WHAT FUTURE FOR DEVELOPMENT CO-OPERATION?

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RAJIV GANDHI INSTITUTE FOR CONTEMPORARY STUDIES
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1. Summarized Overview

The total volume of official development aid (ODA) has steadily declined in recent years. With less than 0.25% of the gross domestic product (GDP) of the DAC\(^2\) member countries ODA has reached an all time low since 1950. At the same time the efficiency and effectiveness of development assistance is more and more questioned. It seems that the intensity of evaluation and review of aid grows as much as ODA declines. Apparently, social, political, and economical changes demand a restructuring of development assistance.

Development co-operation is considered as any inter- and intrastate allocation of resources aiming at the improvement of the

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2. Member countries of the Development Assistance Committee (DAC) of the OECD. (Australia, Austria, Belgium, Canada, Commission of the European Union, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Sweden, Switzerland, Spain, United Kingdom, USA)
present and future living conditions of the poor and disadvantaged. Resources considered include financial assistance as well as technological and science-related transfers. This extended definition comprises publicly provided resources as well as those, which are mobilized within a country, in case they were stimulated by development policy. Private efforts from non-governmental organizations (NGO), business associations, and the private sector are included as well.

In order to prevent that development co-operation is vulnerable to policy fashions, strict criteria are needed for priority setting. Normative criteria for priorities are comparative advantages, complementarity, and subsidiarity.

Development co-operation should concentrate on fostering democratic structures and the rule of law in developing countries. It should work towards weakening the conflict potentials between trade and environment and trade and development, respectively by means of bilateral or multilateral co-operation. Further development co-operation should promote research and the transfer of available knowledge and technologies, which serve the reduction of poverty. Finally it should utilize and support the possibility the private provision of public services, which are delivered by the state and markets in sub-optimal levels, especially in rural areas where the most poor live.

Focus of future development aid is the direct and indirect reduction of absolute poverty levels; including present and potential future poverty. In a swiftly changing global environment the goal of sustainable development has to be tackled with new sets of policy instruments.

2. Reduced Relevance of Traditional Development Co-operation: Why?

To grasp the change of the relevance of ODA not only the absolute numbers are to be considered but more importantly the spending relative to GDP and private foreign direct investments (FDI). Considering this ratio a clear drop of the significance since the beginning of the 1990’s is obvious. In contrast to the steady raise in ODA in the 70’s and 80’s, which reached its peak in 1994 with 60.3 billion US$ (current US$), it is since then decreasing. On the other hand the flow of FDI has more then quintupled in the past 10 years and reached its peak with about 250 billion US$ in 1997. But one has to bear in mind the unequal distribution of these funds. Only ten developing countries account for more than 72% of the FDI; with China receiving 32%, and nearly 16% reaching Brazil (Moran, 1998).

![Graph showing ODA and FDI trends](image_url)

The greatest reduction in ODA could be observed in the USA, where the share of ODA fell below 0.1% of GDP in 1997. Budget consolidation efforts with respect to the Maastricht Treaty lead to a reduction of ODA in most European countries. For example, the German share of ODA in 1998 was 0.26% only, and that was slightly above OECD average. Nevertheless an increase of the development assistance budget to 0.7% of GDP is still discussed.

To answer the question of the future of ODA, with respect to volume and changing priorities, the reasons for this change have to be determined. Not only the end of the cold-war era, budget constraints in donor countries and disappointment and disillusion
Despite these trends, a series of studies have rebutted the common pessimism regarding the effectiveness of ODA. Cross-country studies support the assumption that in a context of "good governance" aid can effectively contribute to reduction of poverty and increased growth (Burnside and Dollar, 1998).

A comprehensive World Bank study concluded that (The World Bank, 1998):

- Good governance in the recipient countries is decisive for the success of development assistance.
- Development assistance can induce a set of successful structural reforms improving the quality of governance.
- Effective development assistance does not lead to a crowding out of private investments but supports them.
- The true value of development assistance is the strengthening of institutions and policies resulting in an improvement of the supply of public services.
- Participation of the citizens improves the quality of public social services.

The modified role of sustainable development in the context of a constantly changing environment requires a redefinition of the contents of development assistance. The following notes comment on the present changes within the development community.

3. Present Development of Donors Policies

Policy changes within the World Bank, as the major player in the development business, tend to influence the structures of the development assistance. Early on, the World Bank promoted the idea of decentralization of development assistance. Currently the World Bank implements the structure of a Comprehensive Development Framework (CDF). The CDF is designed to transfer ownership of the development agenda where it belongs, back to the recipient country, in order to ensure a higher effectiveness of the development
assistance. Within the CDF a country’s government is encouraged to generate a long term development strategy in collaboration with the civil society (NGO, churches, opposition etc.), bilateral donors and the multilateral development agencies covering all country specific circumstances.

Through the CDF a coordination of the development efforts of all groups shall be achieved and the most effective sequence of projects identified. The general idea of the CDF seems convincing. Some difficulties arise when an appropriate division of labor shall be found between donors and national governments on public goods and institutional innovations (such as legal systems) and transnational investments. Moreover, except for the World Bank no participating party has the institutional capacity or knowledge at hand to disseminate sufficient experts for such comprehensive approach and given the planning tasks involved, the approach seems more conducive for small countries and is not very relevant for large countries, like India.

The design of the CDF relies heavily on World Bank input and accordingly only partly reflects the needs of the respective population. In the end the influence of the World Bank on a country’s development may increase due to the tight collaboration and leadership.

The European Commission recently has evaluated thoroughly its aid policies recognizing the need for reforms and a focus of development aid. Similar to the structure of the EU the Community’s aid system is rather complex and fragmented. A characteristic of this shortcoming is an aid policy guided by instruments instead of strategies managed by too few staff. To increase the impact of aid, the Commission is determined to focus on regional strategies, increased ex-post evaluation and reducing the average project size, while maintaining the overall level of aid. A special concern is the increase of impact.

The Community's unique features concerning development aid is the interaction of trade and development. As the EU is a major donor and biggest trading partner of most aid recipients, its financial and technical aid - primarily given as grants - are often combined with political issues and trade agreements.

Following the overall concern of poverty reduction several lessons have been learned in the past urging the Commission to rethink its strategy. A major change is the increased transfer of accountability to the recipients' governments, following a similar trend set by the World Bank. EU efforts to strengthen a country's institutions serves multiple purposes. It increases the impact of aid, supports a participatory community and assists directing economic reforms towards an integration of social, economic and environmental objectives.

The Commission considers the development of social policies such as health, food security, education and sustainable water management in a peaceful environment the utmost important goals. Poverty reduction is a complex mix of policies and programs, which requires a comprehensive development strategy. This strategy should integrate rural and urban development as well as public and private initiatives.

The EU considers three strategies to reduce poverty. On the economic side equitable growth, investment, employment, social and human development and environmental protection are key areas. On the international side the integration into the world economy, regional cooperation and integration is considered vital. Internally democracy, human rights, the rule of law, and conflict prevention and, where advisable, resolution are paramount for poverty reduction.

All programs in the above mentioned strategic areas are supposed to follow principle guidelines. Projects should be chosen according to their impact on poverty, support institutional capacity building, ensure gender equality, sustainable management of environment and natural resources, and foster economic, social, political, and cultural rights.

3. Commission of the European Community, 2000
In the light of the Commission’s strategy paper, it can be expected that the EU will refocus its aid policies. Indicated are:

- Further integration of economic, trade and political aspects of development co-operation
- Linking relief, rehabilitation and development measures
- Limiting the aid flow to priority areas and sectors
- Coordination between EU aid and bilateral development programs
- Adjusting the EU policy to the guidelines of the Bretton Woods institutions, WTO and the United Nations

In contrast to the World Bank’s approach are the changes in ODA allocation by the European Union. Beside a strong regional focus on the group of ACPs the European Union utilizes a mix of development instruments. The major instruments are technical and financial assistance on the one side and export subsidies on the other. Both instruments were laid out in the Lomé treaty, which has been significantly changed through the new Convention reflecting concerns about just and effective development assistance. Major changes took place effecting the allocation of funding.

General development assistance, technical and financial assistance will be allocated according to needs and merit of the recipient country. Whereas per capita income determines neediness, merit is measured through government performance in promoting the rule of law, civil liberties, and political rights. This change in the allocation procedure has a direct impact on small countries, which have benefited above average under the Lomé Treaty. Countries like Mauritania and Mauritius will receive less funding whereas countries like Ghana, Malawi and Uganda benefit.

With respect to ODA outside the Convention the EU follows a differentiated approach towards the countries and regions. Nevertheless it follows the principles for development co-operation of the DAC, which emphasize the importance of community involvement in development co-operation. Beyond the traditional principles of development co-operation the framework is open to regional development across states. Regional integration and co-operation is encouraged and is considered equal to development co-operation on national level.

4. Development Co-operation Redefined

From a development perspective it is an artificial book keeping approach which identifies Aid as transfers from certain organizations or countries to a set of (low and middle income) countries, but the transfers and actions in the low income countries themselves are not comprehensively accounted for. The traditional definition of development co-operation, as technical and financial assistance, is no longer sufficient for a comprehensive reduction of poverty. The limitations of international development co-operation require a broader definition and collaboration.

The redefinition of development co-operation, proposed here, includes regional, national and local initiatives, as the possibilities of a government activities are increasingly limited. Thus the new definition of development co-operation should comprise more than the traditional financial and technological transfers of the OECD countries.

*We thus define: Development co-operation should be considered as the total inter- and intrastate allocation of resources, financial, and technological and know how, towards the improvement of the present and future living conditions of the poor and underprivileged population. This includes official resources as well as private activities encouraged through development policies.*

This leads to the insight that development policy is more than international development policy measures, but also politics addressing the poor and underprivileged, wherever it appears. Local and regional agents are to be included as well as international organizations. This requires a distinction of the countries, regions and agents.

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Obviously the above definition distances itself from the classification of countries by income levels, as the difference between developing countries, countries in transition and industrialized countries is increasingly blurred.

The inclusion of the different levels of transfers as well the variety of sources, private, government and multinational, requires an increased co-ordination of the development efforts.

Consequently the benchmarks for development co-operation changes from a pure volume orientation to a goal orientation. The previous goal, that ODA should amount to 0.7% of GDP is substituted by the reduction of poverty levels. Hence, changes in the country classification will take place, no longer emphasizing purely the income levels, but including social and structural criteria.

Nevertheless, a distinct definition of the goals of development co-operation has to be established due to the increasing complexity of the agenda. The goals have to follow a predetermined set of criteria amongst them are:

- **Comparative Advantage:** Development co-operation has to provide those measures, which cannot be provided sufficiently by the local government due to the lack of resources or knowledge.

- **Complementary:** Development co-operation has to provide those goods and services, which aren’t provided by the government or private institutions due to the difference of private an social cost-benefit-relations.

- **Subsidiary:** Development co-operation should exclusively undertake those projects, which cannot be performed or implemented by the government or local entities. Paramount of development co-operation capacity building, and encouraging private activities.

According to these principles the following three objectives of development co-operation can be identified: provision of public goods, institution building, and promotion of innovations. They shall be elaborated further below.

5. Trends and Opportunities

A major challenge of development co-operation and research is the non-stationary environment it has to adjust to. Beside biological and climatic induced alterations, more and more also political guidelines have to be observed which themselves react to social pressure. It would be desirable to forecast of these developments so development assistance can be proactive rather then adjusting to new realities, but that is infeasible. Aid policy therefore needs to be flexible.

One of the most pressing problems still is the continuous growth of the world population (Singh 2000). Not only that growth takes place in general in environmentally least favorable regions, it also threatens to undermine all previous successes. The high population growth has lead in some parts of the world to the contradictory development where the relative number of poor has been decreasing steadily, but the absolute number increasing at the same time (e.g. India). This leads to the postulate to stabilize the world population before 2050. This is a difficult goal, due to opposition towards reproductive health and population control in the respective societies and in certain donor countries.

The so-called globalization, which is de facto a liberalization of the world markets, poses chances and a threats to the less developed countries. Opening of the world markets gives these countries the opportunity to realize their comparative advantages in certain products. At the same time these countries have less resources to finance structural reforms in order to maintain sustainable foreign trade relations. In this case development co-operation has to support the development of competitive sectors and finance structural reforms. Far more important is the political support of those countries in the negotiations on trade reforms, as the previous rounds of the WTO have shown.

Decentralization within countries and regional block, creating new countries, poses new tasks for development co-operation. New States especially are in demand of development assistance in order to cope
the self-imposed obligations, as a complex structure of institutions and organizations has to be created in a very short time. A side effect of the decentralization trend is the decreasing role of the state concerning economic and social spheres. An increasing number of decisions is taken by local and non-governmental organizations.

The advances in technological innovations particularly in the information and telecommunication sector, and the biotechnology, offer substantial chances for developing countries. Info-tech can overcome urban-rural divides and bio-tech offers high returns in the low-income rural economy in the long run. However, only if low-income countries can lift themselves to higher technological level, these advancements can be turned into a chance to create new sustainable jobs, else the gap to the high-income countries will even widen further.

A special threat to regular development co-operation places the increasing number of local and regional conflicts. Besides eliminating previous successes and disrupting continuous assistance, these conflicts tie up valuable resources for emergency relief, which could be invested in productive projects elsewhere.

6. Future Priority Areas of Development Co-operation

Due to the complexity of the development agenda, a concentration on specific areas is essential. With respect to the intermediate results, focusing the development co-operation on public goods, institutions and innovation, the following five areas seem to be most pressing:

- provision of public goods
- strengthening and establishment of institutions
- promotion and dissemination of technological innovations
- establishment of social and environmental standards
- humanitarian actions.

Public Goods

The key concerns with respect to the provision of public goods can be classified in four areas:

- What kind of public goods?
- At which level shall they be provided?
- Who should provide them?
- Through which mechanisms?

The first question on the kind of public goods seems to be simple to answer. Bearing in mind that the demand for public goods is changing with the income levels a careful trade-off between the different groups in the society has to be found. Naturally, the net benefit for lower income groups is higher as the share of financing increases with income. Thus, public goods are inferior goods, which are demanded less with raising income. It is the task of development research to identify those public goods, which serve the low-income groups most, while the redistribution effect has to be limited to an acceptable level.

Certain public goods only benefit a regionally limited group of citizens. Thus discrimination by regional demand is not only possible, but also beneficial. In order to determine the optimal size of the respective public good, the provision should take place at that administrative level, where the regional discrimination takes place. In theory, this has been solved through the theory of clubs, but these conclusions have to be translated through development research into applicable solutions.

The provision of public goods does not imply that these goods have to be produced by the state. The private sector often can produce and disseminate these goods more efficiently. An advantage of a privately provided public good is the establishment of private enterprises, markets, and employment opportunities. In the long run the transition from a public to a private good, when the income level has increased sufficiently, is more smoothly. Due to political, social, and security reasons still certain public goods are to be provided by the State, especially with regards to equity.

To ensure that the most needy benefit from those goods, certain

5. Assuming that public goods are financed at least partly through taxes.
mechanisms have to be developed to establish a just and fair allocation of the public good and the taxation paying for it. If this is not considered a public good can have an adverse effect to those who originally were supposed to benefit. Institutions can in addition reduce the possibility of corruption, which is often the case when public goods are administered.

**Institutions**

The success of strengthening and establishment of institutions is correlated with the organizations implementing the set rules. The choice of mechanisms and rules to be implemented can influence the performance of the administration.

Red tape, corruption, and the absence of the rule of law are the main reasons for different private investment rates in developing countries. One measure to fight these shortcomings is the decentralization of the administration. Through a decentralized administrations the checks and balances between the government and the population is more immediate. The administration is more accountable, and the citizens can monitor the activities more easily. This does not imply that everything should be completely decentralized or transferred to civil society, as citizens might become too detached from other regions and groups and separatist tendencies can arise, as it was the case in former Yugoslavia and Sri Lanka. A carefully balanced way has to be found to maximize the benefits.

**Technological Innovations**

The impact of the dissemination of technological innovations is far more important than the direct one on increased productivity and production. With respect to development it is striking that especially low-income groups benefit above average from the dissemination of new technologies. The gains from information technology for the poor population are twofold. Increasing information raise productivity through improved planning and application of new methods especially in agricultural production.\(^6\) Additionally poor areas benefit from a better information exchange with local administrations and governments (Bayes and von Braun, 1999).

**Social and Environmental Standards**

The failure of the WTO conference in Seattle has highlighted the conflict of trade liberalization and introduction of social and environmental standards. Despite the positive long run effect of those standards they pose indirect trade barriers for developing countries. The empirical results on the effect of these standards are ambiguous. Whereas Eco-labeling can have a positive effect on exports (Grote et al., 1999), social labeling can have a negative effect on the social situation of children in developing countries (Basu et al., 1999).

In this respect development co-operation should on the one hand assist the countries to finance the structural reforms in order to meet those standards, and on the other hand improve the social situation within the countries, so these standards don’t have to be enforced.

**Humanitarian Actions**

Regional and national conflicts often result from poor economic and environmental conditions. The lack of sufficient potable water, or food can increase political instability within a country leading to civil wars, or between countries, when the situation of the neighboring country is even only slightly better.

Development co-operation is required in two ways. It can help to prevent conflicts through improving the situation within a country, thus eliminating the reason for such a conflict. On the other hand it has to assist in rebuilding the civil society and economy after a conflict. The options for development co-operation within a conflict are very limited and usually are restricted to purely relief activities.

All of the above mentioned areas have a potential to reduce the risk conflicts. Beside the pure economic situation, dissatisfaction can arise from an unjust social, economic or judicial system. Thus development co-operation is not meant to focus on one of these areas, but to develop comprehensive concept for the respective country.

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\(^6\) For example access to weather forecasts, information on prices and new methods.
Finally it should be mentioned that although conflicts are in general harmful for the economic development of a country, they could also bear chances to reform political, social and institutional structures.

7. Conclusions

Development Co-operation no longer is only international co-operation concerned with the advancement of developing countries. It has to be redefined as a mix of international, national, regional co-operation. Additionally it should be understood to include actions by all groups of actors of society, such as the state, NGOs, the private sector, and civil society.

Development co-operation has to refocus from a purely volume based perspective to a goal based approach. This is specially the case as knowledge transfer is of increasing importance and is not subject to monetary figures.

Development co-operation has to produce successes and generate measurable added value. This is the only way to communicate the importance and effectiveness of development co-operation to the general public. To avoid inappropriate critique the goals and the results have to be accessible. An open dialogue with civil society through the media is essential to gain acceptance and support.

Decentralization, regional and local development initiatives shift the demand for development co-operation towards civil society groups and private sector. This has to be considered as a chance for a more effective development co-operation.

Development co-operation will interfere increasingly with the political and social structure of countries when assisting institutional reforms. Although development co-operation should not change the face of a society, it should see itself as an advocate for the poor, representing their interests in the reform process.

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