The Future of Development Cooperation: Gradual Evolution or Radical Break?

Francisco Sagasti

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FOREWORD

After 40 years of development assistance during which national and multilateral development agencies have been created, billions of dollars allocated, millions of lives transformed, enormous technological change stimulated and the North-South divide partially bridged, large-scale poverty and inequity persist. It is therefore timely that the 1999 Hopper Lecture focuses not only on the nature and impact of development cooperation, but also on its future directions.

It is most appropriate that the distinguished Peruvian scholar Dr. Francisco Sagasti should offer the seventh Hopper Lecture in International Development. Dr. Sagasti's long engagement in development issues equips him to provide this penetrating look at the past and future of development assistance. He has been an advisor to the Carnegie Commission on Science; and Senior Advisor to the World Bank, the United Nations Development Program, the United Nations Committee on Science and Technology for Development and to the President of the International Development Research Centre. While at the World Bank's Strategic Planning Division, Dr. Sagasti worked closely with David Hopper, after whom this lecture series is named.

This annual lecture is made possible by a generous endowment provided by the International Development Research Centre, and, as is the custom, is offered not only at the University of Guelph, but also at a partner institution – this year, Memorial University. As always, the lecture is published not only in this format, but also on our Centre website: http://www.uoguelph.ca/CIP.

J.C.M. Shute, Director
Centre for International Programs
University of Guelph
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It is a great honour to have been invited to deliver the 1999 Hopper lecture, for which I would like to thank the selection committee members. An honour and, indeed, a pleasure because of my association with David Hopper for nearly three decades. Throughout this time he has been a friend, a mentor, and a hard taskmaster from whom I learned much.

The topic I have chosen for this Hopper Lecture is the future of development cooperation. I will review the evolution of development assistance during the last 50 years, examine the transformations that took place during the 1990s, and explore the prospects of development cooperation as we move into the 21st century. An annex provides a backdrop for the changes that are taking place in international cooperation for development.

Retrospect

A new world order is in the making as we enter the 21st century. Profound changes in all aspects of human activity challenge our established habits of thought and force us to reinterpret what is meant by progress. Consequently, the concept and practice of development—and of international cooperation to achieve it—have been under close scrutiny and are experiencing major transformations.

Our times are the product of historical processes that have unfolded over the last four centuries and that have witnessed the rise and worldwide spread of Western civilization. What gave this period of human history its unique character was the articulation and implementation of what may be called the "Baconian Program", whose main architect was Sir Francis Bacon. During the early 17th century he was the first to put forward a coherent view on how modern science could improve the human condition.

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1 This lecture is based on the book Development Cooperation in a Fractured Global Order. Ottawa: International Development Research Centre, June 1999, which is available online at http://www.idrc.ca/books/fo-cus.html. The printed version integrates the slightly different talks that were given at University of Guelph and at Memorial University in October 1999, and incorporates responses to some of the audience's questions.
The Baconian program sought, according to German philosopher Hans Jonas, "...to aim knowledge at power over nature, and to utilize power over nature for the improvement of the human lot..." (1984, 140). Three key features distinguished this program from other views on the production and use of knowledge that were current in Bacon's time: an awareness of the importance of appropriate research methods (scientific methodology), a clear vision of the purpose of the scientific enterprise (improving the human condition), and a practical understanding of the arrangements necessary to put the program in practice (scientific institutions and public support). The powerful and unique character of the Baconian program would allow it to withstand the test of time and endure until our day, and through its application the human condition has improved in ways that Bacon and his contemporaries could hardly imagine.

The idea of progress

The engine that made this program run over centuries was a belief in the unending, linear and steady advance of humanity—the idea of progress—which mobilized human energies especially during the 18th and 19th centuries. Beginning with the Hellenistic and Roman notions that knowledge can be acquired step by step through experience and through trial and error, the idea of progress has evolved over the whole history of Western civilization. Cyclic conceptions of the universe, in which events repeated themselves over the course of a "great year," had to be overcome before embracing a belief in the open-ended and cumulative character of advances in human history. Faith in a divine design for the cosmos played a major role in the evolution of the idea of progress during the Middle Ages. The Renaissance added a revaluation of the individual and of human actions as a means to improve the human condition, while the scientific and geographical discoveries of the 16th and 17th centuries laid the ground for a belief in the inevitability of progress through the accumulation of knowledge.

With the emergence and subsequent triumph of rationalism during the 17th, 18th and 19th centuries, the idea of progress gradually lost its religious underpinnings. During the Enlightenment it became a thoroughly secular idea in which divine providence played a marginal role, if any. Progress acquired a distinctively social character and was seen as the almost inevitable result of human actions. Through the early 20th century, the idea of progress would remain ingrained in Western minds as a positive force for improvements in the human condition, as the engine that continued to make the Baconian program run.

However, the events that took place during the first 40 years of what Eric Hobsbawm calls the "Short Twentieth Century," challenged our beliefs in any notion of continuous and indefinite human progress: "The decades from the
outbreak of the First World War to the aftermath of the Second, was an Age of Catastrophe for [Western] society. For forty years it stumbled from one calamity to another” (1994, 7). A time that saw the carnage of World War I, the emergence of Communism, the rise of Fascism, the Great Depression, the Holocaust, the Second World War and the atomic bombing of Hiroshima and Nagasaki could hardly be considered to nurture the idea of progress. With the waning belief in the inevitability of progress, the achievements of the Baconian age also began to be seen as suspect.

The concept of development

The end of World War II changed the gloomy, despairing mood of the Age of Catastrophe. The triumph of the Allied forces brought new optimism, satisfaction and euphoria to the victors. The belief that purposeful interventions could improve the human condition was reinstated, considerably helped by the availability of new techniques for managing the economy, planning investments and production, and organizing large-scale enterprises. Wartime advances in science and technology also found many civilian uses and spilled over to the private sector. The Age of Catastrophe was left behind. A renewed faith in human progress within the framework of the Baconian program took hold.

One key expression of the renewed belief in progress was the concept of development. The various definitions of development that were offered in the years after World War II can be summarized as follows: to achieve, in the span of one generation, the material standards of living that the industrialized West achieved in three generations or more, but without incurring in the heavy social costs they had to pay or inflicted on others. Development was supposed to guarantee a minimum level of material comfort to all human beings, to ‘modernize’ what were considered ‘backward’ societies, and to lay the ground for moral and ethical improvements.

Faith in the possibility of development was sustained and reinforced by the economic successes of the postwar decades. From the late 1940s to the early 1970s, the world economy grew practically everywhere at an unprecedented pace. Jump-started by the financial resources, capital and consumer goods, and technical assistance of the Marshall Plan, European economies recovered and grew at nearly five percent per year. Led by Japan, the economies of Asia registered an average annual growth rate of six percent, while Eastern Europe grew at 4.7 percent, Latin America at 5.3 percent, and even Africa at 4.4 percent. Economic historians characterize this period as a “Golden Age” of unparalleled prosperity, in which the Gross Domestic Product (GDP) per capita in all regions of the world grew faster than in any other period.

However, right from the beginning, the Cold War hijacked the concept of development, making it hostage to East/West rivalries. Two different ways of achieving development were put forward — one based on market economies
and liberal democracy, and the other on central planning and a single party system. In the decades that followed, each trumpeted its successes and sought to enlist the poor countries, many of which were emerging from decades and centuries of colonial rule. Developing countries became contested grounds on which to try one or another set of recipes to promote economic growth and improve living standards. Moreover, the East/West struggle became the lens through which practically all political, economic and social events taking place anywhere in the world would be filtered and seen.

The Golden Age came to an end in the early 1970s, and the world entered into the “Crisis Decades” which extended, although not in a uniform way, through the early 1990s. According to Hobsbawm, “The history of the twenty years after 1973 is that of a world which lost its bearings and slid into instability and crisis. And yet, until the 1980s it was not clear how irretrievably the foundations of the Golden Age had crumbled” (1994, 7). The sharp reductions in economic growth of the early and mid-1970s led to average rates of growth during 1973-1992 that, with the exception of Asia, were substantively below those of the Golden Age. The slowdown was most noticeable in Eastern Europe and Africa, where the average rate of growth of GDP per capita was negative, and in Latin America, where the rate of economic growth barely exceeded that of population increases.

During the early 1980s, the debt crisis in a large number of developing countries threatened the international financial system, while in the advanced economies both unemployment and social discontent increased significantly. The reversal of socioeconomic gains of the previous 25 years made the 1980s a lost decade for most developing regions, with the notable exception of Southeast Asia. The major upheavals experienced by the Soviet Union and Eastern Europe during the second half of the 1980s and the early 1990s led to precipitous declines in living standards in these countries. In Western Europe the economic recovery of the late 1980s and early 1990s did not manage to reduce unemployment rates.

Japan experienced prolonged economic stagnation during the 1990s, and the collapse of East Asian currencies and stock markets in 1997 ushered in uncertainty and confusion, effectively ending what had been, until then, considered the Asian economic miracle. Income inequalities worsened everywhere (with the exception of some East Asian countries), and for the first time since the Great Depression, poor and homeless people became highly visible in several cities of advanced industrial nations. The concept of “social exclusion” emerged, first in France and later in the European Union, to account for the re-emergence of social problems that were thought to have been solved decades earlier.

The Crisis Decades that ended the Short Twentieth Century witnessed profound changes in all realms of human activity. We have seen the end of the
Cold War, the spread of ethnic and religious violence, and the emergence of new international security concerns; the globalization of production and finance, the restructuring of international trade, and the transformation of productive and service activities; the disappearance of centrally planned economies and the worldwide expansion of capitalism, (in many cases into areas that lack the supporting institutions for the functioning of a capitalist economy); and a host of social transformations, which include wrenching demographic changes experienced by both rich and poor countries, the explosion of social demands in the developing regions, and the emergence of serious employment problems in both rich and poor nations.

These transformations have been accompanied by extraordinary advances in scientific research and the accelerating pace of technological innovation; the renewed interest in ethical and spiritual matters; the growing role played by religious concerns, ethnic allegiances and cultural identity in domestic and international politics; the prominence acquired by concerns for the environment and the sustainable use of natural resources; and the challenges posed by the need to renew all levels of governance, from the local to the global.

Such a bewildering and turbulent combination of changes and transformations, which are crystallizing with the emergence of a “fractured global order” (see annex), has created deep unease and uncertainty:

The Short Twentieth Century ended in problems, for which nobody had, or even claimed to have, solutions. As citizens of the fin-de-siècle tapped their way through the global fog that surrounded them, into the third millennium, all they knew for certain was that an era of history had ended. They knew very little else.

... the century ended in a global disorder whose nature was unclear, and without an obvious mechanism for either ending it or keeping it under control.

The reasons for this impotence lay not only in the genuine profundity and complexity of the world’s crisis, but also in the apparent failure of all programmes, old and new, for managing or improving the affairs of the human race (Hobsbawm, 1994, 558-559, 562, 563).

This turbulence signals more than just the end of a Golden Age, of the Cold War or of the Short Twentieth Century. It also signals the exhaustion of the Baconian program which organized and mobilized human endeavours for nearly four centuries; and the need to reassess its driving force, the idea of progress. In this light, the concept of development can be seen as the latest, and possibly the last, attempt to reinterpret the idea of progress within the
framework of the Baconian program. We are now moving into the post-Baconian age, whose main features cannot yet be discerned. Indeed, one of the most important tasks of our times, both for rich and poor nations, is to explore and articulate a new program to mobilize human energies in the emerging post-Baconian age.

The development cooperation experiment

The Golden Age of world economic growth was also a period of considerable international generosity which, added to a variety of other motivations linked to economic and political interests, helped to expand international cooperation. Following the success of the Marshall Plan to support the post-war economic recovery of Europe, the United States established the Point Four Program and expanded bilateral aid to developing countries in 1949. The development cooperation experiment was launched and, for the next two and one half decades, resources to assist poor countries increased continuously, and a large array of bilateral and multilateral institutions were created to channel and administer these resources.

The development cooperation experiment of the past 50 years took place during a very special period of history. It was also designed, organized, launched and carried out in ways that suited the spirit of the 1950s, 1960s and early 1970s. The Cold War provided a stark ideological backdrop to the experiment and helped justify allocating resources to it. An unprecedented period of world trade growth and economic expansion made it easier to accommodate the development assistance needs of the poor nations. The United States’ economic and technological dominance, amply demonstrated through the success of the Marshall Plan, made the spread of the ‘American Way of Life’ the implicit objective of Western development assistance in its first decades. A sense of moral certitude, optimism and generosity ensured ample public support for aid, first in the United States and later in Europe and Japan.

The Soviet Union and its allies expanded development assistance in their own peculiar way, focusing on those countries closely aligned with their ideology. Soviet aid was seen as another weapon in the fight against Western capitalism and took the form primarily of subsidized exports of oil and machinery, and purchases of primary commodities above world market prices. In addition, massive fellowship programs in practically all academic fields were established in those developing countries within the Soviet Union’s sphere of influence. All of this without counting their extensive provision of military assistance, a practice that was also common in the West.

From the late 1940s to the mid-1980s development assistance organizations grew in number, size and complexity; and their mandates shifted and evolved to accommodate changing circumstances. New institutions, programs, funding mechanisms and procedures were created in most developed countries to assist
the developing nations. The World Bank expanded significantly its regular lending program with resources obtained from international capital markets, established the International Development Association as a soft-loan window with contributions from donor countries, and created an affiliate to provide financing to the private sector. New multilateral development banks were created at the regional level, with specialized institutions serving the needs of Latin America, Asia and Africa, and with institutions such as the European Investment Bank and the Islamic Development Bank focusing on narrower constituencies.

The European Community and Japan expanded significantly their development cooperation. Several technical and financial assistance programs were merged in the United Nations to create the United Nations Development Programme, and new agencies were established to cater to some specific needs of developing countries. In parallel with these government and intergovernmental initiatives, private giving by foundations, charitable institutions and religious groups supported a growing number of programs and projects throughout the developing world.

As a result, a vast, dense and at times almost impenetrable forest of development assistance organizations emerged. As these agencies demanded counterparts, corresponding government and non-governmental organizations were often established in developing countries to work with donor agencies, international financing institutions and private aid entities. By the late 1980s, the growing and increasingly complex set of organizational arrangements, a result of incremental institutional innovations, became too heavy and unwieldy. turf battles became the norm, accountability all but disappeared, and many development assistance organizations lost their sense of purpose and direction, all of this exacerbated by diminishing resources available for development cooperation.

Therefore, the late 1980s witnessed the limitations of the decades-old institutional arrangements for development cooperation. This same period also saw a changed government ideology in many industrialized nations. Seeking to reduce government spending, conservative politicians in several developed countries found an easy target in foreign aid programs, which were now depicted as wasteful and ineffective. Individual initiative and the private sector were heralded as the new harbingers of economic growth and development, while most government programs to assist the poor were questioned and many were abandoned. In its more extreme manifestations the 'greed is good' syndrome portrayed development assistance as nothing but dependency-generating handouts.

**Transition**

As the 20th century drew to a close, the development cooperation experiment
underwent wrenching transformations. Official Development Assistance (ODA) lost ground in relation to direct foreign investment, portfolio flows to emerging stock markets and commercial bank lending—even though these private flows concentrated mostly on a few countries, bypassing completely the vast majority of poor countries. With the end of the Cold War, development assistance flows from the former Soviet Union and East European countries were abruptly cut, and developing countries that relied on Soviet aid found themselves in a very difficult situation.

After rapid growth during the 1960s and 1970s, resources for development assistance began to level off during the 1980s, and since 1988 have continuously decreased in real terms. During the 1990s development assistance budgets were cut in practically all donor countries. ODA flows stood at US 48.3 billion in 1997, representing 0.22 percent of the Gross Domestic Product (GDP) of donor countries, the lowest percentage in decades. This compares with a historic average of 0.33 percent and with a target of 0.7 percent of GDP agreed at the United Nations in the early 1970s. Only four countries—Sweden, The Netherlands, Norway and Denmark—exceeded the UN target in 1997.

By the mid-1990s the United States had thoroughly abdicated its traditional leading role in the field of development assistance. In 1997 it allocated just 0.09 percent of its GDP to development assistance. The US Congress refused to honour contribution pledges made by the Administration to the United Nations Development Programme and to the International Development Association, and also refused to pay its assessed contributions to the United Nations central and peacekeeping budgets. This made Japan, France and other European countries the main contributors to development cooperation. Even Japan, after years of steady increases when other rich countries were slashing their cooperation budgets, began to reduce its foreign aid allocations in the mid-1990s.

Nevertheless, the picture is not all bleak: the Nordic countries and The Netherlands have managed to maintain a strong level of support for development assistance; and the United Kingdom and Canada have recently pledged to increase their development assistance contributions; in 1998 ODA increased by about 10 percent from its nadir in 1997 to reach about 0.25 percent of GDP of donor countries; and in 1999 the United States paid a significant part of its debt to the United Nations, although it still owes hundreds of millions of dollars.

The decline in ODA has led to an implicit division of labour in development cooperation. ODA resources are increasingly being allocated to the tasks of social and sustainable development, while private financing takes care of economic growth. Multilateral institutions have announced they will give greater priority to lending for the social sectors (education, health, population),
for environmentally sustainable development, and for reforming public administration and improving governance. Even the financing of physical infrastructure, particularly transport and energy, which was a traditional preserve of multilateral development banks, is now being increasingly left to the private sector, often in partnership with international financing institutions and bilateral export development agencies.

As ODA stagnated and reached historical lows as a proportion of the GDP of the rich countries in the 1990s, several political and non-economic issues were added to an already overcrowded international development agenda. Furthermore, new tasks began to demand a growing share of the diminishing public funds for international cooperation. Post-conflict reconstruction, humanitarian relief, assistance to refugees, support of democratic institutions, improvement of governance structures, initiatives to stop the spread of nuclear materials, and efforts to fight drug traffic and crime, among others, now compete with traditional technical and financial assistance programs.

Moreover, a growing proportion of development assistance is being channeled to non-traditional recipients like the former socialist regimes of Eastern Europe and the former Soviet Union, which in 1995 received $8 billion or about 13 percent of the resources provided by the countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD). Finally, an increasing share of development cooperation funding is being allocated to emergency relief, both for natural and man-made disasters, rather than to the long-term tasks of sustainable human development.

The most prominent feature of the emerging fractured global order is disparate capacities to develop and apply knowledge. Curiously, however, building science and technology capabilities in developing countries has not been considered a priority by the international development cooperation community. Science and technology issues — hotly debated during the 1970s, particularly at the United Nations Conference on Science and Technology for Development held in Vienna in 1979 — began to resurface in international discussions on development only in the late 1990s.

All these trends in the structure of development finance point toward a squeeze on traditional forms of development assistance — financial and technical cooperation in health and population, food and nutrition, education and training, small and medium size enterprises, and even balance of payments support — which lost ground in terms of resource allocations. Moreover, the poorest countries of Africa and Asia, which are not attractive to private investors and rely on official sources of finance for preventing further deterioration in their already low standards of living, have been most affected by reductions in foreign assistance budgets.
New possibilities in the 1990s

In contrast with the setbacks experienced during the last decade by traditional bilateral and multilateral development cooperation, new possibilities are being opened for rich and poor countries to collaborate in fields such as environmental sustainability, the prevention of weapons proliferation and the fight against drug traffic and international crime. Private sources of funds are also becoming more important in a few aspects of development cooperation, such as building policy research capabilities in transition economies, helping to fight diseases in the developing world and removing anti-personnel mines. Non-governmental organizations have acquired greater prominence and are providing international leadership in some fields, particularly environmental conservation, improved social conditions and human rights.

In December 1997 the Parties to the United Nations Framework Convention on Climate Change approved the Kyoto Protocol, which seeks to limit and even reduce gas emissions that contribute to global warming. The Kyoto Protocol establishes a “clean development mechanism” designed to assist developing countries, which could eventually—if properly designed and implemented—lead to the transfer of hundreds of millions of dollars per year from rich to poor countries. The mechanism, which is still far from operational, is based on this premise: developing countries whose forests can absorb greenhouse gases in amounts above their emissions limits could reap substantial benefits by selling unused emission rights to industrialized countries and private corporations.

On other fronts, concerns about the proliferation of nuclear weapons in the post-Cold War period have prompted some highly industrialized nuclear powers, particularly the United States, to offer financial and other incentives to developing countries that improve the safety of their nuclear power stations and renounce the use and development of nuclear weapons. Financial and trade rewards have also been offered to drug-producing countries that collaborate with US and European efforts to curb the production and international trade of drugs.

Private financial flows to developing countries, which include direct foreign investment and portfolio investments in emerging markets, have significantly increased during the 1990s. They are now five times larger than official flows provided by government agencies and international organizations, in contrast with the mid-1980s when they represented about 50 percent of total financial flows to developing countries. However, private financing is concentrated in a relatively small number of emerging and transition economies, and the vast majority of developing countries still depend on official aid for external financing. Grants provided by long-standing U.S. private foundations (Ford, Rockefeller, Pew, MacArthur, Carnegie Corporation, Tinker) remain a relatively small component of international development cooperation, but their
impact is magnified because they focus on training, building local capabilities and on strengthening public and civil society institutions.

During the last decade, the ranks of private philanthropy, once the province of religious organizations that focused primarily on humanitarian relief and of well established foundations, have been joined by a few wealthy individuals. The most visible examples of this new breed of philanthropist are George Soros, who has contributed hundreds of millions of dollars to humanitarian organizations, human rights activists and policy research centres in Eastern Europe; Ted Turner, who in 1997 pledged $1 billion to support the United Nations; and Bill and Melinda Gates, who endowed the richest foundation in the world with nearly $20 billion in Microsoft Corporation stock to support health and educational programs.

They have also been joined by internationally known musicians and media personalities. A series of rock concerts broadcast on television in the early 1990s, which were linked to a phone-in campaign soliciting pledges from viewers, raised more funds to combat AIDS in Africa than formal pledging conferences organized under United Nations auspices. Towards the end of the 1990s, and in just a few weeks, royalties from Elton John’s compact disc issued in memory of Lady Diana generated more than $100 million for campaigns to remove anti-personnel mines in war-torn countries. In 1999 the United Nations Development Programme teamed up with media personalities and information technology business people to raise funds through the Internet for development assistance. In addition, there have also been proposals to establish lotteries to raise funds for international development activities. One such scheme links airline travel to card games and a lottery to raise funds for sustainable development initiatives in developing countries.

All of this activity, added to recent developments in debt relief for the poorest countries, indicates that the size, structure and orientation of resource flows from rich to poor countries have been substantively transformed, and that the institutional machinery for development cooperation is struggling to adapt to its vastly changed situation.

**Development cooperation: the need for change**

As early as the 1960s, the development cooperation experiment was criticized, sometimes harshly, regarding the motivations, choice of channels, attached conditions, local uses and impact of development assistance. The questioning of aid continued with varying degrees of force throughout the 1970s and 1980s. However, during the 1990s, as the ODA squeeze focused attention on the effectiveness of international cooperation for development, a growing sense of dissatisfaction and uneasiness with development cooperation led to a profound reexamination of the purposes, means and impact of development assistance.
The donor community's initial disillusionment with the results and impact of development assistance was, in no small measure, a consequence of the excessive expectations generated in the 1950s and 1960s. This disillusionment was compounded by an inadequate understanding of the complexities of the development process, by analytical mistakes and by wrong assumptions regarding the behaviour of economic, social and political actors in the developing regions. And to the recipients of development assistance, the donors' motivations were often suspect, the conditions for access to resources unreasonable and inconsistent, and the attitude of donors arrogant and overbearing. Misunderstandings and conflicts were frequent, and in many cases the flow of foreign funds introduced serious economic and political distortions which undermined development efforts.

At the extreme, these shortcomings led to a wholesale condemnation of development assistance. For example, Graham Hancock argues that "aid is...inherently bad, bad to the bone, and utterly beyond reform" and that it is "the most formidable obstacle to the productive endeavors of the poor". Hancock vituperatively characterizes the donors as "the notorious club of parasites and hangers-on made up of the United Nations, the World Bank and the bilateral agencies" who has reached "record breaking standards of self-serving behavior, arrogance, paternalism, moral cowardice and mendacity". Recipients don't fare any better. He describes their leaders as "incompetent and venal" and their governments as institutions "characterized by historic ignorance, avarice and irresponsibility" that engage in the "most consistent and grievous abuses of human rights that have occurred anywhere in the world since the dark ages" (1989, 183, 192-93).

More sober assessments of development assistance (for example, Cassen, 1994) point out that aid projects and programs have largely succeeded when judged in terms of their own specific development objectives. Considering the difficult circumstances in which aid programs operate, the diverse motivations for development assistance, the multiple delivery channels and the different objectives of individual aid initiatives, it is not surprising that they fall short of fulfilling all the broad development objectives, such as reducing poverty, promoting economic growth, empowering women, containing ethnic conflicts, and building local capacity.

Throughout most of the post-World War II period, development assistance focused primarily on investment projects in infrastructure, agriculture, industry and the social sectors. However, by the early 1980s many of the projects supported with external technical and financial resources had clearly failed to yield the anticipated rates of return. One reason was that investments were made in highly distorted policy environments—characterized by blind subsidies, shortsighted price controls, misaligned exchange rates, excessive budget deficits, unreasonable trade barriers, and so on— which prevented
benefits from materializing. This distortion led to the introduction of macroeconomic and sector policy reforms, usually backed by loans and grants from multilateral and bilateral institutions, with the objective of creating a more friendly policy environment where investment projects could succeed.

A recent World Bank study *Rethinking Aid: What Works, What Doesn’t and Why* emphasizes the importance of good policies in ensuring that aid has a positive impact. It argues that “good policy is not something that is subjectively decided in Washington. Rather, lessons about good policy emerge from the experiences of developing countries. What we mean by good management is —objectively— what has led to growth and poverty reduction in the developing world” (Dollar and Pritchett, 1998, 49). However, considering the frequent changes in the World Bank’s policy advice over the last five decades, the claim to immutable “objectivity” has to be taken with a grain of salt.

Moreover, even though the World Bank study highlights the importance of sound economic management, credible policy reforms and the need for developing countries to be masters of their own fate, it fails to acknowledge that conceptions of good policy and sound economic management have varied significantly over the last several decades —most notably with regard to the roles that the state, the market and civil society play in the process of development. International financial institutions and bilateral agencies have imposed a wide variety of policy reforms as conditions for access to the resources under their control, pressuring developing countries into adopting what these agencies consider appropriate policies at a given time —only to change their views on the adequacy and effectiveness of such policies at a later time.

But policy reforms and sound investment projects are not enough to reap the benefits expected from development finance and international cooperation. As the 1990s progressed, it became clear that the broad institutional context in which policies and projects are immersed plays a crucial role in the process of development. Transparency, accountability and openness in the operation of public institutions, as well as popular participation in decision-making, respect for human rights and the strengthening of democracy —what are now know as ‘good governance’ issues— acquired a new prominence and were incorporated into the development cooperation agenda. This shift has made the task of assessing the impact of development assistance even more complex and daunting, for institution-building is a long process that defies attempts to evaluate ‘results’ within the relatively short time frame in which most development finance and international cooperation agencies operate.

These considerations show the importance of building and consolidating analytical, technical and managerial capacities in developing countries, particularly in the public sector and in agencies that deal with external finance and international cooperation. These capacities are indispensable to design