araba, Bizkaia Provincial Councils and Gipuzkoa launched a Solidarity Fund to finance development projects, with an initial volume of 900 million pesetas.

The involvement of the Basque institutions in the matter has been growing, in tune with the demands of civil society, having committed to achieving in 1998 the objective of 0.7% of the budget.

*The lines of Basque cooperation*

Over the years, Basque cooperation has been opening up to different social sectors, and it is no longer just the NGDOs that act as cooperation agents. Since 1993, the Basque Government has maintained several lines of project co-financing, which were structured in the 1997 Decree. The following lines of financing are distinguished:

- NGDOs (Chapter I).
- Legal entities other than NGDOs: universities, professional associations, religious institutions, training, technological, health centers, companies, etc. (Chapter II).
- Awareness projects, open to all types of entities (Chapter III).
- Direct agreements and emergency aid (Additional Provisions).

Table 15. The philosophy of Basque public cooperation

In the Basque Government legislatures of 1991–94 and 1995–98, the majority parties integrated solidarity into their Coalition Agreements as part of their government program, giving special importance to this area and declaring development cooperation as a basic objective. In addition to agreeing on the lines of the Cooperation Policy, they establish its basic principles:

«a) Support, through NGDOs and other non-profit legal entities located in the Autonomous Community of the Basque Country, the carrying out of projects that allow satisfying the basic needs of the countries of the South, promoting their integral development, favoring their sustained and sustainable socioeconomic growth, their training and technical assistance, with the populations of these countries being the ultimate recipients of aid. These actions are characterized by the absence of a profit motive, and are based on the principles of solidarity and international justice.

b) Promote the participation in Development Cooperation of other social actors, also endowed with legal personality, in specific projects in favor of developing countries or training of human resources from these countries in Euskadi.

c) Contribute to the elimination of the causes of poverty, supporting the efforts of developing countries for their self-promotion, without implying interference in the internal affairs of those countries.

d) Implement aid through non-refundable grants for projects with NGOs that are developed in the regions or communities with the highest poverty rates.

e) Guarantee the involvement of the promoters with the action, for which the projects subsidized by the Basque Country must be co-financed through financial external financiers contributions.

f) Promote the participation of personnel, goods and services of the Basque Country in the execution and development of co-financed projects.

g) Promote the endogenous development of developing countries, aimed at alleviating poverty, but fundamentally at eliminating the causes that have generated it, promoting fair income distribution, social justice, the development of human rights, cultural extension and the development of institutions that ensure democracy and respect for the environment.

h) Enhance the participation of the recipients of the action, both in the design and in the execution and evaluation of the development projects.

i) Consider and promoting the gender approach in the formulation, execution and evaluation of actions.

j) Prioritize human development as the focus of Cooperation and as a preferred criterion in the definition of objectives.

k) Contribute to raising awareness in Basque society through development education projects and other activities in the same field.»

The Government Program signed for the 1999–2002 legislature period contains the following statement:

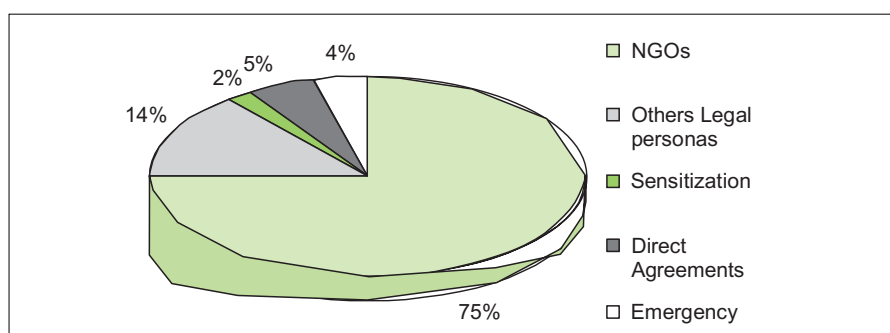
With the ultimate goal of maintaining, improving and deepening the Cooperation program for the Development of Euskadi, from the Basque Government in this Legislature we are committed to:

- Carry out an analysis and evaluation of the work in recent years jointly with non-governmental organizations and other institutions involved and collaborating, in accordance with the development cooperation model implemented in Euskadi.



- Coordinate development cooperation policies proposed by different bodies, trying to develop common objectives in a joint and participatory manner.
- Promote the coordination and collaboration of the associative fabric, in order to achieve greater efficiency in the effort that we all dedicate in the fight against underdevelopment.
- Design creative programs of solidarity and development cooperation, through entities that offer guarantees, NGOs and public or private entities.

Graph 25. Distribution of aid by chapters, period 1988–1997



(in thousands of pesetas)

	NGOs (Chap. I)	Others Legal personas (Chap. II)	Sensitivity zation TOTALuridic Add. 1st)	Agreements Direct (Chapter III) Add. 1st)	Emergency (Provision Provision)	
1988	277,110		12,360		289,470	
1989	421,844		8,156		430,000	
1990	858,859		11,000		20,000	889,859
1991	813,550	77,149	11,988		50,000	952,688
1992	841,157	47,736	2,825	40,000	50,000	981,718
1993	621,690	340,108	12,251		43,549	1,017,600
1994	801,681	55,478	12,839		50,000	920,000
1995	1,077,495	95,000	25,093	125,000	71,240	1,393,830
1996	1,392,374	469,383	54,464	273,831	115,290	2,305,344
1997	2,159,948	602,713	76,225	132,795	148,853	3,120,536
<b>TOTAL</b>	<b>9,310,708</b>	<b>1,687,567</b>	<b>227,201</b>	<b>571,626</b>	<b>548,932</b>	<b>12,301,047</b>
%	75%	14%	2%	5%	4%	100%

Source: Basque Government, Report 1988–1997. Basque Public Cooperation.

The budget managed annually by the FOCAD Program is approved by the Basque Parliament, and its activities are managed by the General Secretariat for Foreign Action and its Directorate for Development Cooperation. Two inter-institutional commissions, the Management Commission (with representation from the Government, Parliament and Provincial Councils) and the Technical Commission for Support and Assistance, support and supervise the work of FOCAD.

In the same line of involvement of all areas in the issue of development cooperation, the Basque Government has also promoted specific programs in recent years such as: Cooperating Basque Youth with the Department of Culture; attention and training of health professionals in countries of the South with Osakidetza/Basque Health Service; training of Latin American volunteers and doctoral students with the University of the Basque Country.

The fourth chapter includes the figure of direct agreements that allows agreements to be signed with legal persons governed by public law —central administration, autonomous communities, town halls, European regions, —to carry out projects in favor of developing countries. The possible counterparts of these agreements include the participation of institutions from the countries to which the aid is intended.

It has also carried out several awareness-raising sessions and reflection on cooperation, etc. Another outstanding part of these programs corresponds to the specific area of attention to youth, with aid to volunteer and professional cooperators, scholarships for programs in UN organizations, scholarships in the Cooperation Directorate itself and also for training at the University.

Table 16. Cooperating programs

After establishing the Basque Cooperator Award, a legal framework has been created that allows different ways for cooperators to collaborate in projects. The programs included are the following:

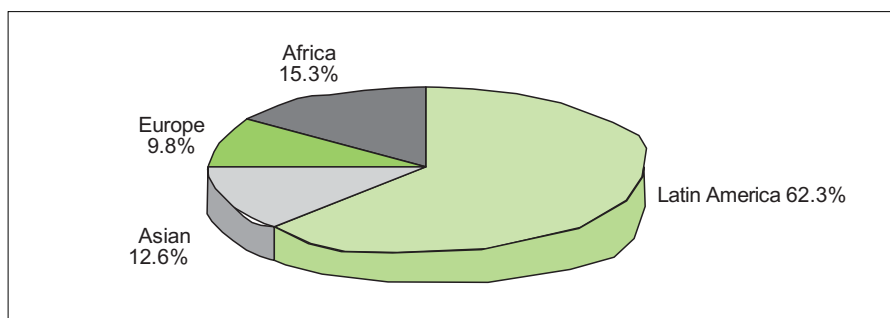
1. Cooperating Basque Youth. It was created in 1993 by the Department of Youth and Community Action of the Ministry of Culture in collaboration with the Department of Cooperation to Development. Its objective is to encourage the participation of young people in development cooperation actions, integrating them into projects promoted by the Basque NGDOs for periods of three months.

2. Professional Cooperators and Volunteers. Created in 1995, it offers grants to favor the presence of professionals and volunteers for a period of not less than one year in development projects, always with a charitable purpose.
3. Scholarships for United Nations Programs. Since 1997, this program has offered scholarships to voluntary aid workers in development projects of United Nations organizations. They are convened annually and are valid for one year, extendable for another.

*Distribution of Basque ODA: by geographical destination and by sectors*

Of the more than 9,000 million pesetas that the CAV has allocated to cooperation with other peoples since 1988, some more than six billion —67% of the total— has been allocated to Latin America. Around 1,300 million have gone to Africa —15% of the total—; Asia has received a similar percentage —15%— with 1,377 million (graph 26).

**Graph 26. Structure of projects subsidized by the Basque Government according to destination by continent, 1988-1996**



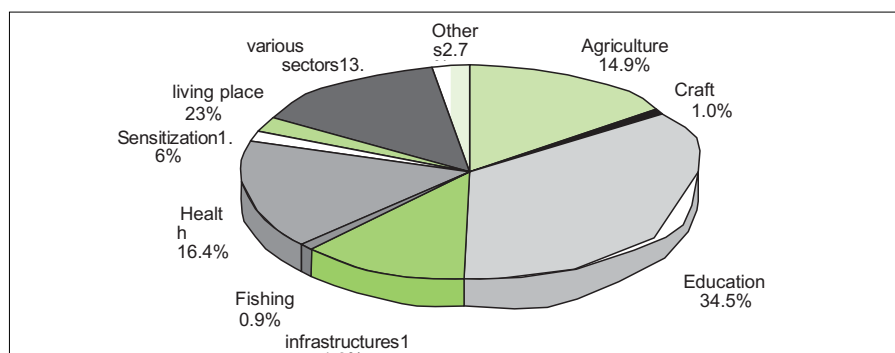
*Source: Basque Government Report 1989-97.*

By countries, the most benefited are Peru, with 1,087 million pesetas; Venezuela and Chile, with more than 700 million each, and India, with 700 million.

By sectors, the one that has received the most aid is education with 173 projects that account for a third of the aid.

Followed by health, agriculture and infrastructure, with almost 17%, 15% and 12%, respectively (graph 27). This distribution basically coincides with the so-called «basic needs» of the benefited populations, although aspects such as housing (2.3%), awareness (1.6%) or community development remain with very low figures, or integrated into other sectors.

**Graph 27. Structure of projects subsidized by the Basque Government according to destination by sector, 1988–1996**



Source: Basque Government Report 1989-97.

### 3.5.4. Municipal cooperation in the Autonomous Basque Community

The evolution of Basque municipal decentralized cooperation can be divided into three stages. The first, which began in the second half of the 1980s, is characterized by the somewhat voluntary nature with which the municipalities undertook cooperation activities, without having a clear idea of what their objectives should be. But what is interesting to highlight is the pioneering nature of these first actions, promoted by some Basque municipalities, which expressed a clear vocation for development cooperation and which served as the basis for the subsequent consolidation of cooperation programmes. The reception of Saharawi boys and girls during vacation time by various municipalities gave rise to the establishment of the first twinning of Basque municipalities with the Saharawi dairas. This was the case of the municipalities of Vitoria-Gasteiz (1987) with La Güera and of San Sebastián-Donostia (1988) with Bojador.

In a second stage, which can be fixed in the first half of the 1990s, most of the existing local cooperation programs were consolidated, significantly increasing the funds allocated to cooperation, and new municipalities were incorporated. The importance that municipal cooperation is acquiring is evident in the holding of various meetings where these issues are reflected upon, such as: the Congress on Local Initiatives for Global Development, held in October 1990; the Municipal Conference on North-South Cooperation: the local dimension of solidarity, sponsored by the town councils of Amurrio and Bermeo, in 1993 and 1995; the Basque Municipal Meetings on International Cooperation, organized by Euskal Fundazioa in 1990, 1992 and 1993; in addition to other less important days.

The expansion phase, third stage, of municipal cooperation occurs in the second half of the 1990s, in which not only the number of municipalities that join the cooperation movement and the amounts allocated in the budgets continue to increase, but a clear concern for the qualitative aspects of cooperation.

The increase in the number of town halls with cooperation programs in the CAV is spectacular if one considers that in 1988 there were only 12 municipalities that had cooperation activities. The great leap occurred in the second half of the 1990s, when it went from 40 in 1995 to 97, which in 1998 had cooperation programs. Funds allocated by local Basque corporations also experienced significant increases. It went from about 200 million pesetas in 1993 to an approximate amount of 270 million in 1994 and the figure of 270 million was reached in 1995. That is to say, in a period of three years the increase in municipal funds for cooperation grew by 240%.

The most widespread procedure for allocating funds has been through public calls addressed to non-governmental organizations, which present projects to be subsidized according to the conditions established in each case. Most of the funds, approximately 60%, have been destined for Latin America, with special preference for the Central American countries (Nicaragua, El Salvador and Guatemala) and Cuba; and close to

30% have been directed to Africa, but with a high degree of aid concentration in the Saharawi Arab Democratic Republic and Equatorial Guinea.

**Box 17. The City Council Cooperation Program from Vitoria-Gasteiz**

In addition to acknowledging the Vitoria–Gasteiz City Council for its pioneering role in promoting development cooperation at the local level and its continuous increase in the commitment to allocate more funds, its efforts in the search for new instruments must be highlighted. The cooperation mechanisms have been evolving since the first calls in which almost all of them were allocated to grants to projects of non–governmental organizations. One of the formulas that has been consolidated is cooperation through programs with specific objectives and, of these, cooperation agreements have achieved significant weight, reaching almost 20% of the funds in 1997.

This formula represents a step forward in deepening the first pairing, by offering a more permanent commitment that allows for more efficient and ambitious forms of cooperation. The City Council signs framework agreements that are later specified in annual programs where the actions to be carried out are specified. In recent years, it has signed three agreements with: Cogo (Guinea), through the Manuel Iradier Africanist Association; La Güera (Sahara), through the Association of Friends of the SADR; and, Nejapa (Nicaragua), directly with that municipality.

*Basque Country*

Basque municipal cooperation has a coordination institution: Euskal Fundoa–Association of Cooperating Basque Local Entities. Although its origins date back to 1988, the current constitution was established in 1996. Under the name of the Basque Fund for Cooperation with Central America, a private foundation was created in 1988, always with a municipal vocation, which brought together various town councils and it has been active for several years. In 1994 and 1995, the advisability of changing its legal status and emphasizing even more its character as a group of local entities was raised. This process culminated in 1996 with the creation of Euskal Fundoa as an association of Basque local corporations whose

purposes «contribute cooperation with developing countries through projects, programs or actions, as well as promoting the participation of people and organizations, promoting institutional coordination».

**Table 18. The objectives of Euskal Fondoa**

1. Contribute to cooperation with developing countries through the promotion, financing and management of projects and programs for economic and social development and/or awareness.
2. Promote the participation of local entities in Decentralized Cooperation and strengthen coordination between the same.
3. Advise local entities on development cooperation and international relations.
4. Support, and manage, where appropriate, projects and programs that promote sustainable development in developing countries, with criteria of equality and mutual collaboration and respect for the cultures and identities of each community.
5. Stimulate citizen participation, through appropriate campaigns and information, in cooperation projects with developing countries.
6. Promote relations and collaboration of local entities with NGOs, solidarity groups and other institutions or organizations linked to cooperation in developing.
7. Contribute to information and dissemination of development issues and North-South relations; hold and promote meetings, conferences, courses, seminars, congresses, etc.
8. Foment and support the efforts of official institutions, entities and associations to create a climate of opinion favorable to the promotion of a new international economic order.
9. To be a collective ethical voice that from Euskal Herria denounces any situation that seriously threatens human rights in the countries of the South and that it may present, through established legal channels, bills and resolution agreements in favor of solidarity and cooperation in any field of political representation.

*Source: Activity Report, Euskal Fondoa; 1999: pp.14-15.*

Currently, Euskal Fondoa brings together 57 local entities, all of them municipalities, except the Araba Provincial Council. By province, the distribution of its members is as follows: 25 town councils from Gipuzkoa, 21 from Araba and 10 from Bizkaia, in addition to a town hall (Leitza) from Navarra. It should be noted that the municipalities of the three capitals of the Autonomous Community (Bilbao, Donostia–San Sebastián and Vitoria–Gasteiz) form part of the group, which makes the total of the municipalities of Euskal Fondoa agglutinate more than 80% of the population.

#### *The activities of Euskal Fondoa*

The main activity of Euskal Fondoa is to promote and channel development cooperation carried out by local entities. This translates into three areas of action: promotion of development cooperation; citizen awareness and institutional coordination.

a) Promotion of development cooperation. It is the main task and it directs most of its efforts. It is specified in: exercising an advisory function to corporations; develop a database on existing projects in the Basque area and other sources of funding, especially European cooperation programs, open to local entities; achieve a homogenization of the bases of local calls, which has overcome the enormous diversity and dispersion of existing calls; develop inter-municipalist projects; and, the training of the political and technical managers of the cooperation of the corporations.

**Table 19. Realization of cooperation projects on the land**

Among the activities of Euskal Fondoa is the direct management of development cooperation projects. One of the greatest possibilities offered by grouping is that it increases the capacity for pooling management and the co-financing of projects.

These projects are selected from proposals coming from member entities or cooperation funds, local European institutions and decentralized cooperation institutions, on the one hand; or, directly from local institutions, associations and non-governmental organizations of recipient countries.



Just as Euskal Fondoa advises municipalities to avoid the geographical dispersion of projects, it has defined for its activity cooperation five priority countries: El Salvador, Guatemala, Nicaragua, Cuba and Western Sahara. This selection is based on the historical and current links that Basque society has maintained in recent decades, in addition to the fact that the experience of a large part of the Basque municipalities has focused on those countries. On the other hand, the countries' needs criteria, defined from poverty and human development indicators, correspond to that definition. Setting these priorities does not imply that other countries are automatically excluded, and the way can be opened when deemed necessary.

b) Citizen awareness. The closeness that local institutions have with the population makes them especially suitable for the task of raising awareness to society. Euskal Fondoa promotes relationships with non-governmental organizations and their coordination bodies to carry out campaigns and activities with the aim of educating in solidarity.

c) Institutional coordination. It aims to establish and foster relations of coordination and collaboration between cooperating institutions in the Basque, state and international spheres, to jointly develop cooperation and awareness actions.

d) Other activities. In recent years, Euskal Fondoa has participated in emergency campaigns to help alleviate disasters such as those that occurred in: Chiapas (1996), the region of the Great Lakes (1997) and the countries affected by Hurricane Mitch (1998).

A significant activity carried out by Euskal Fondoa has been to participate in international observation missions in consultations and electoral processes. Thus, it was present in the following cases: elections in Guatemala in 1995, general elections in Nicaragua in 1996, legislative and municipal elections in El Salvador in 1997 and elections of the Regional Councils of the Autonomous Regions of the North Atlantic and South Atlantic of Nicaragua in 1998.

# **4**

## **multilateral cooperation**

Although bilateral cooperation, channeled by the governments, has been quantitatively the most important source of development aid resources, the truth is that multilateral cooperation has played an emblematic role in development issues. This is explained from the moment that development is perceived as an issue that affects the international community and that goes beyond the specific problems of each country.

Development as one of the priority objectives to achieve peaceful international coexistence was incorporated into the founding Charter of the United Nations itself, which included the commitment to set in motion the international machinery to promote the economic and social improvement of all peoples. The recognition of the international dimension implied stating that the resolution of the development problem required the implementation of multilateral instruments. However, despite the declarations, the developed countries were very reluctant to assign this task to the United Nations system and, except for the financial organizations of the World Bank and the International Monetary Fund, the operation of the multilateral mechanisms has always been behind the bilaterals.

To the framework of the United Nations, which has long been the paradigm of multilateral cooperation, we must add since the 1970s the multilateral cooperation carried out within the European community institutions. Also, during several decades, the Organization of the Petroleum Exporting Countries (OPEC) and the Council for Mutual Economic Assistance (CMEA), formed by the socialist European countries and the USSR, had

Important development cooperation programs were carried out that obviously must be included in this section. The disappearance of the socialist block implied the disappearance of the COMECON, and the drop-in oil prices in the 1990s meant a very strong reduction in OPEC's cooperation programs. Consequently, multilateral cooperation is currently concentrated in two large institutions: the United Nations system and the European Union.

#### **4.1. THE UNITED NATIONS SYSTEM**

When Western countries agree at Bretton Woods (1944) on the rules of new post-war economic order, two central institutions emerged with the mission of maintaining that order: The World Bank and the International Monetary Fund. The activity carried out by both will be essential to understand the evolution of the world economy and, especially, of development problems. In the division of tasks, the former was responsible for acting as a financial intermediary to ensure that the necessary resources arrived for the reconstruction of the countries affected by the war and for the development of the less industrialized countries. Second, to regulate the stability of the monetary system, preventing countries from altering exchange rates, to guarantee the fluidity of trade and capital in the international arena.

In addition, the United Nations system, also created after the war, and under whose umbrella the two previous organizations are placed, it becomes the paradigm of the multilateral institutions and is going to perform other important tasks in the treatment of the problems of international development. Within the United Nations, a series of specialized agencies, organisms and programs with differentiated functions on specific aspects or dimensions of development are integrated, such as: health, population, childhood, agriculture, etc.

Although the leading role of multilateral channels is focused in the World Bank and the International Monetary Fund when it comes to economic resources, the work carried out by the other multilateral institutions not only cannot be disdained, but is essential if one wants to know what multilateral cooperation has meant.

The United Nations has played an important role in that development issues be viewed as a matter of common responsibility; although this has not been accompanied, as has been said before, by the granting of the adequate means to have a real operational capacity. The successive declarations of the Decades of Development served so that the claims of the developing countries found in the United Nations a forum where they could express themselves and disseminate their proposals. In this sense, the declaration of the General Assembly of 1970, establishing that developed countries set themselves the goal of transferring 0.7% of the GNP, has been a fundamental reference, although it is far from reaching it.

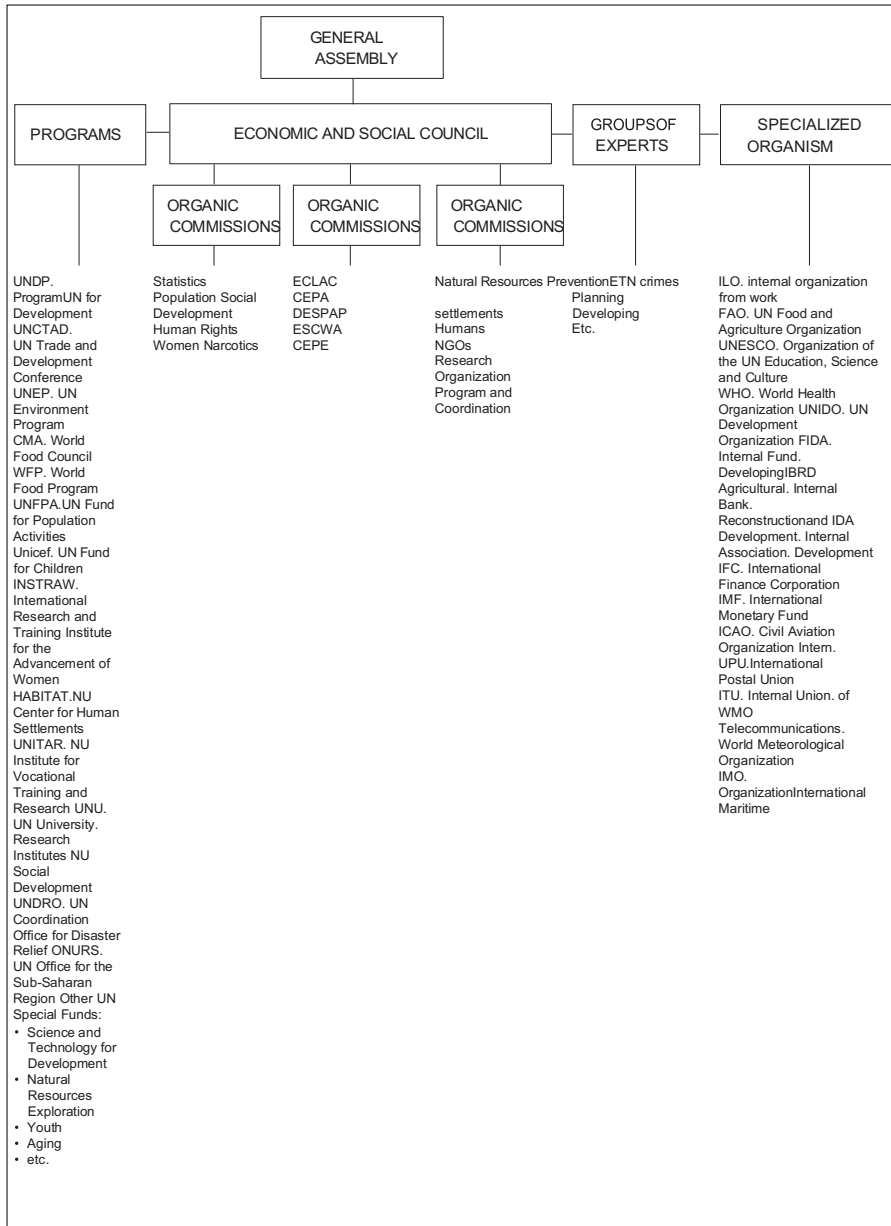
In fact, various United Nations agencies became spokespersons for proposals made by developing countries. That was the case for the United Nations Conference on Trade and Development (better known as UNCTAD, in its English acronym), especially in the 1970s, and UNESCO, with regard to education and culture. Informal groups made up of developing countries also arose which, making use of their right to vote in international organizations, maintained the pressure for development demands. Among them, the most active has been the one known as the G-77, which is still maintained although its number has far exceeded that of the 77 countries with which it was born and from which it takes its name.

The concern for the development of the United Nations was reflected in the appearance of a series of programs or funds, and specialized organizations or agencies, in addition to other instances, in charge of resolving particular aspects of development. The programs or funds are financed by the contribution of voluntary quotas from the countries and are subject to the UN General Assembly. The specialized organizations or agencies are dedicated to offering technical assistance in specific matters and are financed with the quotas set for the member countries of each organization and with voluntary contributions.

As a result, we must speak of the existence of a complex network of multilateral organizations, which in order to understand its different tasks can be classified from two approaches: a) according to the organizational structure: its relations with the United Nations framework and its internal functioning; b) according to a functional criterion, distinguishing between financial and operational organisms.

The following two graphs synthesize both structures:

Graph 28. The structure of the Organization of **United Nations**



**Graph 29. Multilateral organizations: financial and operationals**

<p><b>Financial institutions:</b> they carry out a development financing activity, fundamentally through the granting of credits; that is, a function of financial intermediation.</p>	
<p>— <i>World Bank Group:</i></p>	<ul style="list-style-type: none"> <li>• International Bank for Reconstruction and Development</li> <li>• International Development Agency</li> <li>• International Finance Corporation</li> <li>• Multilateral Investment Guarantee Agency</li> <li>• Economic Development Institute</li> <li>• International Center for Settlement of Investment Disputes</li> </ul>
<p>— <i>International Monetary Fund</i></p>	
<p>— <i>Regional Banks:</i></p>	<ul style="list-style-type: none"> <li>• Inter-American Development Bank</li> <li>• African Development Bank</li> <li>• Asian Development Bank</li> <li>• European Development Bank</li> </ul>
<p>— <i>Other funds</i></p>	
<p><b>Operational Organizations:</b> their purpose is technical and financial assistance, but always on a concessional basis and from the identification of each body with a specific area of action.</p>	
<p>— <i>Programs and funds</i></p>	
<p>— <i>commissions</i></p>	
<p>— <i>Non-financial specialized organizations and agencies</i></p>	

**Table 20. The UN agencies and the development**

At the UN, development and humanitarian aid activities are often closely intertwined. In the case of the UNHCR (United Nations High Commissioner for Refugees), its activities can certainly be described as humanitarian. The same does not occur with the activities of the World Food Program (WFP), which distributes food in case of emergency, but in this way tries to use food aid to finance projects; nor of UNICEF, which also contributes with emergency measures, but which also strives to support long-term actions for mothers and children.

Fruit of its labor and the investigations of their experts, both UNDP and UNICEF annually publish reports that are a fundamental point of reference in the analysis of the state of humanity and the progress of people. The UNDP publishes its "Human Development Report" and, on behalf of UNICEF, "The State of the World's Children" and "The Progress of Nations" stand out, a document that records and evaluates progress in child survival, health, nutrition, education, family planning and advancement of women.

Within the United Nations system, the main agencies responsible for humanitarian issues and cooperation and development are:

#### **United Nations Development Program (UNDP)**

It is the central body for development activities within the UN. It was created in 1965 by the merger of two programs of technical cooperation. Its structure is complex: it collects funds destined to finance development projects in all fields, but itself does not perform more than a relatively modest part. The rest of the funds are distributed among the specialized agencies to finance their own technical cooperation projects. It has an important network of field offices, run by resident representatives, who are generally responsible for coordinating the technical cooperation activities of the major UN programs and their agencies.

UNDP works mainly on development projects with a perspective to long term. Economically, it is nourished by voluntary contributions and the funds assigned to it by the UN budget. In the 1990s, its budget has been reduced within the United Nations, and its participation in the total flows of the UN has remained around 20%. Its annual budget was about \$1.5 billion in 1994 and 1.285 in 1996.

#### **United Nations Fund for Childhood (UNICEF)**

Provisionally created in 1946 to come to the aid of children of war-torn countries, became permanent in 1953. Its Executive Council has 36 members who set policies, review programs and approve the organization's budgets. Its resources (\$944 million in 1996) come from voluntary contributions from member states and from private funds mobilized in most cases by national committees, associations to support the organization's action constituted in each country.

UNICEF has paid attention to all aspects of children's education, health and welfare (including, for example, the distribution of drinking water, primary health care...) in developing countries, but also in certain war-torn European countries and in countries of the former USSR. UNICEF currently has programs underway in 161 countries around the world and has specialized, since 1982, in a vaccination campaign for all the world's children. It has strongly contributed to the elaboration of the Convention on the Rights of the Child, approved in 1989 by the UN General Assembly, and ratified by almost all the countries of the world. Its central objective marks the current line of UNICEF:

“Promote the right of every child to survival, protect against exploitation and mistreatment and encourage the full realization of its potential as a human being.



Currently, UNICEF has also included in its programs the defense of the rights of women and girls, with the commitment to promote equality and support their full participation in development. In 1997, its priority areas have been: child survival, health, nutrition, reproductive health, drinking water and sanitation, child labor, education, women and girls.

#### **World Food Program (WFP)**

It was created in 1963 as a joint subsidiary of the UN and the FAO. It is specialized in food aid eveloping countries and those suffering from hunger as a result of wars or catastrophes. It transports about a quarter of the food aid that is distributed annually, and also serves to purchase and transport part of the bilateral food aid.

Since 1991, its activities have developed considerably due to the increase in the number of disasters, conflicts and famine. Currently, PAM has 87 field offices and distributes some five million tons of cereals, half of which go to emergency aid, especially to sub-Saharan Africa.

In 1995, the WFP spent a total of close to \$1.2 billion (\$1.191 million), most of which was spent to regular development programs (436), to the International Emergency Food Reserve (424) and the rest to operations for protracted refugee situations and displaced persons and for other bilateral or special emergency operations.

#### **United Nations Population Fund (UNFPA)**

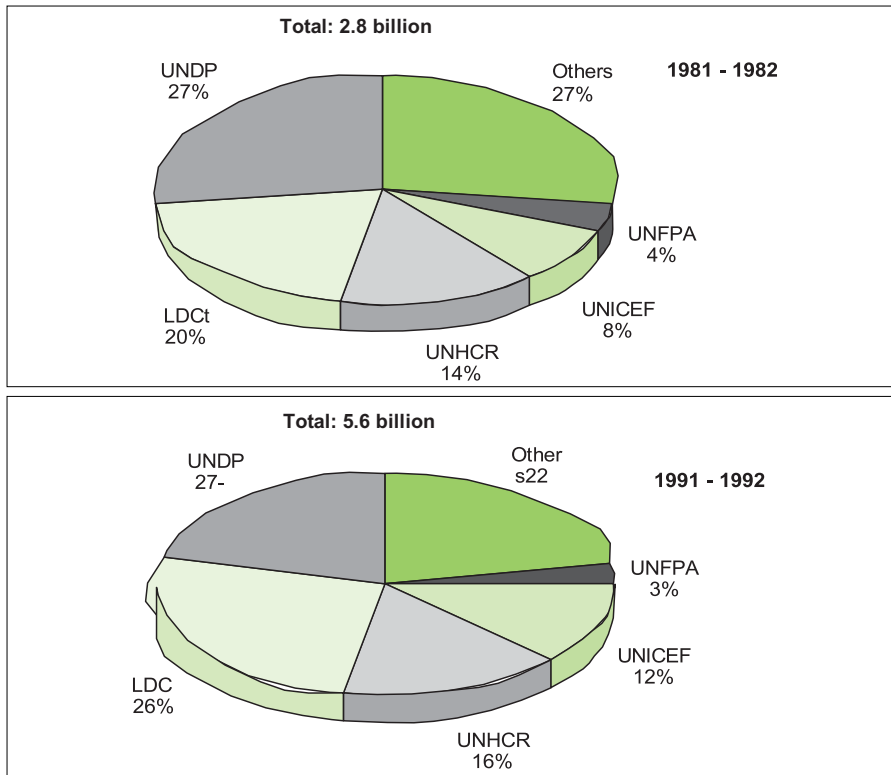
It is the United Nations agency in charge of monitoring and applying the agreements and programs of the International Conference on Population and Development. It works in collaboration with governments, agencies of the UN system and development banks, among others.

UNFPA received a strong impetus in 1994, with the International Conference on Population and Development. In 1995 and 1996, UNFPA income was around 300 million dollars (312 and 309, respectively), provided by voluntary contributions from different countries.

Most of its programs are directed to finance reproductive health and family planning campaigns, to information and education on the subject, and to the formulation and evaluation of population policies, as well as to the support of NGOs that work on these issues.

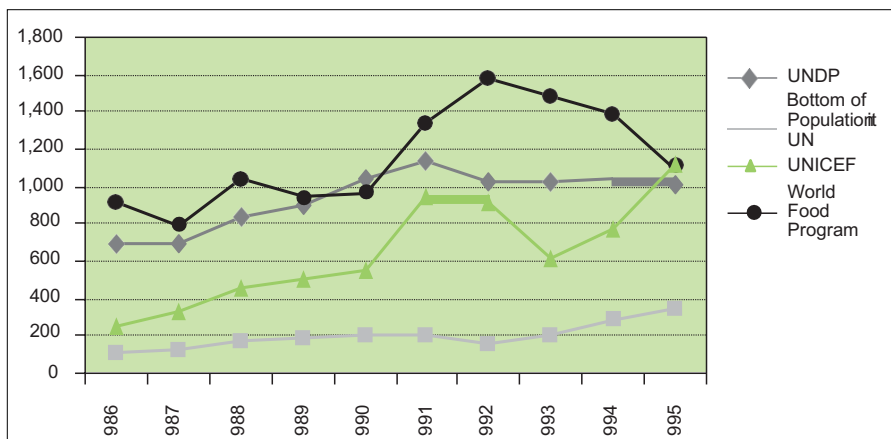
Works also «the promotion of equality of women, the international consensus on population and sustainable development and the early stabilization of the world population»

**Graph 30. Structure of the resources disbursed by the UN for development cooperation activities, according to organisms. 1981-82 and 1991-92**



Source: DAC 1996.

**Graph 31. Resources of the main UN agencies for development cooperation, 1986-1996**



## 4.2. MULTILATERAL FINANCIAL BODIES

This section includes those multilateral organizations that carry out development financing activities; that is, they are dedicated, on the one hand, to raising funds and, on the other, to lending under certain conditions to countries that meet the established requirements.

### 4.2.1. The World Bank Group

Although it is known as the World Bank, the original and real name of the bank is the International Bank for Reconstruction and Development (IBRD). The name of the World Bank corresponds to a group of multilateral institutions, which includes: the aforementioned IBRD, the International Development Association (IDA), the International Finance Corporation, the Multilateral Investment Guarantee Agency (MIGA) and two other less important organizations.

#### Box 21. World Bank Group Organizations

IBRD (International Bank for Reconstruction and Development):

- created in 1944;
- it has more than 175-member countries;
- acts as a financing bank for projects and programs developmental.

IFC (International Finance Corporation):

- created in 1956;
- it has 156 member countries;
- promotes the growth of the private sector in developing countries.

IDA (International Development Association):

- created in 1960;
- it has 156 member countries;
- grants loans on very soft conditions to the poorest countries.

MIGA (Multilateral Investment Guarantee Agency):

- created in 1988;
- it has 154 member countries;
- guarantees foreign private sector investments in developing countries.

Institute of Economic Development:

- created in 1955;
- development research agency.

ICSID (International Center for Settlement of Investment Disputes):

- created in 1966;
- dispute arbitration.

*a) International Bank for Reconstruction and Development (IBRD)*

The IBRD has had a very diverse role, as has the IMF, throughout these decades. Initially, despite its name, its concern was more with the reconstruction of war-torn European countries than with the development of non-industrialized or newly independent countries. Only from the end of the 1950s did it begin to finance developing countries, but with a very limited scope. It was the developing countries themselves that denounced, in that decade, the lack of attention they suffered from multilateral organizations and demanded the need to create a special fund for economic development. But the response was not received favorably and it can be said that until the end of the 1960s, and especially in the 1970s, the IBRD did not concentrate its attention on developing countries.

Despite this new approach, the IBRD did not represent the main source of financing development, which was assumed by private resources. It will be due to the problems that arose in the 1980s with the external debt, when the IBRD will come to the fore, and will become the main source of financial aid through multilateral channels.

Although it may seem redundant, it should be noted that the IBRD is a bank, which means that it does not give away but lends money, which must recover what it lends and that, ultimately, its operation is basically no different from commercial banking. The main difference with respect to commercial banking is that the IBRD does not accept deposits from third parties, except for the quotas contributed by the member countries. This observation needs to be made because the IBRD is sometimes thought of as an aid institution, in the sense that it readily grants money. Nothing further from reality.

First, the funds available to the IBRD come from (practically 90%) of the loans that the IBRD obtains in the international financial markets. Only 10% of its resources are its own funds, which correspond to the quotas paid by the member countries. This means that, if you have to return the funds with which you are going to grant loans, these must be granted at higher prices and ensure that they are going to be returned. The IBRD is especially demanding in the selection of the credits it grants, which must also carry the guarantee of the government of the country to which they are allocated, and which require that a significant part of the project being financed be carried out with local resources. The IBRD places limits on its participation in the projects to ensure the interest of the executors in doing it effectively and not to take risks.

Thus, the IBRD credits are not concessional, but are made on almost similar terms to those of the market. It is true that they tend to have some special characteristics and that they offer some advantages, such as, for example, longer repayment terms and being used for purposes that usually find it difficult to interest private banks. The main countries that received IBRD loans in 1996 were: China, Mexico and Indonesia, which together accounted for more than 30% of the loans granted; India, Brazil, Argentina and Russia, with almost 25%; Philippines, Turkey, Morocco, Pakistan, Nigeria, Poland and Colombia, with just under 20%. In short, a scant fifteen countries received three quarters of the bank's credits. Although it must be considered that the population that encompasses these countries represents a high percentage of the population of developing countries, it is also true that, in general,

The IBRD is more than just an entity that gives credits. Its influence as an institution that sets the guidelines for economic thought has been enormous in recent decades. Their intervention comes in many ways:

- a) negotiates with the authorities of the receiving country to influence the adoption of policies that guarantee the results of the investments;

- b) promotes concrete practices for the design and execution of projects;
- c) it reinforces local institutions, offering technical assistance and the training of cadres.

But its influence is not limited only to the relationship with recipient countries, but also extends to the general sphere of thought and of those responsible for development policies. The Bank has an important body of researchers and has an important series of publications where its approaches to the main development issues are disseminated. Among the large number of works that it produces annually, its annual reports on world development stand out, which constitute an obligatory reference source.

*b) International Development Agency (IDA)*

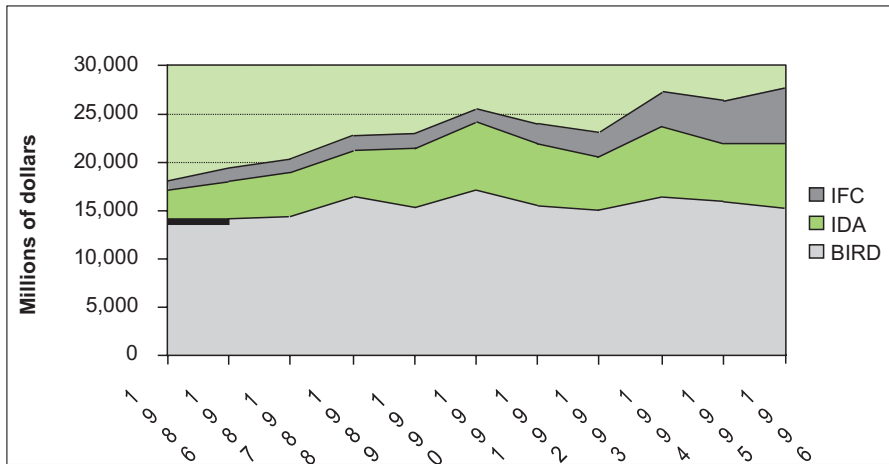
It was founded in 1960, as an institution affiliated with the IBRD, precisely because of pressure from developing countries that demanded better access to the capital they needed and that the IBRD did not provide. IDA is the most important source of concessional credits, that is, of soft credits. In these, the interest is very low, sometimes even symbolic, the maturities are very long and the grace or grace period (the time that elapses from when the money is disbursed until the beginning of the payment of interest) is large. All this makes it the preferred source, if not the only one, for the poorest countries. That is why it is required to be below a certain level of income per capita to be able to access these credits.

The main beneficiary countries have been India and China, which in 1996 took more than 30 percent. But on the list of recipients are many truly disadvantaged countries, such as sub-Saharan African countries that receive about half of the loans it makes.

In order to make these types of loans, IDA cannot raise its funds by resorting to capital markets, but depends on the contributions made by countries with more resources. This in itself means that IDA financing rests on weak foundations and depends on the will of the richest countries. The main donor, the United States, has been increasingly reluctant to replenish and increase funds. In fact, it has been reducing its contributions in real terms, now being lower than in the early 1980s.

The evolution of IDA funds does not give rise to any optimism, as can be seen in figure 32.

Graph 32. Resources committed by the World Bank 1986–1996



Source: *Economic Study and World Social 1997*.

c) *International Finance Corporation(IFC)*

It is an institution created in 1956 with the aim of promoting private investment in developing countries. It aims to mobilize external and internal resources to, together with IFC's own funds, create companies. It does this in two ways:

- a) as a financial entity that grants loans under market conditions; it differs from the BIRD in that it does not require a government guarantee;
- b) as a shareholder partner who participates directly, assuming the risks that this implies.

Like the IBRD, the main source of its income is found in the international capital market, which forces it to be very demanding with the loans it grants. For this reason, the IFC is also not an easily accessible source for the poorest countries when they want to finance projects of social utility.

The IFC has achieved great development in recent years, as its objectives fully correspond to

the new trends in the economy of international organizations, which prefer the empowerment of the private sector over official concessional aid from the BIRD or of the IDA.

The other institution that makes up the World Bank Group is less interesting: it is MIGA, created in 1988, which is limited to offering guarantees to private investors. Within the Group, it is also worth mentioning the existence of an international body (ICSID) for the resolution of disputes that arise on the occasion of external investments, and that offers conciliation and arbitration services.

#### **4.2.2. The International Monetary Fund (IMF)**

It cannot properly be said that The IMF is an institution whose objective is financing development, but the truth is that its influence has been decisive in the last two decades in the economic policies of countries, especially developing countries.

It is important to remember that the IMF was born at the same time as the World Bank, in 1944, corresponding to the division of functions the mission of ensuring the functioning of the international monetary system. Specifically, its task was to monitor the proper management of the exchange rates of the countries' currencies, so that the countries did not practice policies that provoked artificial exchange rates to obtain advantages in trade or in the collection of funds of capitals. In short, the aim was to keep exchange rates stable. The IMF continued with this task as long as the monetary system worked, but with the crisis declared in 1971 when the convertibility of the dollar into gold, which was the basis of the entire mechanism, was broken, the system stopped working and the rates of exchanges began to float, that is to say, to oscillate according to their value in the markets.

Thus ends a stage in the life of the IMF, seeing that its original function disappears. From then on, the IMF expanded its field of action in the field of credits, offering a series of loans, but without reaching the relevance that the World Bank had in that field.

To understand the role of the IMF in the last two decades, we must remember the role it played in the



foreign debt crisis. When in 1982, Mexico declared itself in default, that is, when it officially announced its impossibility to pay the debt, a shiver ran through North American and European banks when they found themselves in a situation that could become explosive if other countries followed that behavior. The IMF emerged as the institution capable of coordinating efforts to resolve the crisis, which gave it great relevance in the face of developing countries, by imposing their conditions for the solution of debt payment.

The activity of the IMF acquired a leading character in the early eighties, leading the debt negotiations and establishing the short- and medium-term policies that the countries should follow. But the truth is that it did not manage to solve the structural problem of non-payment and its role was limited to ensuring that countries met their foreign debt payment obligations, at the cost of unsustainable efforts. In the second half of the 1980s, the World Bank intervened more actively in the negotiations and collaboration between the two institutions took place, to the point that the differences between the two were raised.

Although it is unquestionable that the IMF expanded its lending activity, offering a diverse range of different loans, it cannot be characterized as a bank. Its greatest influence is not found in the amounts of financial flows that it granted, but in its role as an institution that supervises and imposes the orthodoxy of economic policy. The IMF's relationship with the problems of developing countries is established above all by its great influence on internal policies and by promoting a certain economic model with them.

#### Box 22. Decision-making power in the IBRD and the IMF

To understand the functioning of the IMF and the IBRD, it must be considered that the member countries have, in both organizations, a voting power equivalent to the amount of the quota they pay. This quota is calculated according to a formula that includes its Gross Domestic Product (GDP), its reserves in foreign currency and other aspects of its foreign trade. In short, the formula establishes the position of strength of each country in the world economy.

The importance of the quota is that it determines the number of votes for each country and, as calculated, the most powerful countries are the ones with the most decision-making power. Although the voting percentages have been revised, the reality is that the strength possessed by the richest countries means that, if they agree, their decisions cannot be counteracted by the rest of the countries the member states.

Specifically, the G-7, which brings together the seven richest countries (United States, Canada, United Kingdom, Germany, Italy, France and Japan), is the one who determines the strategic lines of both the IMF and the IBRD.

Where the IMF's credit activity has acquired special relevance in recent years has been with the countries with the greatest economic potential, which have received the largest amounts by far. The IMF has come to the aid of countries that were in a difficult or critical situation and that could put the growth of developed economies at risk. The cases of Mexico, South Korea, Indonesia and Thailand, in the Asian crisis; and, recently, by coming to solve the problems of Russia and Brazil, they are examples of this safeguard function that the rich countries have given to the IMF.

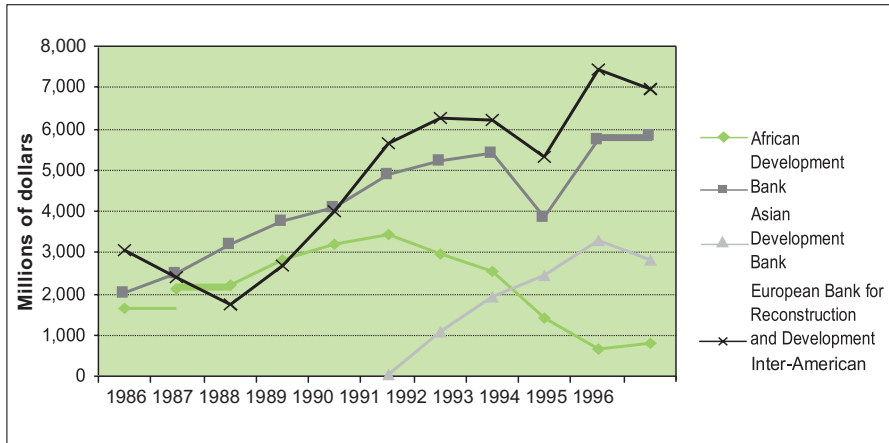
#### **4.2.3. The Regional Banks of Developing**

In addition to the World Bank Group, a series of smaller regional banks have been created and, therefore, more capable of promoting forms of economic cooperation towards developing countries, considering their more specific needs.

The first regional bank to appear is the Inter-American Development Bank (IDB), which was created in 1959. Without a doubt, it is the most important of all the regional banks, not only because it is the one with the most funds committed, but also because of the role played in its region in the economic and social field. The other banks are the African Development Bank and the Asian Development Bank, which, like the IDB, were born as an alternative or as a complement to the IBRD to better serve these geographical areas. The evolution and relative importance of these regional banks can be seen in graph 33. In 1991, the European Bank for Reconstruction was created.

Construction and Development (EBRD) in order to grant financing to the countries of central and eastern Europe, which can be considered as a mixture of business bank and development bank. There is another group of regional banks that emerged in the heat of regional integration processes, but it would take too long to detail.

Graph 33. Resources committed by the Regional Banks of Development, 1986-1996



Source: Economic Study and World Social 1997.

Table 23. The concessional funds of the multilateral banks developmental

Multilateral Development Banks (IDA and regional banks) have come to provide a third of the soft disbursements received by developing countries. These concessional funds offered by banks are covered by donations from governments that establish plans for three or four years with specific commitments to allocate resources from each of them. The behavior of the donor countries in the replenishment of the various funds is essential for the soft loans of the multilateral banks to continue to function.

**International Development Agency (IDA):** The year 1996 was the end of the tenth fund and a call was made to cover a total of 18,000 million dollars for a period of three years. Although donor countries had committed to provide 20 billion for the period 1997-1999, for various reasons, this eleventh fund encountered difficulties and the amount raised was less than that of the previous fund.

**Inter-American Development Bank (IDB):** Unlike other soft funds, the IDB's is part of the capital structure and does not require special negotiations to make resources available. In the most recent replenishment of IDB funds, it obtained 1,000 million dollars for soft credit.

**African Development Bank (ADB):** After several years of confusion and lack of agreement, the members of the Bank agreed to postpone the negotiations for the replenishment of the seventh fund. The amount requested was 3,000 million dollars for concessional loans for the period 1996–98. The soft window of the BDA is much more important than in the rest of the regional banks, since only 14 of the 53 members of the bank meet the necessary requirements to be able to aspire to non-concessional loans, so they depend entirely on soft loans to cover its financial needs.

**Asian Development Bank (ADB):** In January 1997 an agreement was reached to replenish the concessional fund in 6.3 billion for the period 1997–2000. The importance of this fact is that the fund's traditional donors provide less than half of these resources. The majority of the fund's resources will need to come from different sources and non-traditional regional donors. While in the old fund, traditional donors contributed 4,200 million of the total of 6,000 million, that is to say, 70 percent hundred.

*Source: OECD, 1997 DAC Report.*

The three regional banks follow the IBRD scheme for raising funds, that is, they use to the capital markets, which means that their loans are also made under conditions very close to those of commercial banks. In addition, each regional bank has a soft window to grant concessional loans on IDA-like terms. Table 23 shows that multilateral banks are finding it increasingly difficult to cover their funds earmarked for concessional loans, mainly due to the reluctance of donor governments to contribute more funds. In general, the organizational structure of these banks is quite similar to that of the World Bank and in fact each of them represents a group of different institutions.

Table 24. Trends in the volume of multilateral financing

### **1. Concessional multilateral aid**

It reached its highest point in the period 1994–96, with 20.00 billion dollars per year. In general, its behavior has been as follows:

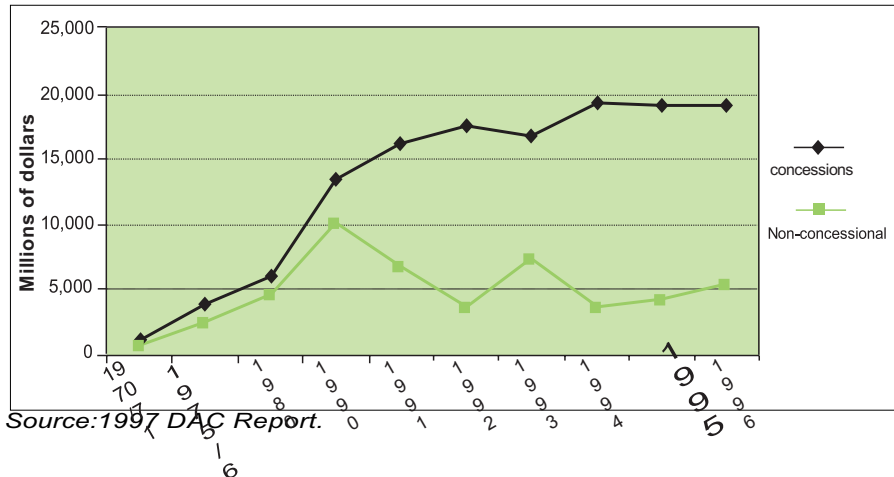
- soft loans from multilateral development banks have averaged 7.5 billion annually;
- aid from European Union agencies has had a growing trend, reaching 5,000 million annually for developing countries and 1,000 million for countries in transition;
- aid from United Nations agencies peaked in 1993, at over \$6 billion, falling to 5.4 billion in 1996, its lowest level since 1991;
- the concessional loans of the IMF have fluctuated considerably, in general they have involved insignificant amounts with respect to other multilateral sources, only in 1995 did they exceed 1,000 million.

### **2. Non-concessional loans**

Although they went down considerably since 1990, where they totaled 10.8 billion, they have risen again since 1994, with 8.7 billion in 1996:

- The countries in transition receive 40% of these funds, while they receive less than 10% of concessional aid;
- It should be noted that the IBRD's net flows to developing countries have been negative since 1994;
- however, the IBRD is the main provider of non-concessional loans to countries in transition;
- As a whole, multilateral organizations have lost importance as facilitators of non-concessional loans to developing countries, leaving this task in the hands of private banks.

Graph 34. Financing for development: multilateral organizations



### 4.3. THE SYSTEM OF THE EUROPEAN UNION

#### 4.3.1. The history of community cooperation

The history of cooperation in the current European Union goes back to the beginning of the process of European integration, in 1957, with the signing of the Treaty of Rome. Although it did not make a specific reference to the development cooperation policy for the signatory countries, it did contain some allusions to solidarity with the countries linked to the former colonial powers, but in no case could it be understood as a common European policy.

##### *a) Cooperation with former colonies*

From that date and until 1973, when the first enlargement of the European Community (EC) took place, the community cooperation policy served above all to consolidate the special relations of the founding states with their overseas territories: France, Holland and Belgium and former colonies, mainly located in Africa. An association relationship was established with the so-called OCTs (overseas countries and territories), first granted by the EC and later —after the first processes of independence and the Yaoundé I (1963) and Yaoundé II (1969) Conventions. )— negotiated with said States. That relationship translated into favorable trade treatment with tariff exemptions.

common customs, and in the creation in 1958 of an aid fund, the European Development Fund (EDF).

The successive emancipation of many former colonies raised a series of problems that, from the EC, were resolved more through pragmatism than as the development of a preconceived cooperation policy. In this way, increasingly complex cooperation mechanisms were established that extended their ties to almost all the countries of the world: first to Sub-Saharan Africa (where France, Belgium and Italy had their colonies) and later, with the incorporation from the United Kingdom in 1973, to the Commonwealth countries. The United Kingdom demanded that the 20 countries of the Commonwealth and the commercial and economic network that it maintained with them also join with it—as beneficiaries of community cooperation.

Thus, the EC progressively expanded cooperation. But it was not possible to start talking about a European cooperation policy with specific objectives and instruments until the signing of the Lomé Agreement in 1975, between the nine countries of the Community and the so-called ACP countries (Africa, Caribbean, Pacific), 46 independent states that were grouped into these three regions. The Lomé Convention between the EC and the ACP countries, most of them ex-colonies of their member states, sought to give a global approach to the subject, with the relevant participation of the beneficiary countries.

*b) The expansion of cooperation*

European aid was initially concentrated on two clearly privileged poles of geographical interest: the first, the countries included in the Lomé agreements and, the second, the Mediterranean countries. The first agreements of this last group were signed in 1976 with the Maghreb countries—Morocco, Algeria and Tunisia—, and the following year they were signed with Egypt, Jordan, Lebanon and Syria.

Asia and Latin America will progressively enter the course of the seventies, as recipients of global aid (especially financial and technical) towards developing countries that the EC would later classify as non-associated DVD/ALA (developing countries in Asia and Latin America). But in them, community cooperation will be much less important than in the former, especially since they are not granted access privileges to their markets.

This scenario undergoes an important modification at the end of the 1980s, with the changes in Eastern Europe. The Central and Eastern European Countries (CEECs) and the Newly Independent States (NIS) of the former Soviet Union then became targets of particular interest for Community aid. In this new situation, the EU has created financial, technical and policy aimed at the countries of Central and Eastern Europe (PHARE) and those of the former Soviet Union (TACIS Program), with technical and financial aid and the establishment of commercial relations.

From a political point of view, the role of the European Community in international politics has been much less important than that of the member states. At the time of the Cold War, while development cooperation was conceived as a foreign policy instrument of the powers in the sphere of influence of each of the blocs, the reasons for European cooperation lay not both in the geopolitics of the moment, and in the historical links of each country with its former colonies.

Although reality does not correspond to theory, at least in its statements, the EC defended an approach to cooperation outside political interests, based on the search for a better international distribution of welfare and the development of the most disadvantaged.

### *c) The lines of a European cooperation strategy*

Until 1992, community bodies did not expressly speak of a community development cooperation policy. The Single European Act of 1987 did not mention it either, and the issue remained a competence of each member state, to which the Community was added as one more donor without any coordination mechanisms being foreseen. It is with the Treaty of the European Union (EU) of Maastrich, signed in 1992, when development cooperation is considered for the first time as a community policy. This means that member countries lose some of their powers in cooperation to transfer them to community bodies.

In principle, the keys to the new community policy can be expressed in three words, the three 'Cs': complementarity, coherence and coordination. It aims to be a complementary policy to those carried out by the states.



two members, consistent with the rest of the community policies so that they do not undermine the objectives of improving the economic and social situation of the countries to which it is addressed, and coordinated between the EU itself and the Member States.

In its article 130, the Maastricht Treaty clearly formulates the idea of relating development priorities to political objectives. Development policies supported by the Union must contribute to democracy, the rule of law and respect for human rights and fundamental freedoms.

Table 25. Treaty of the European Union

<p>Title XVII. Development cooperation</p> <p>Article 130 U.</p> <p>1. Community policy in the field of development cooperation, which will be complementary to those carried out by the member states, will favor:</p> <ul style="list-style-type: none"><li>— the lasting economic and social development of developing countries and, particularly, of the most two disadvantage;</li><li>— the harmonious insertion and progressive of developing countries in the world economy;</li><li>— the fight against poverty in developing countries.</li></ul> <p>2. Community policy in this area will contribute to the general objective of developing and consolidating democracy and the rule of law, as well as the objective of respect for human rights and fundamental freedoms.</p> <p>3. The Community and the member states will respect the commitments and they will consider the objectives they have agreed upon within the framework of the United Nations and other competent international organizations.</p>
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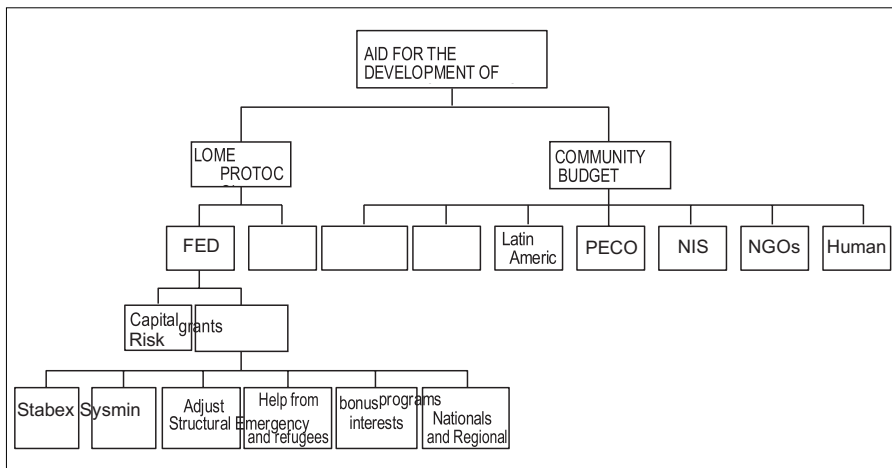
#### **4.3.2. The structure of the official aid to community development of the European Union**

The development aid that comes from the European Union represents half of all development aid in the world, but it should be noted that this calculation includes both the resources managed directly by the agencies

such as those managed separately by each of the member countries. It is therefore necessary to differentiate between the scope of Community financing and that which remains in the hands of each country, since in reality the main part of the contributions are made by the member countries and only a small part is allocated to community management.

Although it varies from year to year, the structure of European public cooperation funds at development accounts for about 85% of them controlled autonomously by each member country and 15% managed by the European Union. These figures demonstrate the existence of a profound interest in each Member State in defending their own management of their resources, in accordance with the objectives of each one, and the desire not to cede excessive powers in this matter to the Community instances. In this section we refer to community cooperation in the strict sense.

Graph 35. General diagram of the financial structure of community development aid



From the consideration of the origin of the funds, the set of economic allocations that the European Union allocates development cooperation from third countries is made up of two different categories:

- a) the Financial Protocol of the Lomé Agreements, which is replenished periodically, every five years, with the negotiated contributions of the member countries and where the European Development Fund (EDF) constitutes

it is the main source of financing to execute the cooperation destined to the ACP countries;

- b) the Community Budget, which is approved annually by the European Parliament, which includes the different items that include cooperation directed towards other regions and specific forms of horizontal aid, such as: food, humanitarian, non-governmental organizations or human rights.

#### **4.3.3. The principles and orientation of the Agreements of Lomé**

The signing of the Lomé agreements in 1975 supposed, in principle, the recognition of the role of the new States after decolonization, as well as their rights, their sovereignty and certain conditions of equality in its political and economic relations with the countries of the European Community. We must not forget that Lomé was born in the context of the seventies dominated by the North–South dialogue, and its approaches respond in some way to the proposal of the New International Economic Order launched from developing countries.

##### Box 26. Lomé objectives and basic principles

"Community and their Member States, on the one hand, and the ACP States, on the other, conclude this Cooperation Agreement with the aim of promoting and accelerating the economic, cultural and social development of the ACP States and deepening and diversifying their relations in a spirit of solidarity and mutual interest"

«The EEC–ACP Cooperation\*, based on a legal system and in the existence of joint institutions, it will be exercised on the basis of the following fundamental principles: the equality of partners, respect for their sovereignty, mutual interest and interdependence; the right of each state to determine its political, social, cultural and economic options; the security of their relationship based on the acquis of their cooperation system».

"The ACP States shall sovereignly determine the principles, strategies and development models of their respective economies and societies.

\*EEC: European Economic Community, name by which the community entity was then designated.

*a) The evolution from Lomé*

The first Lomé conference was held in the capital of Togo in 1975, between nine Member States of the European Economic Community and 46 countries of the ACP space. Until then, the investments of the European Community in the countries of Africa, the Caribbean and the Pacific were regulated and financed through the FED, the European Development Fund, subscribed in its first edition at the beginning of the sixties. In a first period marked by decolonization, these funds directed their investments towards the construction and improvement of infrastructures that had not been carried out during the colony.

The first updates of the Convention —Lomé II in 1980— continued in general terms with the policies of Lomé I. The strongest questioning came with Lomé III, in 1985, when it was observed that infrastructures were being provided to the least favored countries, while their inhabitants continued to live in extreme situations of poverty. It opted then for the emphasis on rural development and food security.

Lomé IV, Signed in 1990, marked an essential innovation in the sectoral field of aid with the affirmation of the European Union's determined support for structural, global and sectoral adjustment, without forgetting intensive aid for rural development. On this occasion, the agreements were signed for a duration of ten years, although the obligation to review them halfway through their validity was established. Today, the Lomé Convention involves 15 Member States and 71 ACP countries, potentially covering a population of 500 million people, including three-quarters of the least developed countries.

In the Lomé revision, in 1995, the following were included as priority topics: the promotion of democracy and of the market economy; the fight against poverty; commercial competitiveness; improving the effectiveness of aid, as well as keeping European priorities in mind in each of these areas.

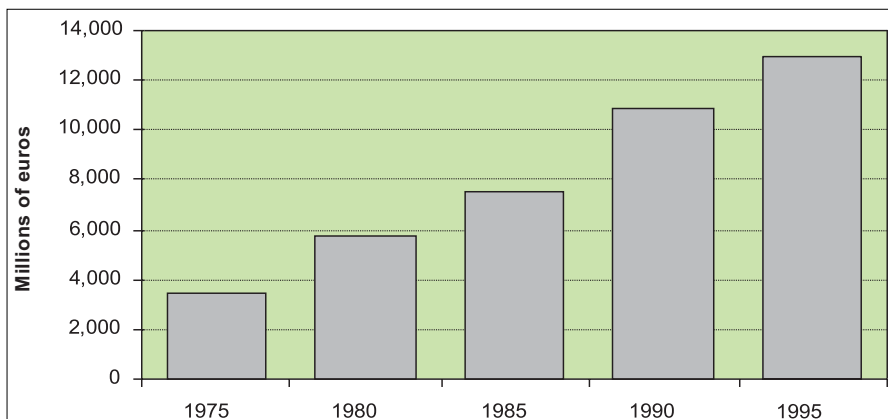
*b) Lomé financial cooperation mechanisms*

The characteristic note of Lomé with respect to other cooperation instruments practiced by countries or international organizations is that: a) first, it is conceived from a comprehensive development approach as a mechanism that goes beyond the connotations of merely economic aid and

includes a system of trade concessions to favor access for products from certain developing countries to European markets; b) second, it is proposed as an instrument of a contractual nature, which seeks that the objectives of cooperation are the result of negotiation between donor and recipient countries, for which joint bodies are set up at different levels both for negotiation and for the execution of commitments. These joint bodies are: the ACP-EC Council of Ministers, the Committee of Ambassadors and the Joint Assembly.

The economic contributions for Lomé are financed through the financial Protocol, in which the European Development Fund (EDF) is the fundamental item, and in second place the contributions of the European Investment Bank. The EDF is the main source of funds for Lomé, to which all members of the European Union contribute directly. The EDF is not part of the Community budget and every five years the member countries must agree on the amounts with which they are going to contribute to the replenishment of its resources. In 1996 EDF VIII entered into force, which runs until the year 2000, and which includes an allocation of 12,967 million ECUs.

Graph 36. The Evolution of the FED-Lomé



- 1. <sup>er</sup> EDF (1959-1964)
- 2nd EDF (1964-1970), Yaoundé Convention I
- 3. EDF (1970-1975), Yaoundé II Convention
- 4th EDF (1975-1980), Lomé I Convention
- 5th EDF (1980-1985), Lomé II Convention
- 6th EDF (1985-1990), Lomé II Convention
- Lomé III 7th EDF (1990-1995), Lomé IV Convention
- 8th EDF (1995-2000), Lomé IV Convention

The EDFs are channeled through very diverse cooperation instruments:

i) National Indicative Programs (PIN) and Regional (PIR)

The allocation of resources corresponding to each ACP country is established in accordance to an already established formula. Each country initiates a negotiation to determine the destination of the resources that correspond to it according to the Agreement. The local government agrees with the EU on the sectors and projects where the aid will be channeled. This agreement binds both parties. The PIN allows medium-term cooperation planning and, in theory, offers an adequate framework for it to be carried out in a coherent manner and adjusted to the specific needs of each country.

Likewise, it is possible that these programs be carried out with a regional character and in fact have been formulated for some regions of Africa, the Caribbean, the Indian Ocean and the Pacific Ocean.

ii) Stabex and Sysmin

These are financial aids granted to stabilize the income of ACP countries whose economies depend to a high degree on exports of primary products. Its objective is to compensate for the losses that may occur in income from agricultural exports (Stabex) and mining products (Sysmin).

iii) Emergency and refugee aid

It must be taken into account that to these items must be added what is contemplated as humanitarian aid in the budget to have a full idea of the amounts received by the ACP countries. Especially, the countries of the Great Lakes region have been recipients of large sums of humanitarian aid.

iv) Structural Adjustment Programs

v) interest subsidy

*c) Lomé non-financial cooperation mechanisms*

As already indicated, one of the main characteristics of the Lomé Agreements is that they go beyond the mere framework of financial instruments and they plan to achieve the insertion of the ACP countries in the markets of the

more industrialized countries. The trade cooperation chapter establishes measures that allow access to the community market, without tariffs or quantity quotas, for the vast majority of products from ACP countries. In the various agreements have been expanding these commercial advantages, in addition to offering financing to promote marketing strategies that help to further consolidate the exports of these countries.

This chapter is one of the most debated currently for two reasons. One, because the effectiveness of these preferential measures is questioned as they have not managed to effectively consolidate the ACP countries' export presence in the Community markets, despite the special treatment granted. Two, because this regime is contradictory with the new international trade agreements regulated by the World Trade Organization, which is against discriminatory measures between countries, such as those that cannot be generalized and favor certain ones to the detriment of others.

Table 27. The difficult negotiation of the 8<sup>th</sup>. EDF

The European Development Funds, the centerpiece of the Lomé agreements, are fed by contributions from the Member States. Currently, every five years negotiations are held to agree on the amounts that each member country must disburse. The last negotiation took place after the end of the 7th EDF in 1995 and it was necessary to replenish funds to establish the 8th EDF that covers the period 1995–2000.

The proposal of the European Commission, supported by France, was to reach a fund of 14,300 million ECUs, an amount that was considered necessary to correct the effects of inflation, in addition to considering the inclusion of the three new members (Austria, Finland and Sweden). Germany, Netherlands and Italy opposed the increase and defended maintaining the level of their contributions, while the United Kingdom directly raised the need to reduce them. Neither did the other countries show much interest in the French and EU proposal to increase the EDF.

The negotiations were tense but, after various compromises, the agreement reached was to keep the 8th EDF at the same level as the previous one, in real terms. What happened with the 8th EDF is presented as a signal announcing the end of an era of Community cooperation policy, which begins to question the preference given to certain regions and countries, and which is manifested in the reluctance of most of the member countries to increase their quotas to the ACP countries.

In addition to the EDFs, the Financial Protocol to the agreements sets the amounts contributed by the European Investment Bank (EIB) for the granting of credits. The EIB is not an institution created by Lomé, but has existed since the origin of the Community in 1958. It operates as a regional bank that grants credits to the community countries and has progressively extended its action to the ACP, Mediterranean and others with which the EU has cooperative relations.

#### **4.3.4. Community cooperation through budgetary means**

The annual budget of the European Union contains a series of items whose objective is development cooperation. These entries have been changing over time, but can be grouped into two main categories: a) cooperation with other geographical regions outside the countries covered by the Lomé Agreements; and, b) cross-cutting aid and a number of other diverse items, among which the co-financing budget line for non-governmental organizations stands out. In recent years, the aid item has risen considerably, reaching 40% of the total development cooperation in the budget.

##### *a) The cooperation with other geographic regions*

###### *i) Mediterranean and Middle East*

After the ACP countries, the neighbors of the Mediterranean basin have been the most privileged in community cooperation. The EU establishes cooperation and association agreements with them that provide commercial benefits and/or aid from the community budget, and the European Investment Bank. This type of agreement has been signed with eleven countries of the Maghreb and the Mashrek. Association agreements are concluded with those countries that are expected to join the Union in the not too distant future.

There are within this section, we must highlight the MED programs that aim to promote and strengthen the participation of civil society in these countries, as well as the dissemination of technical knowledge among them through decentralized networks.



The Euro–Mediterranean Conference, held in 1995, agreed to increase cooperation in three major areas: political and security collaboration; economic and financial collaboration, where the gradual establishment of a free trade area is planned for the year 2010; and, social, cultural and human collaboration.

ii) Asia and Latin America (ALA)

Although Community cooperation with these countries began in 1976, the incorporation of Spain and Portugal in the mid–eighties was a strong boost to a trend of progressive presence in Latin America. After a series of provisions, Community cooperation to ALA countries is based on the regulation approved in 1992. Since that year, packages of funds are awarded every five years, which has replaced the previous annual financing. The regulation distinguishes financial and technical cooperation focused on the poorest countries and regions, and economic cooperation aimed at countries and regions with trade potential, in which it seeks to create a favorable environment for investment by supporting to the private sector, small and medium enterprises, and technological exchange.

The community policy of signing bilateral cooperation agreements with most of the countries of Latin America and Asia. The content of these agreements has been evolving and three generations are usually distinguished, as the contents are expanded. The third–generation agreements began in the 1990s, in addition to development cooperation, they seek to deepen trade relations.

iii) Central and Eastern European Countries (CEECs)

The central mechanism for cooperation with these countries is the PHARE Program. Its donations are granted according to the National Indicative Programs determined by the Commission after the proposals of priorities formulated by the respective countries. Its objective is to finance the restructuring of state companies, the reform of the public administration, the banking system and the legal and fiscal systems, the promotion of privatizations, the empowerment of civil society, infrastructures and social services. If deemed necessary, up to 10% of PHARE can be spent on humanitarian aid.

#### iv) Newly Independent States (NIS)

The TACIS program, aimed at these countries, focuses on aid for economic reform and infrastructure reconstruction, especially in sectors such as energy. Its objectives are similar to PHARE.

#### *b) Other cooperation instruments*

##### i) food aid

Its objective is to ensure that countries with supply problems are able to guarantee food security. This chapter has been one of those that have undergone the greatest change from its first proposals to the current one. In its origins, in the 1950s and 1960s, food aid was guided more by the surplus agricultural production of large producers such as the United States and European countries than by the needs of beneficiary countries. The debate about what should be the objectives of food aid arose when verifying the perverse effects of food delivery operations without the participation of the beneficiaries.

In this section, the change experienced in the orientation of food aid has been much greater in the case of the EU than of the United States. The new Community strategy for food aid is established in the 1996 Regulation, whose main characteristics are: to propose the coordination of food aid with other cooperation instruments, especially financial and technical aid; provide substitution actions when a country ceases to be a recipient of food, so that it is offered financial and technical assistance to achieve food security; give greater importance to the purchase of food in the recipient country itself or in third countries, always considering the interests of the beneficiary above the placement of surpluses from the donor country; give greater importance to the definition of objectives for agricultural development and the reduction of food vulnerability.

##### ii) humanitarian aid

This chapter is coordinated and managed from the EU by the ECHO Humanitarian Aid Office, which is in charge of humanitarian operations in third countries around the world, and to which we dedicate a special epigraph.

#### **4.3.5. The Humanitarian Office of the European Community, ECHO**

The European Community Humanitarian Office (ECHO) was founded in 1992, with the function of managing and coordinating the EU's humanitarian operations in third countries. Community humanitarian aid has gained momentum, reaching around 600 million ECU per year, making ECHO one of the largest humanitarian aid agents in the world. Its budget is similar to that of all the Member States of the European Union or to the total humanitarian aid of the United States. If the European Union as a whole is considered, member states plus community aid, represent approximately half of the world's humanitarian aid.

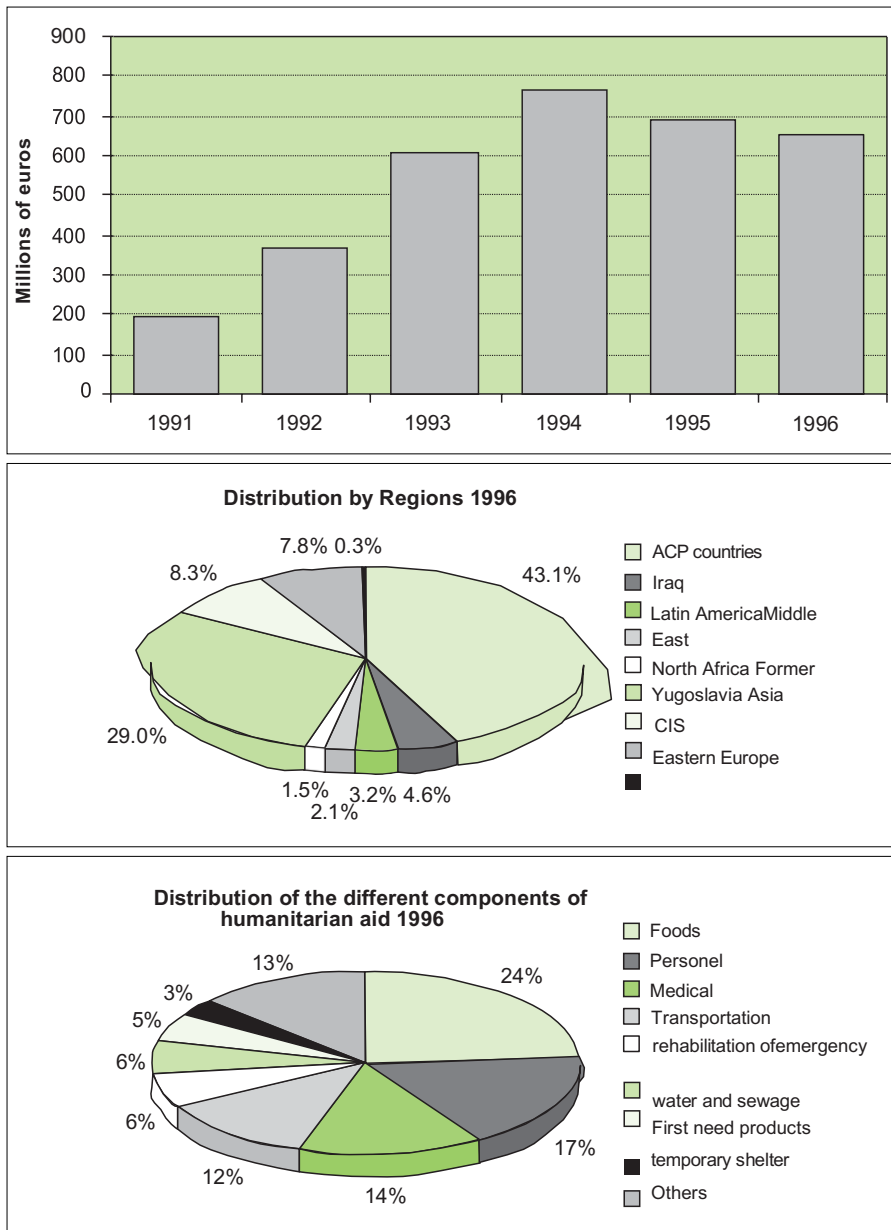
##### **Box 28. ECHO's mandate**

- save and protect life in emergency situations and mitigate the immediate aftermath of natural or man-made catastrophes;
- provide assistance and the necessary assistance to those affected by crises of longer duration, such as prolonged civil wars;
- finance the transport of the aid and ensure that it is accessible to those to whom it is addressed to;
- attend to refugees or displaced persons, either in the host country or region, or by helping them to resettle when they return to their country;
- carry out short-term rehabilitation and reconstruction works to help victims regain a minimum level of self-sufficiency, and, where possible, address long-term development goals;
- ensure a disaster preparedness programme, including early warning systems and funding for disaster prevention in high-risk regions.

ECHO has intervened in more than 70 countries in recent years, financing aid programs for victims of natural disasters or wars. Its areas of intervention are very varied: food, clothing, shelter, water supply, war surgery, rehabilitation of

emergency, vaccinations, transportation, psychological help, food, demining, etc. It also manages a disaster prevention program in risk areas.

Graph 37. Data on community humanitarian aid, ECHO



Source: ECHO STAT (ECHO in figures, Report 1996).

The concept of humanitarian aid also extends to situations of economic need that are not necessarily linked to wars or catastrophes. For example, within the EU's PHARE program for Eastern European countries, ECHO worked in 1996 with the Bulgarian Ministry of Labor and Social Security giving direct financial support (20 million ECU) to increase purchasing power of 500,000 families in difficult situations, and for 550 institutions that take care of vulnerable groups such as orphans, the disabled and the elderly.

ECHO works collaboratively with NGOs, UN agencies and other international organizations, with which it signs collaboration agreements or framework contracts, which is the instrument that defines the general terms and conditions of relations between ECHO and its associated collaborators. Once the general conditions have been specified, it is much easier and quicker to specify the characteristics of each one of the aid operations that the associated organization is going to carry out. Along the same lines of achieving rapid action in emergencies, the Department can make decisions in a few hours, due to the simplicity of its decision procedures.

On average, about 60% of its funding is executed through projects managed by NGOs, and a quarter goes to projects of United Nations bodies and agencies, of which UNHCR and the World Food Program are the main collaborators.

The characteristics of ECHO's activity are reflected in graph 37, which shows the evolution of its budgets and the distribution of resources according to destination regions and aid components.

#### **4.3.6. Amounts and destination of development cooperation community**

The data from the 1995 and 1996 budgets make it possible to draw the structure of the Community budget for cooperation according to the weight or importance of the main budget lines. Graph 38 offers the global structure of community development cooperation for all concepts (budgetary and extrabudgetary, such as the Lomé Agreements). The resources allocated to the ACP countries are losing relative weight in the total resources.

are from the cooperation. The group of CEEC and CEI reaches 21% of the total, surpassing the group of the rest of the non-ACP countries, which only reach 18%.

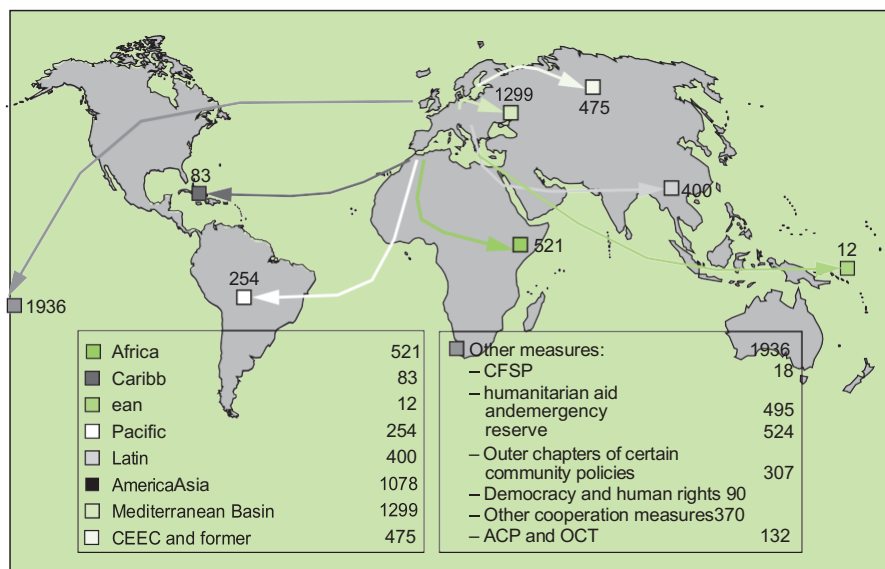
Graph 38. Structure of the total budget of the European Community for development assigned to the different geographic areas

(Global budget plus annual average of the EDF)

Title	Percentage of budget	Percentage of 1995 development development 1996
ACP (average per year of the 8th EDF)	37	35
Asia (B7-30)	5	5
Latin America (B7-31)	3	3
South Africa (B7-32)	2	2
Mediterranean (B7-50)	7	8
CEEC (B7-50)	15	15
CIS (B7-52)	6	6
Former Yugoslavia (B7-54)	0.1	0.9

Graph 39 gives a panoramic view of the geographical distribution of this total amount of community cooperation.

Graph 39. Distribution of community aid in the world, 1997



A fundamental issue of community cooperation is to know what is the real expenditure of development cooperation budgets. Although the funds for the EU aid program have increased considerably, approx. Half of these committed funds are not disbursed, which means that each year some ECU 3 billion remain unspent. The lack of human resources and specialized personnel in the EU and its delegations, the bureaucracy that delays the execution processes and the lack of institutional capacity of the recipients themselves, are the reasons given to understand this enormous budget gap.

To have a clear idea of what this phenomenon entails, Figure 40 shows the differences that have occurred in recent years both with the budget lines and with the EDFs.

Figure 40. Funds committed and actually disbursed from the Community budget and the EDF up to 1999

Millions of euros			
Years	differences between Funds Committed and disbursed	difference between expected contributions to the EDF and contributions made	Total ODA what is left without spending
1993	2002	690	2,692
1994	2,129	500	2,629
1995	2,543	650	3,193
1996	2,632	1,950	4,582
1997	2,811	1,340	4,151
1998	3,101	750	3,851
1999	3,351	750	4,101
<b>Total</b>			<b>25,199</b>

Source: Intermon, 1997.

The following chart 41 shows the general lines of the EU development cooperation budget for the years 1995 and 1996.

**Graph 41. Selected budget general lines in title B7, commitments for 1995 and 1996**

(in millions of euros)

Title	commitments 1995	commitments 1996
Food Aid (B7-20)	591.9	530.9
Humanitarian Aid (B7-21)	326	379.5
Asia (B7-30)	395	406.5
Latin America (B7-31)	245.5	263
South Africa (B7-32)	140	150
Mediterranean (B7-4)	533.9	666
CEEC (B7-50)	1,151.9	1,231
CIS (B7-52)	506.9	528
Former Yugoslavia (B7-54)	5	78
NGO (B7-6)	357.8	398.1
Human Rights (B7-7)	76	90.8
<b>TOTAL</b>	<b>4,329.9</b>	<b>4,721.8</b>

#### **4.3.7. The Lomé review: a new phase in the Community's development cooperation policy**

In practice, the European community policy of cooperation to development has basically been centered on the Lomé agreements, which for years have been the banner of community aid. Nearly half of that aid is still channeled through the instruments included in those agreements. However, in the 1990s, the changes that took place in Eastern Europe have led to cooperation with the countries in transition acquiring an increasingly important role, which means that cooperation with the ACP countries has decreased relatively.

The Lomé Convention has represented, and still is today, the largest development cooperation framework in the world and, in the opinion of many, the most progressive. As indicated before, the cooperation objectives it contains are the result of a series of contractual agreements, which allows responsibility to be shared between donors and recipients and that makes it the ACP states themselves who determine national priorities and the application of programmes.

However, after almost twenty-five years of experience, Lomé is the object of numerous criticisms, although among



these should be distinguished from those that question their reason for being and propose their dissolution, from those that highlight the aspects that have worked poorly and that must be corrected to adapt their institutions to the new times. The debate on Lomé has reached its greatest intensity on the occasion of the beginning of the negotiations for the Convention of Lomé V, which should be ready to come into force in the year 2000. Already the last revision of Lomé IV, carried out halfway through the period of validity in 1995, was made within the framework of a new approach more critical and more political aspect of European cooperation, marked by two elements: the Maastricht Treaty and the analysis document of the Horizon 2000 Commission, both published in 1992.

From the European countries, the central argument that is put on the table is the failure of development cooperation as it has been carried out in recent decades; consider that the results achieved are not positive in relation to the efforts made. In addition, the changes in the international scenario add new arguments to propose substantial changes in the conception of cooperation. The table contains a text that expresses the feeling of failure from the European point of view.

In the same Commission report indicated in the table, it was criticized that the Lomé model has not always been able to provide sufficient incentives for beneficiary countries to make positive reform efforts, and may even, in some cases, has contributed to incoherent economic policies and to the consolidation of corrupt political leaders. Just as he understands that in the seventies a rigid policy of imposing political and economic preconditions on the newly independent countries was not put into practice, as a positive counterweight to the strategies of strong political interference of the rival superpowers; however, and that, on the contrary, economic dependence was perpetuated under the cover of a comfortable safety net, which kept many countries totally dependent on aid. For this reason, the current community policy proposals places much more emphasis on the prior conditions, not only economic and technical, but above all political.

Table 29. A feeling of failure

“After forty years of development cooperation, many commentators express a feeling of failure. Most of them are convinced of its need, and even more so if they consider that development aid has not been sufficiently focused on reducing poverty. In reality, a development cooperation that transcends the simple notion of aid remains a vital concept, and in numerous cases, the aid has not had beneficial effects.

However, cooperation and aid do not seem to have had a dominant influence on the economic and social evolution of most developing countries, not even those that have gained access without transition to industrialization. It can also be stated that bilateral aid has had negative effects, to the extent that it has been granted to respond to the immediate or strategic political, economic and security interests of the donor countries, to the extent that it was not adapted to the socioeconomic conditions and cultural characteristics of the beneficiary countries and petrified their ineffective and probably corrupt political structures. On the other hand, the lack of coordination between donors, who often pursue contradictory objectives, has hampered the definition and implementation of coherent development strategies by recipient countries.

In particular, the effectiveness of the traditional forms of aid in the form of projects put into practice by the governments of the beneficiary countries, arouses growing skepticism. This lack of efficiency is due, on the one hand, to the duality and rigidity of the economic, social, administrative structures and policies of the beneficiary countries that, often, are not capable of absorbing the aid received and ensuring that it translates into a permanent improvement in their development capacity.

(...) In countries where the political will and the administrative capacity to define and apply sound development strategies are absent, the impact of foreign aid is generally lost and side effects unfortunately can arise in terms of displacement of activities, waste and (écremage).

On the other hand, the ineffectiveness of development aid is due to a lack of responsible behavior on the part of donors. In particular, bilateral aid continues to be granted in many cases in the form of tied aid, which —according to recent studies— reduces its effectiveness to 15% less than the agreed aid. An insufficient part of the aid is dedicated to priority social sectors and, in certain countries, this aid has essentially constituted a foreign policy instrument and has very often taken the form of military aid.

Although the aid provided by multilateral institutions is generally better targeted towards the poorest countries, it has not always been sufficiently adapted to local needs. The administration of donor-assured project aid is often not supported by adequate selection and monitoring processes. Furthermore, developed countries take back with one hand what they have donated with the other, as shown by the examples of market access restrictions that affect the export of manufactured products and agricultural operations financed by the same country that applies these restrictions.

On the other hand, as long as the East-West conflict continued, the donor countries were hardly willing to challenge the elites of the countries by relieving them of their respective spheres of influence, whatever their degree of corruption.”

*(Extracted from: Commission Europeene, General Secretariat, «L'avenir des relations Nord-Sud», Les Cahiers de la Cellule Prospective, 1997, 1, Communautés européennes, Luxembourg, 1997).*

Also the little impact that the agreements have had in the commercial field is pointed out, since they have not served to integrate the ACP countries into the world economy. In the case of African countries, despite having been the main recipients of community aid (close to 60%), trade relations with them have progressively declined.

The concern for the efficiency of development cooperation has become a central point of the debate. Among the proposals made in this regard, the most important is to replace the traditional project financing system with global aid to budgets.

But behind these considerations hides a feeling of tiredness about traditional forms of cooperation. The Commission's proposal to improve the impact of aid goes towards a reform of policies in a line that prioritizes: democratization, governability, economic adjustment and reform, and sustainable social and economic development.

#### **4.3.8. The Cotonou Agreement: Community cooperation after Lomé**

It can be said that the Lomé era has given way to a new stage of Community cooperation with the Cotonou Agreement. After eighteen months of complicated

negotiations, the European Union and the ACP countries, these in number of 77, managed to bring them to fruition and signed in the capital of Benin, in June 2000, the document that includes the development cooperation strategy for the next twenty years. The importance that this fact acquires is easily understandable if one considers that it supposes the alternative to some agreements, those of Lomé, which for 25 years were the emblem of community cooperation.

It is premature to assess the importance of the change, in terms of what it means to break with the previous model and on its effects for developing countries. Opinions in this regard are divided according to the interests of those who issue them. But there is no doubt that it presents interesting innovative aspects and that it has removed the specter of a possible abandonment of the community commitment for development cooperation. Above all, it should be noted that trade issues have been included in the agreement, an achievement that all parties consider positive, going beyond what would have been a mere financial agreement. But it is necessary to emphasize that the Cotonou Agreement must be developed through subsequent negotiations to resolve pending issues, precisely those that concern aspects of trade relations, which are of great importance.

#### Box 30. The pillars of the Cotonou Agreement

The following scheme contains the contents of the agreement and provides an overview of the issues addressed:

*1. The global dimension politics*

- 1.1. Emphasis on the key role of political dialogue.
- 1.2. Policies for the consolidation of peace, prevention and resolution of conflicts.
- 1.3. Essential elements: respect for human rights, democratic principles and the rule of law; for which purpose a procedure is established for cases of violation of the above issues.
- 1.4. The "good government".

*2. The promotion of the participatory approach*

It aims to promote the participation of civil society and economic and social actors.

3. *The central consideration of the poverty reduction goal*
  - 3.1. Concentration on the fight against poverty.
  - 3.2. Overview of development strategies.
  - 3.3. Comprehensive approach to poverty reduction strategies.
4. *The establishment of a new framework for economic and trade cooperation*
  - 4.1. Objectives.
  - 4.2. Modalities and procedures.
5. *The reform of financial cooperation*
  - 5.1. Guiding principles.
  - 5.2. Rationalization of cooperation instrumentstion.
  - 5.3. Reform of the programming system.

### *Changes to the Agreement*

The most outstanding changes can be presented in a summarized way in the following points:

#### a) Involvement

Cotonou advances in the proposal to increase the participation of non-state actors in the design and implementation of development cooperation. This line corresponds to the previous proposals made by the Lomé agreements on decentralized cooperation. Although the true scope must be verified in the application, there is no doubt that it raises a review of who should be the leading agents of cooperation, seeking new association relationships with them. Not only does it provide for non-state actors to be included in project design and programming, as well as in the preparation of each country's national cooperation strategy, but these actors will have greater access to EDF resources. ACP states must identify who will be eligible for this form of aid: private sector, trade unions, civil society, local authorities,...

## b) Poverty

In line with the strategic objectives of official development assistance established by consensus by multilateral organizations (World Bank, Development Assistance Committee, United Nations Development Programme), the European Union makes the reduction of poverty the central objective of the agreement. This objective must be achieved both with financial cooperation and with economic and commercial cooperation. To this end, the EDFs must promote private investment, the participation of non-state actors, macroeconomic reforms and structural, actions in favor of youth, social development, gender equality and institutional development. It is intended that there be a complementarity between the different projects that address these issues.

To ensure that these measures are effective in the objective of reducing poverty, the agreement points out the importance of the greatest possible involvement of local actors, both from the private sector and from the state, so that the reforms that are undertaken do not appear imposed from outside, but rather respond to the priorities and characteristics of each country.

## c) financial cooperation

### –Financial resources

The amount of financial resources that the countries of the European Union will contribute will be reviewed, like the agreement, every five years. The ninth European Development Fund, corresponding to the five-year period 2000–2005, amounts to 13,500 million euros. To these must be added another 9,500 million euros from previous EDFs that were not executed, which must be carried out within a period of seven years. In addition, 1.7 billion euros must be considered for loans from the European Investment Bank.

### –Financial instruments

Important innovations have been introduced, aimed at greater aid effectiveness. Thus, the programming of resources is based more than in the previous formulas on the results that are intended to be achieved. Each country will have a national cooperation strategy. The novelty is that this strategy will be established in dialogue with the recipient country, whereas before it was set unilaterally by the European Union. With this it

Search that cooperation be inscribed in the political, economic and social context of each country. Within this strategy, an indicative work program for five years will be detailed.

Each country is assigned an amount that will be available over the five years, which is calculated based on the needs and results achieved by the country. The purpose of the funds is very broad: macroeconomic aid, sector programs, traditional infrastructure, debt relief, supplementary aid to compensate for lost export earnings, decentralized cooperation and humanitarian aid.

The new measures are expected to allow a faster disbursement and more flexible, an issue that was one of the main drawbacks of the previous system, and that rewards those countries that correctly execute expenses with supplementary funds. An annual review of each country's work program is planned to assess what has been done and to ensure that the programming is adapted to reality and that spending is more efficient.

#### d) Trade and economic cooperation

It has been the most difficult chapter to negotiate and also the one with the greatest novelties. Its objective is still somewhat ambitious, but no less necessary: the progressive integration of the economies of the ACP countries into the world economy, increasing their supply and trade capacity, creating a commercial dynamic and stimulating the private investment, regional integration and growth.

Specifying the commercial formulas that allow this wide range of results to be achieved requires adapting the same with the rules of the World Trade Organization (WTO), so that it considers them compatible with its principles of trade liberalization. For this, it is necessary to undertake a series of negotiations not only with the WTO, but also with the beneficiary countries. The objective is to reach a system of trade liberalization, but after a process of progressive adaptation.

During a period of the non-reciprocal trade preferences currently in force will be maintained for 8 years, but from then on, a timetable has been agreed to deal with the economic agreements that replace them and which must begin to be negotiated no later than September.

December 2002. The agreement promotes that these agreements be made with the countries grouped in regional criteria, according to their preferences, although special consideration will be given to those that do not integrate and are isolated. It is important to highlight the importance that Cotonou attaches to developing countries seeking forms of regional integration in order to successfully face their insertion in the international economy. As a final result, the new trade provisions must enter into force no later than in the month of January 2008, contemplating thereafter a transition period of 12 years until effective trade liberalization is reached.



# **5**

## **Development cooperation in the nineties**

### **5.1. THE PROFOUND CHANGES IN THE INTERNATIONAL SCENARIO AND THE REVIEW OF THE REASON FOR BEING FROM DEVELOPMENT COOPERATION**

Proposing the need, at the end of the 1990s, for development cooperation to undergo a review is not, in principle, a novelty or an attack to its continuity, since the transformations that the world scenario has undergone are evident and, as was pointed out at the beginning, development cooperation does not have a closed content, but rather it evolves over time.

The novelty lies in the fact that the previous changes occurred within the same frame of reference. The various adaptations that it experienced in recent decades were made from the conviction that development cooperation was unquestionable. What is relevant today is that this framework has changed and what is being questioned is not so much certain forms or mechanisms of development cooperation, but rather its very reason for existing.

It can hardly be argued that development cooperation, as it has been practiced and it is understood, it is the reflection of the perception, the analysis and the will with which the developed countries have faced the problems of development. In this design of cooperation policies, the main forces have been two: The United States, and the countries of Western Europe, which today make up the European Union. The first through its bilateral policy and its influence in multilateral organizations, notably in the World Bank and the Monetary Fund; the

seconds, also through the bilateral route, in which each one has had its hallmarks (notably the Nordic countries), but where its initiative has been most reflected has been in the cooperation policies promoted multilaterally through community instances.

When it is affirmed today that the foundations of development cooperation are tottering, it is because in both models, the North American and the European –in this both in its community dimension and within each state–, the meaning of its future is put to debate. To explain this loss of legitimacy of development cooperation, no single event can be singled out as the cause of the crisis. Let us review the main processes that have occurred in the last two decades that have influenced this radical change in the perception of cooperation.

1. First, there has been a significant change in the political context. The collapse of centrally planned economies and the political regimes that powered them marks the end of an era dominated by East–West conflict. The Western consensus on cooperation rested largely on the conviction that it was necessary to maintain world balance and counter Soviet expansion. The disappearance of the central mobile drags to the institution. Bipolarity, embodied in the existence of two blocs and hallmark of the old order, gives way to multipolarity in all aspects, which from the economic sphere is embodied in the constitution of three main poles: The United States, the European Union and Japan.

2. Any alteration of a balance, even when it is based on mutual deterrence in the face of the nuclear threat between the two great superpowers, triggers a transition stage that leads to the appearance of a certain instability until the new equilibrium position is found. The conjunction with the other novel phenomena that the progressive development of globalization supposes, presents a scenario of realities that are not easy to handle and that, in addition, it highlights the crisis of the current international institutions, which are incapable of dealing with the new problems.

In short, **a more politically and economically unstable world emerged** in the 1990s, marking the end of the postwar international order. In the new world scenario. In the new world scenario, the idea of security changes from a concern for military issues to considering the

global social issues and of environmental problems as factors causing instability.

**3. The change in the configuration of the South**, where the previous perception of the world as the North–South duality no longer works. The gap between two blocks, as was the case before, is not so clear, although this does not mean that the differences have diminished. On the contrary, the distribution of income in the world is more unequal than ever and it has grown spectacularly in recent decades, and now it is a difference that is stretched, rather than an abyss that is widening. The South is not presented as a distinct entity or as a homogeneous reality. In any case, it supposes a category characterized above all by its exclusion in the political decision–making process. Today the developing countries as a block cannot be the object of a joint analysis. In this group are newly industrialized countries, countries in transition from centralized economies to market economies, countries in which the problem of population growth is severe, countries that have spent decades of economic stagnation with no prospect of improvement in the medium term, and countries that are progressively marginalized in their participation in the so–called globalized economic life.

**4. Along with changes in the political scenario, changes in the economic scenario** are of no less importance for development cooperation. In the opinion of developed countries, since the cooperation framework was established, the international context has undergone a series of unprecedented changes that question the very foundations of development cooperation, which can be summarized as follows: the accelerated diffusion of innovations technological; differentiated demographic trends, with population growth in developing countries compared to developed ones; the success of the countries of Southeast Asia and some of Latin America, as a sign that it is possible to get out of underdevelopment without external help; the return of private financial flows to developing countries, which poses the disappearance of one of the central objectives of development cooperation, which was to provide financial resources to developing countries.

**5. Cooperation Fatigue.** Donor countries show their disappointment at the results achieved after

more than forty years of various tests of formulas for development. At a time when they are doomed to having to make greater efforts to balance their budgets, this argument makes it possible to cut an important item of expenditure by arguing the ineffectiveness of the aid. But this fatigue must also be explained in the context of a weakening of the conviction about their responsibility and commitment to the objective of development. The cooperation mechanisms put into operation are questioned, the actions of many governments of developing countries that have not collaborated in implementing essential reforms for their economies to function are criticized, the need to adapt cooperation to new realities, etc.

All these approaches can be accepted and, however, they do not have to automatically lead to a fatigue that leads to the disappearance of development cooperation, but, on the contrary, to recognize that this reality poses with more urgency than ever the challenge of finding the appropriate mechanisms for the next decade, that respond to new world conditions.

**6. Globalization and neoliberalism.** The crisis or profound review cannot be understood without framing the previous processes within two transversal axes that decisively mark the reading and understanding of the phenomenon of development:

- a) The bankruptcy of development thinking.
- b) The growing economic globalization, with the consequent interdependence between all countries.

Reference has already been made to the variations that the concept of development in previous decades, but this evolution took place within a certain consensus that accepted the need for a specialized development economy.

The current hegemony of neoliberalism questions whether developing countries require differentiated economic policies or analytical treatments. Within its conviction of freeing market forces to the maximum and of considering private initiative as the dynamics of the system, development cooperation continues to be an extraordinary instrument that, therefore, it does not make sense, and can even be harmful. Neoliberal thought considers that, if development cooperation does not promote the dynamic factors of development as it is now

are understood, it can involve interference in the proper functioning of market mechanisms, and increase the presence of the state in economic life. In conclusion, cooperation should be rejected or reduced to a minimum in dispensable.

Globalization also has a particular interpretation from this point of view, which can be summarized in the following lines: the formula to reach development in these times rests on accepting the fact of globalization as a demand from which no one can escape. There is no other remedy than to walk the path of opening up all countries towards insertion in the new global markets that are being created day by day. The prosperity and development of the countries passes through this obligatory alignment, through the setting in tune with the reality of a world without barriers. Development cooperation no longer makes sense as a separate policy and, if it can continue to be considered as such, its function cannot be other than that of cooperating with insertion in the global market. The World Bank is working in this direction, for whom developing countries must give all importance to policies that offer adequate incentives to the private economic sector.

The new economic thought has influenced development cooperation also from within the donor countries. The demands of a rigorous control of the public budget, which implies balancing the expenses and income of the state administration, has led many donor countries to cut the items of cooperation spending. The DAC points out how the countries with the largest deficits have been the ones that have cut their contribution to development cooperation the most, while those with the least problems in their fiscal balance have continued to increase their aid in real terms in recent years.

## **5.2. THE EVOLUTION OF ODA**

This set of processes has led to a marked downward trend in Official Development Assistance (ODA) in recent years. The total amounts of net official development assistance, which includes loans and donations from governments and multilateral agencies, measured in real terms (that is, eliminating the effect of the increase in value due to inflation), had actually stagnated in the 1980s, but in the current decade the trend is clearly downward. Special-

Ly as of 1993, the drop in ODA has become evident with a decrease of 16% between 1992 and 1996 (measured in real terms); and this trend has increased in 1997, a period in which the CAD recognizes a decrease of 3.2%.

Table 31. ODA **Per inhabitant**

A very graphic indicator of what the drop in ODA has meant in donor countries is to consider how the amount of ODA per inhabitant has evolved. While in the 1985–86 biennium each person in developed countries received 79 dollars a year; a decade later, in the 1995–96 biennium, this per capita contribution had been reduced to 71 dollars, descending in 1997 to 66 dollars.

This figure of ODA per inhabitant should be highlighted. In the first place, because it puts in its place the effort that developed countries really make, which is often magnified if only the total figures that speak of billions are considered, and is relativized when verifying the small amount that it supposes. ODA considered as a personal contribution. In the second place, it should be noted that the reduction of this quota per inhabitant by more than 10% occurs after a period in which the income per inhabitant has experienced a rise in developed countries between 1 and 2%, which still aggravates the scope of the cut.

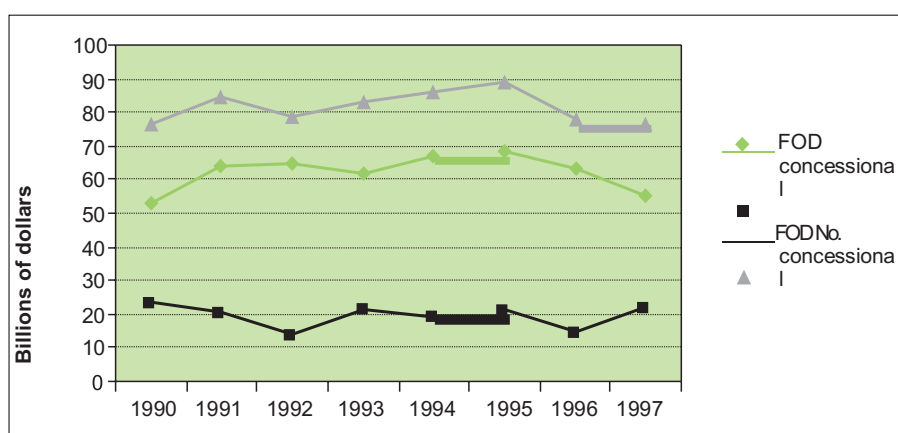
This decrease reflects the limitations that the donor countries have had to have concessional resources, due to the budget cuts that they make in their expenditure items, and that directly affect those corresponding to international cooperation. The items allocated to development cooperation have suffered a greater reduction when proceeding to budget adjustments than other items.

It is important to note that together to the loss of importance of ODA as a mechanism of foreign policy in the new international framework and of the other processes mentioned above– the arguments that are considered to justify this decrease rest on considerations of a domestic nature. Reasons are argued such as the need to consolidate budget balances or the existence of weak pressure from public opinion to maintain aid levels in most donor countries, due in part to skepticism about the effectiveness of aid.

ODA, and also the priority given to meeting the growing needs of poverty and marginalization in developed societies themselves.

This not only reduces concessional flows, but many governments have made the decision to limit the amount allocated to the granting of direct loans, considering that they are no longer necessary given the increase in private flows offered to developing countries. The donor countries adopt a policy of subsidiarity in this field, considering that the market is the first source of supply of credits and that, only in case this does not work, it makes sense to offer public credits.

Graph 42. Official Development Financing of DAC member countries 1990–1997



	1990	1991	1992	1993	1994	1995	1996	1997
concessional FOD	52.9	64.0	64.7	62.0	67.2	68.2	63.5	55.1
non-concessional FOD	23.7	20.8	14.0	21.5	19.0	21.1	14.5	21.7
<b>TOTAL</b>	<b>76.5</b>	<b>84.8</b>	<b>78.6</b>	<b>83.4</b>	<b>86.2</b>	<b>89.3</b>	<b>78.1</b>	<b>76.8</b>

Source: OECD, 1999.

In their assessment of the situation, donors consider that some developing countries can now bypass official sources and go directly to international capital markets to meet their financing needs. This attitude of



defended by the World Bank is picked up by the DAC, which advises donor governments to look carefully at how they grant their credits, understanding that the possibility of projects being financed with private capital is greater than before.

The implementation of this policy is shown in graph 42, where it can be seen that non-concessional flows experienced a sharp drop in 1996, within a clearly descending line. If the figures for 1990 and 1996 are compared, the decrease is almost 50%.

The analysis of the statistical data must be done with caution so as not to draw erroneous conclusions. Specifically, there is to consider the specific situations that occur each year and that can alter the trends if they are not analyzed separately. For example, in 1997 the figures for official financing for development may suggest that the fall in the amounts allocated to non-concessional flows is interrupted. But the explanation lies in the funds allocated to overcome the financial crisis in the countries of Southeast Asia. The rescue operation carried out with Thailand involved 9,000 million in non-concessional credits for this country alone. If the operation in Thailand and the repayment made by Mexico of its 1995 debts are excluded from the total non-concessional resources, official non-concessional flows would be the lowest figure for the entire decade.

This policy of reducing official loans has its boundaries. The donor countries themselves recognize that it cannot be thought that private flows are destined to cover the financial requirements of the social sectors – education, health, etc.–, since investment in them does not produce benefits. In these cases, the DAC considers that ODA should provide at least part of the financial needs and technical resources that cannot be obtained locally. Within this line, a slight upward trend can be seen in the destination of bilateral aid towards these social objectives. Thus, aid in education rose from 8.7% of total bilateral ODA in 1991 to 11.2% in 1995, and health, in the same period, from 3.2% to 5.5%.

In this new strategic line of priorities established by bilateral ODA, two other procedures must be understood, they are:

- a) The first is the rise in spending on emergency aid, which rose sharply after 1990.
- b) The second, that the greatest drop in bilateral aid occurs in support to programs such as the reduction of the quota dedicated to reducing the external debt of developing countries.

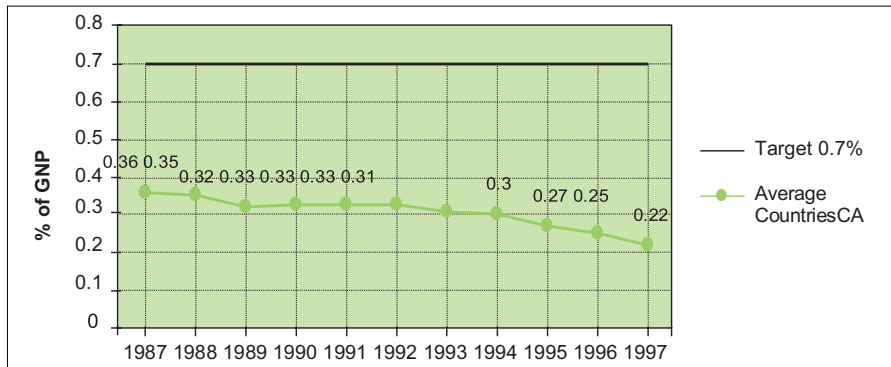
#### **5.2.1. A criterion for evaluating ODA: the reference of 0.7%**

The analysis of the evolution of the amounts of ODA that go from developed countries to developing countries, considered without any reference, does not allow evaluative judgments to be made about the scope of this decreasing trend. It is not easy to determine which are the criteria that must be considered to assess the degree of non-compliance or the seriousness of this decrease in view of the objectives of achieving development.

The 0.7% quota set by the General Assembly of the United Nations, although it was merely indicative in nature without any link to the countries, has become a point of reference in the evaluation of the behavior of official aid flows. When this percentage was established, the purpose was to set a goal, knowing that it was not possible for the countries to meet that objective immediately, but that they should progressively move towards it. At the same time, the 0.7% fix was a minimum reference. It was considered that in order for developing countries to meet their development goals and for the differences between rich and poor countries to decrease, it was necessary for the already developed countries to transfer at least the 0.7% of their GNP to developing countries under concessional conditions. In other words: that ODA should reach 0.7% of its GNP.

If ODA is analyzed from this perspective, the evolution of the percentage that represents the GNP of the donor countries, the panorama is bleak. In the first place, the general average has never exceeded half the share in the last decade, that is, it has not exceeded 0.36%. But it is that, from that level, the process has been one of progressive decline: if at the beginning of the eighties that percentage was 0.34%, in 1997 it fell to 0.22%, the lowest percentage in its history. In the years 1995 and 1996, the decline measured in real terms was 9 and 4.2%, respectively.

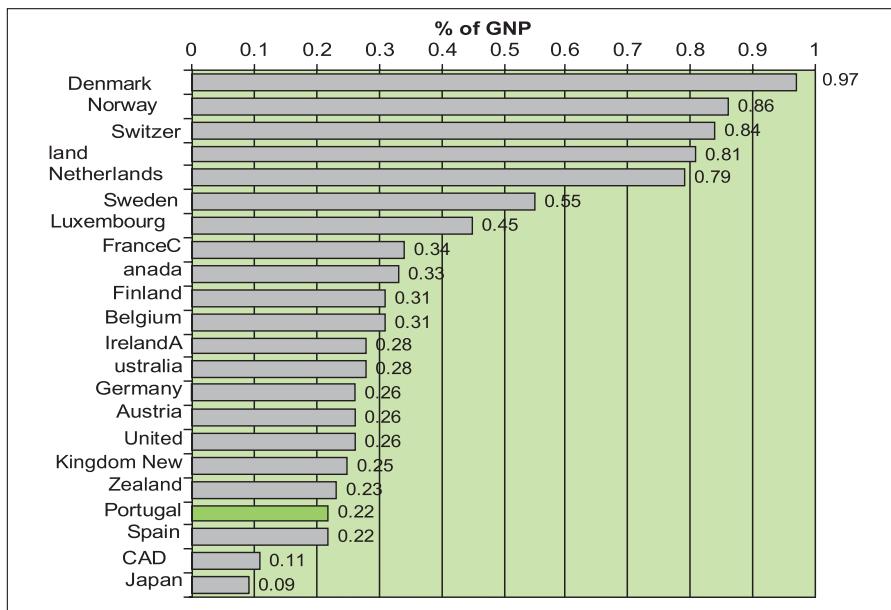
**Graph 43. Evolution of ODA from donor countries (DAC) (% of GNP)**



Source: Intermon, 1998.

This evolution has occurred despite the fact that at the Rio Summit (1992, on Environment and Development), at the Copenhagen Summit (1994, on Social Development) and in many other demonstrations made on the priority of the fight against poverty as an objective of development cooperation, 0.7% has been ratified as a goal. The reality is, as was said, very different and since 1992 the decrease has been 17% in real terms.

**Graph 44. Percentage of ODA of the GNP of the DAC countries**



Source: DAC, 1999.

In addition to knowing the evolution of the general average of the donor countries, a detailed analysis of the behavior of the different countries is of interest. If the percentages of ODA over the GNP of the different donor countries are compared, a very wide range of results can be seen. From the bloc of Nordic countries (Denmark, Norway, Sweden and the Netherlands), which far exceed the 0.7% share and stand out from the rest, to the very low percentages achieved by Japan and the United States.

This drop in ODA has occurred especially in the economically powerful countries, which gives greater importance to the process due to its demonstration effect towards the rest of the donors. The decline in some of the most significant countries of the G-7, which brings together the world's strongest economies, adds an element of delegitimization to the 0.7% target. If fixing an equal percentage for all countries, regardless of their levels of wealth, already meant a greater burden for the less economically strong, the weight of ODA rests more and more on them.

In 1997, it was precisely the decrease in the allocation of funds produced in the G-7 countries which has caused the total ODA to fall. Only Canada and Japan, among the countries in this group, have increased their cooperation grants. The other donor countries have been the ones that still keep their contributions more or less stable. This situation may have repercussions within these rich countries, weakening the position of those who defend the 0.7% objective, by raising critical movements supported by the tepidity or open disinterest shown by world leaders. In this sense, the role of the United States is significant due to its especially pronounced decline, which makes it the donor country with the lowest percentage, 0.12% in 1996, having even lost its position as the absolute top donor, which has passed to Japan.

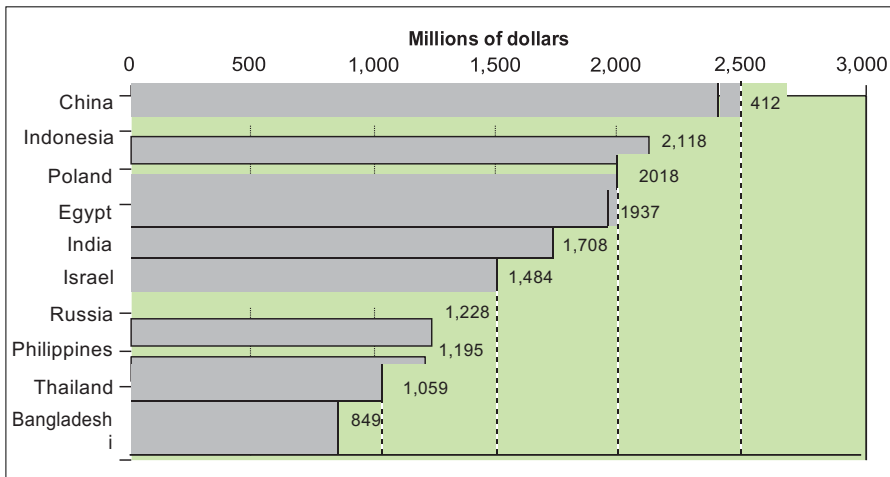
### **5.2.2. The destination of the aid according to regions and countries**

Another conventional criterion for evaluating ODA is usually the destination of the aid, considered from the point of view of the recipient countries. Can't really talk about

major sensitive changes, since many of the relationships established between countries in the framework of cooperation are carried out long-term. If the list of the top ten recipient countries of each donor country is analyzed, it can be seen that it has hardly changed in the last twenty-five years. But, even so, there are certain data that must be considered on the behavior of ODA towards recipient countries.

Recently, the allocation of ODA has been marked by the implementation of new criteria. The World Bank points out that the decline in net concessional flows during the 1990s has been accompanied by efforts to improve the efficiency of aid by allocating it to those countries that offer better results in terms of implementing economic policy reforms. In other words, it considers the completion of reforms as a criterion for choosing countries to receive aid.

Graph 45. The ten main recipient countries of ODA, 1995-1996



Source: DAC, 1997.

Donor countries are increasingly selective when allocating aid to countries, and to do so they consider the results achieved by potential recipient countries on issues such as:

- a) Democratization and political stability, an issue that has become a kind of prerequisite.

- b) The adoption of the economic reform programs promoted by the International Monetary Fund and the World Bank.

This change in attitude is confirmed by checking the list of the ten countries that have received the most ODA in 1996 in the following table, which corresponds to countries characterized by their relative success in the reforms undertaken. This is the case of China, Indonesia, Poland, Russia, the Philippines and Thailand, where ODA acquires the previously mentioned connotation of support for countries that are willing to undertake the modification of their economies.

Table 32. The truth about ODA according to the UNDP

Despite the definitions, in practice, the distribution of ODA in the world is not governed by the criteria that prioritize the human development of the poorest countries. For example, more than a quarter of global ODA is linked to the purchase of goods and services from donor countries.

The 1994 UNDP Human Development Report marked a milestone in the analysis of development aid, and provides many clues about its limits and failures, questioning its meaning and its effectiveness when it comes to contributing to the real well-being of the poorest.

The UNDP Report points out the main reasons for this balance:

1. The ODA is not directed at the neediest sectors, but rather at the most privileged groups in urban areas and the richest peasants or landowners in rural areas.
2. ODA is not intended for the poorest countries, but to those with a higher economic level. 68% of the world's poor receive only 32% of aid. Egypt, for example, receives \$280 per poor person, while Bangladesh receives \$17 and India only \$7.
3. ODA is not focused on the priority fields of Human Development, such as basic education, primary health care, drinking water supply, nutrition, etc. Globally, only 7% of bilateral ODA and 16% of multilateral ODA goes to these basic sectors. The construction of roads, highways and power plants, on the other hand, are the objectives that receive the most aid. Furthermore, aid to priority sectors often only benefits privileged sectors of the population (university education versus basic education, modern hospitals versus primary care centers).

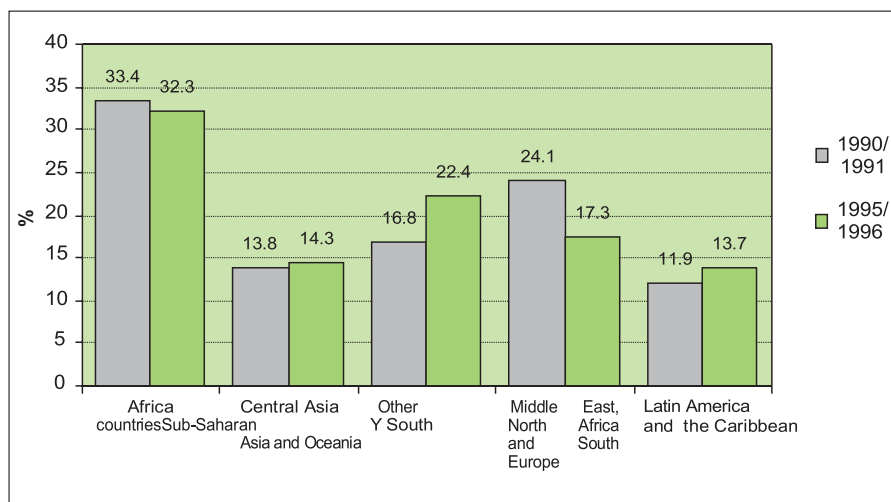
4. The ten countries that received the most ODA between 1990–93 have only allocated 8% of the aid to the sectors mentioned as being of human priority. Some, like China and Indonesia, do not even reach 3%.
5. The aid is not intended for the poorest countries, but rather for countries that are friends or allies in the strategic interests of the donor. 68% of Japanese aid, for example, is destined for neighboring Asian countries, and 43% of that from the US goes to the Middle East. Both donors and recipients encourage these distortions: donors want their assistance to coincide with their commercial interests, so they prefer to use it as a vehicle to promote their own teams and consultants; for political reasons, they also want their help to be highly visible. Thus, for example, they are more concerned with the construction of buildings than with the periodic expenses necessary for their proper use.
6. The countries of the South that allocate more resources for military purposes they received –until 1992– 2.5 times more ODA than the inhabitants of countries that, on the contrary, allocate less to the purchase of arms or to the maintenance of armies.
7. Half of the top ten recipient countries of ODA, which account for a third of all world aid, have military spending that is higher than the aid received. This "aid for development", therefore, helps them to save an economic budget that they will then allocate to the purchase of weapons. Seven of these countries also have military spending above 3% of their GDP, and four exceed 5%, which is truly exorbitant.
8. ODA donor countries do not seem to be too concerned about the situation of human rights in recipient countries either, and rather seem to prefer those in which martial law and military order prevail, assuming that in these countries there will be more political stability and better economic management.
9. Although it is known that technical assistance is a fundamental piece of cooperation, 90% of the aid in this sense is to pay our own specialists, and not to train the people of the receiving countries.
10. So far, ODA has increased rather than decreased economic centralization and promote the participation of municipalities, regions and local NGOs.

Source: UNDP (1994), Human Development Report, 1994. Table 4.7, p. 85.

Taken from UNDP, Report on *Human Development 1994*, cap.4, according to the synthesis of Fisas, V. In «Papers for Peace» no. 55.

Without descending into a detailed analysis by country, which would be excessively long, it is worth making some reflections on the evolution of ODA with respect to certain regions that group developing countries and allow a more global analysis of trends.

**Graph 46. Changes in the destination of ODA by region (Percentages)**



Source: DAC, 1997.

The drop in aid to Sub-Saharan Africa is striking, a region characterized by encompassing most of the least developed countries, those with the weakest indicators of development. The explanation for the decline lies in the cut in ODA directed to four sub-Saharan countries (Somalia, Sudan, Zaire and Kenya). For the first three, the decision to reduce aid flows was taken for considerations outside their objective needs, because the donor countries understood that the malfunctioning of the State prevented the aid from being effective.

The rise for the Asia and Oceania region is due to increased aid to China, which even when aid was cut after the events of Tiananmen in 1989, received large amounts again as of 1995. This data corroborates, like the previous one, the introduction in practice of the policy of the aid of the new criteria for selecting recipient countries, where the evaluation of their behavior in the face of economic reforms has more influence than other factors.



The sharp decline seen in aid to Egypt and Israel should be read with a certain relativism, since it occurs after a period –at the beginning of the 1990s– in which it had experienced a considerable increase given the role of both countries in the Gulf War. It can be said that, more than a decline, it represents a return to normal levels.

Perhaps the most important criterion is the one that considers the changes produced in the destination of ODA by groups of countries according to their income. Without turning it into an absolute reference, it represents an important field of evaluation: analyze the evolution of ODA according to its behavior with the, in principle, most needy countries according to their low levels of income per inhabitant.

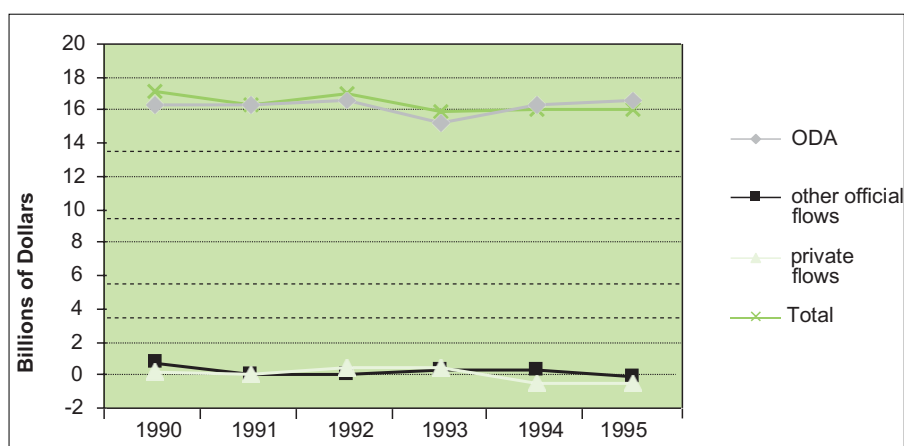
In general terms, the behavior of ODA, according to the DAC data, is frustrating. The least developed countries received 34.9% in the period 1985–86, while in 1995–96 that percentage fell to 30.1%. That over the course of a decade, this fall in aid to a broad group of countries, more than forty, is produced, characterized not only by their low-income levels, but also by other data of low development, gives – special significance to this trend. The conclusion is the confirmation of a trend that has already been repeated: the progressive loss of strength of the criterion of the objective needs of the recipient countries when granting ODA, in favor of the criterion that considers the docility of the countries to implement economic reforms.

The share of ODA that developed countries allocated to less developed countries in the first half of the 1990s fell again. In 1995, the donor countries dedicated only 0.06% of their GNP to help these countries, when in 1990 that quota had been 0.09%, and this despite the existence of a specific commitment adopted in the Second United Nations Conference on Less Developed Countries (Paris, 1990), which established an increase in aid directed to these countries.

But the financing needs of these countries are growing due to the urgency they have to overcome their low human development and lack of infrastructure. Many countries in the group called the least developed are in it because they have suffered internal conflicts from which they have recently emerged and are trying to overcome their consequences. Some are carrying out rehabilitation and reconstruction programs,

others have initiated economic reforms with the support of multilateral financial institutions. But most still have significant foreign debt burdens that they cannot afford for obvious reasons. This makes their access to private capital markets very problematic, as they cannot offer sufficient guarantees. Consequently, if they do not receive the financial resources of Official Development Assistance, they will see their chances of getting out of their situation stifled.

**Graph 47. Net flows of resources to the Least Developed Countries 1990-1995**



	1990	1991	1992	1993	1994	1995
Other official flows	0.7	0	0	0.3	0.3	-0.1
private streams	0.2	0	0.4	0.4	-0.5	-0.5
<b>TOTAL</b>	<b>17.2</b>	<b>16.3</b>	<b>17.0</b>	<b>15.9</b>	<b>16.1</b>	<b>16.0</b>

Source: UNCTAD 1997: *The Least Developed Countries 1997 Report*.

If the behavior of ODA is analyzed according to the groups of countries according to their income levels — although specific explanations of the changes in ODA trends within each group are offered—, the truth is that it is the groups with the lowest income that see their aid decrease in a greater percentage than the global decrease in ODA, while for the middle-income it increases.

The World Bank itself recognizes that the drop-in development aid does not correspond to a drop-in aid need. Population figures in low-income countries increased from 2.4 billion people in 1980 to 3.2 billion in 1995. Using the World Bank's \$1 /day poverty line as a reference, the number of poor in developing countries development rose from 1.2 billion in 1987 to 1.3 billion in 1993. This contradiction is so obvious that it poses a serious criticism of ODA. The general answer is the targeting of ODA in the fight against poverty.

### **5.1.THE ALTERNATIVES FOR THE FUTURE OF DEVELOPMENT COOPERATION**

No one disputes the need for profound reforms in the current cooperation system, both by donors and recipients. The question is in what direction the reforms should be channeled. The new international framework, the progressive economic interdependence and the leading role of private capital flows form the three central factors to consider. But, depending on the perspective adopted, the proposals differ substantially.

#### **5.3.1. The view from the CAD**

The official position held by the Development Assistance Committee affirms the creation of a consensus among donor countries on a new development financing agenda. This new agenda is based on the interrelation of the three processes that it considers key to analyzing the current development framework:

- a) the almost universal adoption in the last decade of market-based development strategies;
- b) the globalization of trade and finance, which modifies the opportunities and challenges facing developing countries;
- c) new information and communication technologies that favor, and in some way require, decentralized initiative, faster adaptation and that decisions are made by companies.

This new framework proposes, for the DAC, a development financing model that is completely different from the one in force until now. Public financing is decisively abandoned as the axis of ODA. Now it should be the private financial systems that decide for themselves the distribution of resources between countries. Hence the importance given to developing countries to strengthen their internal financial systems, so that they are capable of mobilizing their internal resources, since they will not be able to wait for new credits from international agencies. or bilateral.

The international financial cooperation agenda defended by the CAD, in line with The World Bank and the IMF, fundamentally implies promoting the best possible functioning of international capital markets. The maximum liberalization of that market is supposed to be the best guarantee so that all countries can find the resources they need.

Also, countries will have to: maintain macroeconomic stability (inflation, public debt, etc.); carry out effective development policies; get the authorities to act in accordance with the rules of good governance; and invest in advancing human development, with special attention to reducing poverty levels.

In short, developed countries believe that the formula for future development lies in the adoption of the model they advocate, based on liberalization and the reduction of the role of public bodies (governments or multilateral agencies). in the financing of development. Furthermore, development cooperation will focus on countries achieving satisfactory economic results and in the correct functioning of the state, companies and civil society according to the new rules. Concessional aid is reduced and will play a complementary role, but it should never serve to fill the financing gaps of developing countries. They will have to look within themselves for resources, or else gain the trust of international markets.

The overturn with respect to the principles that dominated ODA in previous decades is total. ODA, as it was understood before, is reduced to achieving very specific and determined objectives in the fight against poverty. In the table you can see the objectives that the CAD sets for the next century.

Table 33. The new lines of DAC development aid

In reviewing the lines of work to be followed in the field of cooperation, the Development Assistance Committee of the OECD, in May 1997, recognized the need to support important changes in aid-dependent countries, with special emphasis on the urgency to promote social change in four areas that he defined as key areas: conflict, peace and development cooperation; participatory development and good governance; gender equity and «empowerment» of women; and, environmental development.

In each area, the DAC underscores the importance of building capacity of societies in developing countries to manage problems and exploit new opportunities. In fact, the four areas are interrelated: for example, conflict prevention and peace building should be seen as the necessary foundation for sustainable development and as an integral part of the development cooperation challenge. But this also depends on the quality of government and the adequate promotion of the participation of women and men in democratic processes, in judicial and security systems, which at the same time have to function properly. The 'empowerment' of women both requires and contributes to participatory approaches to governance. And, in addition, environmental problems have very negative consequences for social and political stability,

These are the lines of work that the CAD marked in each of the four areas:

#### **Conflict, peace and development cooperation**

Donor aid to support conflict prevention and post-conflict reconstruction includes activities in areas such as: democratization, justice and security reform, mediation and negotiation in intercommunity relations, education and training in multiculturalism, freedom and access to information, reintegration of uprooted populations, demobilization of ex-combatants and restoration of the capacity to economic management.

#### **Participatory development and good governance**

Democratization, the role of civil society, human rights, legal systems and democratic decentralization have been the preferred working topics in publications and workshops in OECD countries since 1993.

### **Gender equality and the «empowerment» of women**

The CAD considers that investment in these areas will obtain very positive results on poverty, economic development, fertility rate, family health and the general welfare of a country. For this reason, they recommend integrating the issue into most donor activities and policies, and into both bilateral and multilateral approaches to development cooperation with regard to: poverty, economic development, democratic processes and human rights, education, health, environmental sustainability, conflict resolution.

The CAD has adopted a Gender Action Framework that integrates this objective and guarantees its fulfillment in all its action fields.

### **Environment Development**

The development of the environmental issues of the DAC Working Group constitutes a body of policies and practical material for several years, especially promoting the promotion of the capacity of the societies of the developing countries to deal with the issues, and environmental problems and seek solutions to them. One of the latest documents in this regard (CDE Workshop, Rome, December 1996) especially highlights the need for developing countries to acquire the capacities to deal with their own environmental problems, but without forgetting the need to move towards sustainable development. sustainable and equitable in the midst of the complex framework of globalization.

*Source:* DAC-OECD, Report, 1997; pp.19-21.

### **5.3.2. The alternative view**

The donors' position stems from their conviction that the formula they propose is the best for everyone. According to OECD estimates, in its report *The World in 2020: Towards a New Global Age*, if all the countries followed his indications, the scenario in twenty years would offer a world in which developing countries have grown more than developed countries and we would find ourselves at the beginning of a new era.

But this view is not shared by many developing countries, civil society organizations from more developed countries, and multilateral development agencies. In the first place, the trends of recent years, when the reforms have been implemented, offer a worrying

against a panorama of worsening inequalities and the appearance of new processes of impoverishment. These phenomena are occurring both within the developed countries and developing countries, giving rise to dangerous situations of social instability, which also imply political instability. If the behavior of the countries considered as a whole is analyzed, inequalities are accentuated: some find channels of prosperity in the framework of globalization, while others are excluded from participating in its benefits.

Secondly, the optimism in the success of the new proposals does not seem to be so well founded. The multilateral economic organizations, the World Bank and the International Monetary Fund, have not been characterized precisely by their correct predictions. The recent crises in Mexico and the countries of Southeast Asia took these organizations completely by surprise, and they only knew how to react when the crisis had already broken out. Furthermore, they are accused of the fact that their role as leaders of the international economy only manifests itself when it comes to safeguarding the interests of the most developed economies, but they do not show the same interest in the problems of the poorest countries, which see how the solution to them is postponed year after year. The example of the slow process of canceling the debt of countries in a situation where it is impossible to pay it,

Third, even supposing that the prescribed reforms work, they do not guarantee that they will bring about the fulfillment of the human development objectives that are considered fundamental. If these objectives are not introduced with the same priority as the economic objectives, history will repeat itself, and the central questions of the development of peoples will always remain conditioned to the will of the rich countries. The UNDP's criticisms of the behavior of ODA are very significant in this critical position.

Therefore, from many areas it becomes to propose that the issue of development cooperation is not only a question of how to consider the situation of the most disadvantaged countries, but rather of proposing a framework of rules of the game that ensures that all countries can find their space in this globalized world. That framework must ensure equity as a central point of reference. The problems of distribution of world resources are presented

as the great challenge of the coming decades, from the concern to meet the objectives of human development.

The development cooperation framework from this critical perspective does not have a formulation as precise as that of the donor countries, but there is a consensus of concerns and emphasis that is manifested in the multiple declarations of non-governmental organizations and at international development summits.

Box 34. Griffin's proposal for a change from development cooperation

One of the most prestigious economists on development issues, and one of the architects of the concept of human development, Keith Griffin, points out that —despite the enormous changes experienced in the world and the enormous differences between 1945 and 1995— the framework of cooperation in – Development continues to function with the same institutions as fifty years ago. Nor has this framework undergone any special changes after the fall of the Berlin Wall in 1989, although the specific policies have been modified.

Griffin suggests overcoming this conglomerate of bilateral and multilateral agencies, development banks that offer loans, and United Nations agencies that provide technical assistance. It proposes to create a single institution that has three functions:

- a) Create a global safety net to transfer resources from rich countries to the poorest countries, to replace the current system; this network would be financed by means of a progressive tax on the GNP, where the richest countries would pay more than the less rich ones.
- b) Correct the failures of the global market, creating an institutional framework that enables intergovernmental negotiations on issues that are of mutual interest but that are outside the normal functioning of the market, such as the issue of the environment.
- c) Ensuring that the rules of the liberal global economy are respected by all the participants. Its main task would be to avoid discriminating poor countries against rich ones and to offer effective remedies when rich countries break the rules of the game and harm poor countries.

Taken together, these three functions constitute a long-term instrument for promoting efficiency and fairness in a market-driven global economic system.



## **Bibliography**

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It collects the legislative documents and the political declarations that contain the guidelines of the cooperation policies of the different states of the European Union. It is an obligatory reference work when it comes to wanting to learn about the ideas of other countries. The documents that deal with the composition and characteristics of the organizations that manage cooperation and those that define the priorities of the cooperation strategy are of special interest if you want to deepen your knowledge of official development aid or simply looking for suggestions to improve their own structures. Contains an index of address references on the Internet.

ALONSO PEREZ, Matilda (1999); *Development and cooperation*. Tirant lo Blanch, Valencia.

It is one of the few books on the subject that have been published in Spanish with the aim of serving as a teaching manual. Although designed for university education and not specifically for those dedicated to cooperation, it is of interest as a reference work. It should be noted that more than half of the book is devoted to questions of development theory.

ALONSO, Jose Antonio (1997); *The international development cooperation system: critical considerations*. System, no. 138, May 1997, pp.73-99.

A very comprehensive view of the major issues currently facing international development cooperation.

BERZOSA, Carlos (1991); *1949-1989: forty years of development cooperation*. Ibero-American Thought, No. 19, January-June 1991.

FRERES, Christian (1997); Bilateral development cooperation of the European Union with *Latin America*. AIETI, Madrid.

It studies the behavior of development cooperation policies of European countries with Latin America. It makes a detailed analysis of each country. Interesting statistical appendix with data from donor and recipient countries.

GOMEZ GIL, Carlos (1996); Development aid trade: history and evaluation of FAD credits. Books of the Cataract, University Institute of Development and Cooperation, Madrid.

Analyzes the state development cooperation policy and the creation of FAD credits. It evaluates the use of these credits in the last twenty years. Detailed study of the geographical and sector destination. It is a necessary reference to know the operation of this instrument.

INTERMON(several years); The reality of help. An independent evaluation of Spanish and international development aid. Intermon, Barcelona.

The non-governmental organization Intermón publishes an annual report on the evolution of the amounts of official development aid and of the most burning questions on the problems of cooperation. Its critical nature and the analysis it performs of the data must be highlighted. It has abundant information that allows you to be up to date on the basic issues of cooperation. It covers both the global dimension of development aid, as well as the European Community and that of the Spanish state.

MARTINEZ GONZALEZ-TYOU SPEAK, Angel (1995); Global vision of the coo-*Operation for development: the international experience and the Spanish case*. Icaria, CIP, Madrid.

A general reflection on cooperation and its historical forms. Analyzes Spanish development cooperation policies and community.

NAVARRO, Alberto and others (1992); Community development cooperation policy: the participation of companies and non-governmental organizations for the *development of its funds*. AECI, Madrid.

Abundant information that allows knowing the operation of the different modalities of community development cooperation.

STOKKE, Olav (Ed.) (1996); Foreign Aid Towards the Year 2000: Experiences and Challenges. EADI Book Series No. 18, Frank Cass, London.

Although we have limited the bibliographyFor works published in Spanish, despite the large number of publications in English, we make an exception in this case as we consider it one of the most complete to have a vision of the key issues of cooperation. Participating in it are various well-known authors such as

experts on the subject. Stokke's article is an excellent compendium of the evolution of cooperation and its current challenges.

Various (1994); *International cooperation for development: scope and configuration*. CIDEAL, Madrid.

Contains works by: Carlos Berzosa on cooperation in the system of international relations; M.<sup>a</sup> Angeles Saez and Francisca Segundo on cooperation for the development of the European Union; José A. Alonso on Spanish official development aid; and, Bruno Podesta on development cooperation agents.

Various (1997); *Conference on European Cooperation*.

*Analysis and Perspectives of the Programs of the Countries of the European Union for Aid to the Third World*. Vitoria-Gasteiz, December 2-5, 1996. Basque Government, General Secretariat for Foreign Action, Vitoria-Gasteiz.

Collects the papers presented at the Conference held in Vitoria-Gasteiz at the end of 1996. The book consists of two parts. In the first, the presentations made in the plenary sessions are grouped, in which the characteristics of the policies of each of the governments of the countries of the European Union, in addition to the community, were presented through three directors. – general tions, and the Basque government. The second part contains the work carried out in the different thematic seminars on: technical assistance and development, alternative trade-fair trade and development, NGOs in the European Union, cooperation data network (Internet), university and development and vision of European cooperation from the South. It ends with an interesting contribution by Hélan Jaworski on the challenges of European cooperation. Regarding this manual,

Various (1997); *Development, maldevelopment and development cooperation: Sub-Saharan Africa*. Research Seminar for Peace, Pignatelli Center, Zaragoza.

Papers presented at the Seminar on topics such as: Peace, right and development; current development paradigms and issues; social development and development ethics; and development cooperation.

Various (1997); *Decentralized development cooperation from regional and local governments*. Spanish Agency for International Cooperation (AECI), Madrid.

It offers a vision of the cooperation policies of the governments of the autonomous communities of Andalusia, the Valencian Country and Basque Country; as well as the councils and town councils of the first two. It sets out the objectives and criteria with which cooperation is conceived in the different autonomies and analyzes the evolution followed in each of the funds, as well as their destination. From a practical point of view, the information it provides on the bodies that manage the cooperation and the characteristics of the different calls should be highlighted.

## **Reports from international organizations**

World Bank (Various years); Global development report. World Bank, Washington.

Although in a certain sense it is a work for specialized training, it must be noted that it is the obligatory reference for conventional development indicators. On the other hand, each year it dedicates its report to a specific theme of development that in some cases is especially interesting for the cooperation.

OECD (Various years); Development Co-operation: Efforts and Policies of the Members of the Development Assistance Committee. OECD, Paris.

There is a French version and occasionally it was published in Spanish. It constitutes the basic reference for information on development cooperation. First, it contains official data on the amounts of financing and development cooperation, disaggregated by country of origin and destination, as well as according to the different flows through which the funds are channelled. Second, it offers information on the cooperation policies of each donor country. Last but not least, it contains the pronouncements of the Development Assistance Committee on the principles and characteristics that the development strategies of the member countries must follow.

UNDP (Several years); Human Development Report. United Nations Development Program, United Nations. The edition and distribution in Spanish in recent years corresponds to Mundi-Prensa Libros, SA, Madrid.

Since 1990, UNDP has published the Human Development Report annually. Each deal with a specific topic, in addition to analyze the evolution of the different indicators that the UNDP uses (human development index -HDI-, gender-related development index, gender empowerment index, human poverty index). Issues such as: the financing of human development, the global dimensions of human development, inequality, gender differences, participation, economic growth, the eradication of poverty and consumption, have been the axes of their reports. The influence it has exerted on the different United Nations agencies and on some governments to define development and cooperation priorities is undeniable.

### **Note:**

In addition to the reviewed bibliography, mention must be made of the journal: *Desarrollo y Cooperación*. Magazine University Institute of Development and Development (IUDC), Complutense University of Madrid. It is an indispensable reference to keep up to date with the debates on cooperation.