



The Reality of Aid **2008**

An Independent Review of Poverty Reduction and Development Assistance



**AID EFFECTIVENESS:
DEMOCRATIC OWNERSHIP AND HUMAN RIGHTS**



The Reality of Aid 2008





The Reality of Aid 2008

Aid Effectiveness: “Democratic Ownership and Human Rights”

Management Committee
The Reality of Aid



Quezon City

The Reality of Aid 2008, Aid Effectiveness: “Democratic Ownership and Human Rights”
is published in the Philippines in 2008 by IBON Books, IBON Center
114 Timog Avenue, Quezon City Philippines
editors@ibon.org, www.ibon.org

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Layout: Berinice Iletto-Zamora
Cover Design: Jose Leon Dulce/Florenio Bambao
Cover Photos: Torben Ulrik Nissen (top left)
Steve Webel (top right)
Mostafa Saeednejad (bottom)
Printed and Bound in the Philippines by IBON Books.

Published with assistance of
CCIC, Novib, 11.11.11- Coalition of the Flemish North South Movement

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ISBN: 971-0483-30-3



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The Reality of Aid Network

The Reality of Aid Network exists to promote national and international policies that will contribute to new and effective strategies for poverty eradication, built on solidarity and equity.

Established in 1993, the Reality of Aid is a collaborative, non-profit initiative, involving non-governmental organizations from North and South.

The Reality of Aid publishes regular, reliable reports on international development cooperation and the extent to which governments, North and South, address the extreme inequalities of income and the structural, social and political injustices that entrench people in poverty.

From 1993 to date, the project has published a series of reports and Reality Checks on aid and development cooperation.

These reports provide a critical analysis of how governments address the issues of poverty and whether aid and development cooperation policies are put into practice.

The Reality of Aid Project Management Committee is made up of regional representatives of all participating agencies.

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Acknowledgements

The Reality of Aid Report is written by authors from NGOs worldwide, whose research draws on knowledge and expertise from aid agencies, academia, community-based organizations and governments. We would like to thank those who have generously contributed their knowledge and advice.

Overall editorial control of the Reality of Aid 2008 lies with the Reality of Aid Management Committee, but the views expressed in the reports do not necessarily reflect the views of the Management Committee or IBON.

The Management Committee was assisted by Edward Thorpe as editorial consultant, Prof. Luis Teodoro as copy editor and Reileen Joy Dulay as managing editor.

This Reality of Aid 2008 Report is published with support from Canada Council for International Cooperation (CCIC), Novib and the Coalition of the Flemish North-South Movement - 11.11.11.



Part I
Introduction







Introduction

The year 2008 marks a significant renewal of attention to trends and policies in international development finance.

At the end of June, the UN Secretary General, Ban Ke-moon, convened the first biannual Development Cooperation Forum, reasserting the United Nations' role as the global forum for international policy dialogue on aid and international cooperation in which all countries, rich and poor, can have an equal voice in shaping these policies.

In September, donors and developing country governments, along with an unprecedented number of CSOs, gather in Accra, Ghana, for the Third High Level Forum to review progress in achieving the goals for aid reform as specified in the 2005 Paris Declaration on Aid Effectiveness.

Finally, in Doha in late November, the United Nations is gathering the international community to take stock of progress in achieving the commitments made in the Monterrey Consensus, a comprehensive North/South compact for enhancing development finance that emerged from the 2002 Monterrey Financing for Development Conference.

CSOs are deeply engaged in all of these important international processes. Over the past 18 months, CSO advocacy has called for deep and structural reforms in aid policies and practices - ending conditionality, ending tied aid, increasing CSO voices in the aid policy dialogue, and focusing on the rights of the poor and powerless - to enable aid as a truly effective catalyst in ending global poverty and inequality.

The CSO contributors to this 2008 Reality of Aid Report examine the reality of aid practices in donor countries and their impact on the lives of poor and marginalized populations on the ground in developing countries. Taken together, they present a sobering indictment: donors and developing country governments over these past six years have failed to deliver on even the modest commitments made in Monterrey and in Paris. Meanwhile, opportunities to reverse these directions in Accra and Doha are being frittered away in endless technical debates on aid management, while resources and reforms that might improve conditions for poor people to claim their right to education or access to health care, to women's rights or to decent work, receive scant attention.

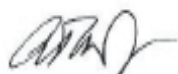
While cases and country situations vary among donor and developing country partners, there are important common concerns emerging from the pages of this report:

- Aid effectiveness for what purposes and for whom? The authors are clear: "democratic ownership" is fundamentally important for development impact on the acute conditions that create and sustain poverty. Aid will be effective for development only if movements and organizations representing people, particularly women and vulnerable and marginalized groups deeply affected by poverty and inequality, can organize themselves to promote and claim their rights.
- The authors provide overwhelming evidence that recent donor/government agreements, such as the 2005 Paris Declaration, have done little to reform key aid practices - imposed policy conditions, donor-led technical assistance, the promotion of donor trade and investment agendas, etc. - that undermine the possibilities for parliaments and citizens in the poorest developing countries to set their own development priorities.

- The authors also point to the refusal to contemplate fundamental democratic reform on the part of the International Financial Institutions as they continue to act as gatekeepers in managing a highly unequal aid system in which the poorest developing countries have been largely excluded from decision-making.

These issues are far more urgent and important for the people than donor and developing countries' legitimate concerns over the severe fragmentation and incoherence that threatens the collapse of development assistance in the world today.

In the face of continuing poverty, run-away prices of basic needs, famine and disease, conflicts and wars, CSOs are looking for a visionary agenda in 2008 for development - including an equitable and just aid architecture responsive to the conditions of people living in poverty and to the human rights obligations of donors and governments. This report provides some proposals and directions for reforms that should include CSOs as equal development partners and which would enshrine human rights, social justice, gender equality and environment in the heart of aid effectiveness.



Antonio Tujan Jr.
Chair, Reality of Aid

Aid Effectiveness: Democratic Ownership and Human Rights

The Reality of Aid Management Committee

The reality of aid in 2008 is that it continues to fail to promote human development for the eradication of poverty based on the core values of human rights, democracy, gender equality and environmental sustainability. This is despite the appearance of progress in the form of high-profile debt cancellations, new aid pledges, and the signing of the Paris Declaration on aid effectiveness.

Introduction

The Reality of Aid network is an international southern-led CSO network, representing hundreds of CSOs in both developing and donor countries. This 2008 Reality of Aid Report presents evidence and opinions from organisations operating on the front lines of development policies around the world about the current reality of aid policies and their outcomes. The authors also make clear and explicit calls for what is needed for aid to make a genuine and positive contribution to promoting human development in the poorest countries of the world.

Civil society organizations (CSOs) in the global Reality of Aid Network insist that Official Development Assistance (ODA) be treated as a resource held in trust by donors and recipient governments for improving the lives of people living in poverty. **Aid is a global public good**, representing a moral obligation of wealthy countries towards the people of developing countries; it is a catalyst, which should be

used to complement and reinforce efforts by developing countries and peoples themselves towards collective development and the progressive realization of the human rights of poor and marginalised groups.

Sadly, CSOs have long had cause to criticise the reality of aid policies and practices. They raise issues around the impact of **donors' political and economic motives** on the actual use of aid and they point to the lack of demonstrated effectiveness of aid in making progress on sustainable development, poverty reduction and women's rights.

Powerful donor countries have long seen political and economic advantages in using aid to promote their interests by strengthening market systems in other parts of the world; the Marshall Plan was a famous example. More recently, aid has been used to promote the foreign policy and security objectives of the leading nations in the post 9-11 world, as examined in the 2006 Reality of Aid Report.

These concerns have not abated. The Reality of Aid authors present studies showing the **continued use of policy-based conditionalities** by donors. The tying of aid also remains an issue, whether by formal contracts or more informal pressures. The failure of bilateral donors to address supply-led and donor-managed technical assistance is a source of continued enforcement of conditionalities and delivers largely ineffective aid.

In terms of meeting **commitments to aid increases**, donors are significantly off-track in their commitment to reach the UN

Political Overview

target for aid spending of 0.7% of donors' Gross National Income (GNI). The DAC measurement of overall performance (the ODA/Gross National Income ratio) fell from 0.33% in 2005 to 0.28% in 2007.

Furthermore, **current donor trends show reliance on debt relief initiatives to make up for shortfalls in ODA contributions.** This seems to be an act of bad faith to distract attention from the lack of actual aid delivered. Excluding debt relief and support for students and refugees, ODA was unchanged at 0.22% of GNI in 2005, 2006 and 2007.

Donors are also **failing to meet their commitment to add at least US\$25 billion to their aid for Sub-Saharan Africa by 2010.** The reality is that only 28% of new aid money allocated 2000-6 was to honour donor pledges to increase aid spending for poverty reduction and the MDGs. A greater percentage has gone on foreign policy interests, dominated by aid to Iraq and Afghanistan.

This Report also notes the fast growing use of "aid-for-trade", intended to assist developing countries in benefiting from WTO agreements, but whose terms, CSOs argue, are strongly biased against the interests of the poorest countries.

The signing of the **Paris Declaration on Aid Effectiveness in 2005** was welcomed by many as a sign that donors were willing to recognise and seek to rectify the inadequacies of generations of aid policies. However, the Reality of Aid authors argue that the commitments made do not go nearly far enough and that, despite the rhetoric, aid relationships have not significantly changed in recent years. **By failing to put human rights at the heart of development policy, the Declaration fails to tackle deep-seated obstacles that have stood in the way of aid being an effective resource to address the acute conditions facing poor and marginalized people.**

More far-reaching reforms are urgently needed. **The role of the International Financial Institutions (IFIs) in distorting aid policies and enforcing policy**

conditionalities on developing countries needs to be challenged. Of particular concern is the way they manage to control the purse strings of bilateral donors through their gate-keeper role.

Beyond that, key principles of **democratic ownership, transparency, donor accountability and development effectiveness** need to be respected. Strengthening democracy is fundamental for achieving the purposes of aid and international cooperation: to eradicate poverty and reduce inequality. Reforms to date have failed to take on board this essential lesson and give priority to strengthening "democratic and local ownership" in aid relationships. Rather, the evidence in this Report is that democratic ownership continues to be undermined and poor and discriminated communities remain marginalized from decisions and resources that might improve their lives.

In this year, 2008, there has been unprecedented debate on the effectiveness of aid among civil society, donors and governments, in the lead-up to the **3rd High Level Forum on Aid Effectiveness (HLF3)** to be held in Accra in September 2008. HLF3 offers a strategic opportunity for governments, not only to review their limited progress against their Paris Declaration commitments, but to set a truly ambitious agenda for aid reform for the next two years. The outcomes of the Accra Forum will be a litmus test for the credibility of commitments to genuine aid reforms by donors and governments, which they initiated in the 2005 Paris Declaration.

The Findings of the 2008 Reality of Aid Report

The only true measure of aid's effectiveness, according to authors of the 2008 Reality of Aid Report, is its sustained impact on reducing poverty and inequality - its support for making progress in implementing human rights, in achieving gender equality, in deepening democracy

Political Overview

and promoting environmental sustainability. On these measures, the Report documents deeply troubling trends and failure in reforms undertaken to date.

1. Aid relationships have not fundamentally changed

Aid continues to be a source of power, used by donors to override national democratic systems - or the emergence of these - in recipient developing countries. Despite commitments to the contrary, donors continue to impose policy-based conditionalities through their aid, either directly or indirectly. These are deeply incompatible with **democratic and local ownership** and expose donor hypocrisy in their claim to respect "country ownership". Donor policies continue to impact upon the sovereignty of national governments and undermine democratic institutions and structures by **cutting parliaments and representative organisations, including CSOs, out of political discussions**.

It is common to see donors claiming that the conditions applied are developed from locally owned performance review processes when, in practice, their formal or informal influence on these processes from an early stage severely limits the ability of recipient countries to genuinely make their own policy decisions. For example, the details of Australian bilateral aid to Papua New Guinea reveal that they have replaced the previous system of formal aid conditionality with a system of incentives, which uses policy reform benchmarks to trigger additional aid. The tremendous **influence exerted over national development strategies** means that the real issue is not so much whether aid policies align with these national strategies, but how these plans are developed in the first place.

This reality is possible because of the overall lack of **donor accountability to both their citizens and the recipient countries**

in which they operate. Whilst the recipient countries are held accountable to donors under the threat of having aid withheld, the inverse relationship is not currently possible. There are no mechanisms by which recipient countries can hold donors to account. The position of CSOs and citizens in this relationship is even weaker. Whilst they struggle to hold their own governments accountable, CSOs from the south have little or no opportunity to demand accountability from donors. Donors are much too distant for many grassroots organisations to reach and too often do not actively seek or listen to the loud voices coming from the people most affected by aid allocations.

The continued lack of **democratic and local ownership** of development policies in recipient countries enables the continuation of flawed unequal aid relationships. This includes the emergence of new forms of **tied aid**, typically linked to existing power imbalances in the aid system, particularly in access to supposedly open tendering processes for aid contracts. Companies that are well integrated in developing countries - often thanks to the benefits of previous tied aid - are able to 'win' dubious procurement contracts and then encourage their government to support the project. The end result equates to tied aid even if it is arrived at from a different direction. As an example, CSOs have raised significant concerns about the awarding of controversial new procurement contracts to Italian firms for dam building projects in Ethiopia.

Similarly, the extended use of **microcredit** schemes aimed at individuals in developing countries, according to Reality of Aid authors in this report, reflects less a well thought out approach focused on the needs of particular individuals and more an attempt by donors and financial institutions to reap the economic benefits available to them from such loans.

These conclusions are supported by the evidence of the Global Trends chapter

Political Overview

and the OECD donor country reports. These papers highlight the fact that:

- official ODA figures tend to include debt relief and support for students and refugees in donor countries, thus distorting the real value of the aid claimed - ODA performance, excluding debt relief and support for students and refugees, was unchanged at 0.22% of GNI in 2005, 2006 and 2007;
- aid in constant dollars (adjusted for inflation and exchange rate changes) was no greater in 2007 (US\$72.9 billion) than it was in 2004 (US\$71.9 billion);
- overall, DAC donors are a long way from meeting their commitment to give 0.7% of their GNI as ODA - only five countries now meet the target;
- the gap between aid and wealth is growing - aid per capita has nearly halved since 1995;
- only 28% of new aid money 2000-6 was to honour donor pledges to increase aid spending for poverty reduction and the MDGs;
- future debt is still an issue - ODA loans made up about 16% of bilateral aid in 2006;
- technical assistance, as a proportion of all bilateral aid from DAC donors (net of debt relief grants), averaged 38% between 2004 and 2006 and remains largely tied to Northern contractors and donor control;
- there is a totally inadequate focus on tackling donor conditionality and tied aid;
- since 2003, less than a third of all bilateral ODA has been available for programs for which developing country partners can determine their own priorities;
- gender equality issues are invisible in donor accountability - gender equality-focused ODA is still not reported systematically by donors;
- non-debt aid to Sub-Saharan Africa 2004-6 increased by only an average of 8.8%. If donors are to meet their commitment, aid to Sub-Saharan Africa will have to increase by 30% each year from 2007 to 2010;
- aid allocations to the most severely conflict-affected countries, not including debt relief grants, increased from 9.3% of total ODA in 2000 (for 12 countries) to 20.4% (for 10 countries) in 2006; and
- the distribution of aid among severely conflict-affected countries was also highly unequal in 2006 - Iraq and Afghanistan accounted for close to two-thirds of it.

Finally, it was noted that growing private sources of aid and emerging donors may increasingly challenge the influence of DAC donors. However, at the same time, a more anarchic array of aid channels may also reduce the potential for the citizens of the poorest countries to achieve real ownership in support of local and country-determined priorities.

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2. The IFIs have significant responsibility for the lack of change

International Financial Institutions (IFIs), often acting as lead-donors, represent most fully the **entrenched and collective power of the donors in their governance** and act as a barrier to more progressive aid delivery. The IMF adopted revised guidelines on conditionality in 2002 and the World Bank conducted a review of aid conditionality in 2005 in which both institutions committed to reducing the overall number of conditions and ensuring that those attached were drawn from nationally developed poverty plans.

However, CSO monitoring of their performance reveals that, in reality, **policy conditions are still applied regularly by the IFIs**, in a way that seriously undermines country ownership of development policies. More than one article and the global aid trends chapter in this report quote a 2007 Eurodad evaluation¹ that concluded that “more than two thirds of loans and grants (71%) from the World Bank’s International Development Association (IDA) still have sensitive policy reforms attached to them as conditions. The majority of these are privatisation-related conditions.”

Even more recently, a 2008 Eurodad report² found that “the IMF has not managed to decrease the number of structural conditions attached to their development lending. Moreover... a quarter of all the conditions in Fund loans approved after 2002 still contain [highly sensitive] privatisation or liberalisation reforms.”

Beyond merely the direct conditions that IFIs apply to their aid, they also exert tremendous power over recipient countries through their dominant influence over the wider donor community. **The IFIs’ ‘gatekeeper role’** in signaling resource transfers - by which other donors allocate resources based on the IFIs’ macro-economic assessments of particular countries - is a source of tremendous power, which limits the ability of recipient

countries to reject IFI prescriptions and seek aid elsewhere. Any positive tendencies among bilateral donors for reform (on conditionality for example) are rendered ineffective by their failure to reform the policies and governance of the IFIs.

Furthermore, the Paris principle of **harmonisation of donor terms for aid** is, in many cases, only serving to increase the capacity of the IFIs to exercise policy control over developing countries. As the dominant partner, the IFIs are able to push for harmonization around their own agenda, rather than harmonization around a genuinely national approach emerging from democratic processes. This has reduced competition between donors and choice in aid relationships still further.

3. The Paris Declaration does not go far enough - it fails to recognize human rights as the heart of development policy

Overall, the Paris Declaration on aid effectiveness fails to deliver an aid agenda that serves to improve the lives of the poorest people in developing countries because it has failed to put human rights and democratic ownership at the heart of development co-operation.

Whilst it is hard to disagree with the five Paris principles as such, it is apparent that they are **insufficiently tightly defined along the lines of human rights, equality and sustainability**. This means that it is possible for donors to implement the principles without improving development effectiveness. The power in aid relationships is still heavily weighted on the side of donors, and the declaration does nothing to check this imbalance. The aid effectiveness being promoted remains essentially donor centred.

The table next page summarises the issues at play.

These issues translate into specific and concrete problems in the reality of aid

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Paris Principle	Issues
<p>OWNERSHIP: Partner countries should exercise effective leadership over their development policies, and strategies and co-ordinate development actions</p> <p>ALIGNMENT: Donors should base their overall support on partner countries' national development strategies, institutions and procedures.</p> <p>HARMONISATION: Donors' actions should be more harmonised, transparent and collectively effective</p> <p>MANAGING FOR RESULTS: Decision-making and resource management should be improved towards a results-focused approach</p> <p>MUTUAL ACCOUNTABILITY: Donors and partners should be mutually accountable for development results</p>	<p>Real ownership includes but cannot be limited to government leadership over development policies. The people and communities most affected by development policies must have ownership over them. This means not just 'ownership', but 'democratic and local ownership'.</p> <p>It is not enough that donors link aid to countries' national development strategies, it must also be clear that these strategies have been developed independently by recipient countries in the context of democratic and local ownership. The 'behind-the-scenes' impact of advisers, consultants and informal pressures from donors are key issues.</p> <p>Unfortunately, a serious adverse effect of harmonisation is to reduce aid competition and limit the choices for recipient countries. It reinforces the position of the IFIs as the principal arbiters of aid policy.</p> <p>Managing for results can only be effective when the results being targeted are poverty reduction and the promotion of human rights and gender equality. When the 'results' being managed are economic policy reforms, then this 'principle' becomes a justification for conditionality.</p> <p>The principle of mutual accountability requires the development of specific mechanisms by which aid recipients can hold donors to account. Once again this must not be limited to recipient governments, but must also include the communities most affected by aid expenditure.</p>

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These issues translate into specific and concrete problems in the reality of aid practices today. National parliaments and civil society organisations are not effectively enabled to fully engage in the decision-making processes around setting national policy agendas and determining the direction of aid spending. The result, as set out in several papers in this report, from around the globe, is significant negative impacts of aid on some of the poorest and most marginalised communities in the world.

This failure of the Declaration to address key concerns is also reflected in the continued large numbers of missions with which recipient countries have to comply, increasing the transaction costs of aid and stretching their capacity to engage in effective policy implementation.

Much was made of the political signal in the signing of the Paris Declaration in 2005. However, the implementation of the key principles agreed in Paris so far reveal that much of the content of the Declaration is simply rhetoric and has not fundamentally changed the reality of aid relationships. The principles are in practice limited to technical issues of aid management rather than to successful development policy-making.

Recommendations: What is Needed for Aid Policies to Facilitate Development Outcomes for the Poorest Communities

The Reality of Aid Network, involving hundreds of CSOs globally, calls for the urgent implementation of the following proposals. The Network is committed to pursue them vigorously over the next two years as the foundation for deep and meaningful reform of aid for the purposes of reducing poverty and inequality:

1. **Aid effectiveness commitments must be clearly and demonstrably refocused on implementing human rights obligations and standards, including the right to development**

International human rights obligations for all countries must be the essential framework of determining the purpose and means for delivering aid. Governments, donors and CSOs should come together to reiterate that the primary objective of aid is to combat poverty and hunger and promote education, health and gender equality in ways that respect human rights and environmental sustainability and justice.

The aid effectiveness agenda is crucial, but will have little impact if it does not tackle difficult issues in the aid regime. Aid can no longer be assessed as 'effective' without showing any impact on poverty, disease, hunger and under-education in developing countries. The Paris Declaration needs to be reviewed to address central issues of inequitable governance and the terms and conditions in the aid system emerging from the profound imbalance between donors and governments.

A total change of philosophy is needed away from the traditional 'donor-recipient'; power-based model towards a model that sees shared responsibilities towards promoting the right to development. Official Development Assistance (ODA) needs to be treated as a global public good held in trust by donors and recipient governments to complement and reinforce efforts by communities themselves towards their own development.

2. **Donors and governments must promote democratic and local ownership, including active inclusion of parliaments, CSOs and citizens in policy making and agenda setting**

Democracy is the best institutional, political and cultural environment for the fulfillment of the rights of all people. Democratic and local ownership of policy making ensures that policies are made with a full awareness of the facts and the reality facing the people on the ground. This helps reduce the likelihood of misconceived policies or mismanaged implementation.

Political Overview

Democratic and local ownership implies full participation of citizens both directly and through their representative bodies: parliaments and CSOs. The expressed priorities of those living in poverty and those facing discrimination and inequality must be taken into account to better enable policies to facilitate their efforts to develop.

Strengthening democratic and local ownership is therefore critical to the achievement of the purpose of international cooperation and aid. Both recipient governments and donors have a duty to ensure that the voices of the people most affected by aid policies are not ignored, but are taken into account when allocating resources and agreeing strategies.

3. Genuine and regular mechanisms are needed to hold donors to account and monitor development effectiveness

To ensure the effective and appropriate allocation of resources, donors need to be accountable for the aid that they deliver. They must be accountable to the recipient countries and ultimately the citizens of these countries who are most affected by their policies, as well as their own citizens.

Accountability means donors having to justify their actions (answerability) and others having the ability to rectify or sanction poor performance by donors (enforceability). This requires transparency and openness with predictable opportunities for full and open dialogue on aid processes, priorities, agreements and assessments of progress. These processes should include recipient governments, but also representative bodies of the people, including parliaments and CSOs and the local communities that are the intended beneficiaries of international cooperation.

Accountability and the successful realisation of long-term aid policies require the ability to monitor the achievements of aid against policy objectives and also their failures and unintended consequences. This

enables the continuation or improvement of good practices and the modification or cancellation of bad ones towards more efficient and effective reduction of poverty and promotion of human rights. Such processes should draw upon existing human rights monitoring modalities mandated in the United Nations.

Taking into account the current weaknesses of the UN and the lack of balance within the OECD, further discussion is also needed towards the creation of a more equitable multilateral body to oversee the international aid system. This body could negotiate policies for aid and development effectiveness, with independent monitoring and evaluation mechanisms and ensure a human rights and sustainable development focus is maintained throughout.

4. The highest standards of openness and transparency on the part of all development actors are essential

Underlying several of the recommendations set out in this report is the essential need for openness and transparency by those operating in the field of development policy. If these principles are not applied through the highest standards, then other principles such as democratic ownership and accountability become impossible.

High standards of transparency would reduce the likelihood of inappropriate, ineffective and even harmful aid allocations, since issues from affected communities could be identified early and impending aid projects challenged. They would also contribute to reducing problems of corruption where these occur.

Transparency and openness are not just about letting people see what you do, but making sure that people are informed about what is happening and have the opportunity to respond. This requires the timely provision of information and clear spaces and pathways of engagement for citizens.

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These standards must cover information, processes, meetings, objectives, planning, funding and monitoring to ensure that democratic ownership, accountability and effective monitoring can take place at each stage of the process.

- 5. Donors, including the IFIs, must commit to eliminating all types of imposed policy conditions from their aid and untying their aid without restrictions by 2010**

Imposed conditions are incompatible with all of the recommendations set out above. They override democratic governance, are based on the antithesis of openness and transparency, result in no accountability, and fail to adopt an approach targeting the realisation of human rights and the reduction of poverty. They can no longer be seen as an acceptable practice.

Similarly, the practice of forcing developing countries to open up their procurement markets to companies from the developed world must be replaced by policies that support developing countries in building strong procurement systems that are appropriate to their development needs. All industrializing countries have supported their own small and medium enterprises through public procurement contracts to respond to the country's needs during their development; developing countries must not be deprived of the same opportunities.

It is not enough to *reduce* conditions, since donors are able to simply group several issues together into one condition, or rename them as "benchmarks", thus meeting the requirement without any actual improvement in performance. Furthermore, it is not the number of conditions that is the most important thing so much as the nature and sensitivity of the conditions applied, particularly where they apply to the privatisation and liberalisation of key sectors.

Furthermore, donors should fully untie their aid without restrictions, including food aid and technical assistance. Tied aid restricts the ability of developing countries to spend resources in the way they choose and on the things they need most for their development. Not only does this impact on the potential effectiveness of the aid in promoting development but directly undermines democratic ownership of national policies and expenditure.

Direct budget support should be favoured as a means of enabling developing countries to fund long-term development planning and investment. This support should be given in ways that allows democratic processes to decide how the money is spent - an approach which EC funding is starting to demonstrate.

- 6. Donors must cancel all illegitimate debt and the debt of the poorest countries and increase both the volume and predictability of aid.**

Just as banks during a credit crisis or businessmen during a bankruptcy are supported in writing off bad debts, so the poorest countries must be supported in writing off their debts, which in many cases were undertaken without public consent in the first place. Illegitimate debt and the debt of the poorest countries undermine the efforts of aid allocations to promote development and keep countries locked into dependence.

Furthermore, whilst this debt cancellation is an essential pre-condition for development, actual aid is still needed to give an impetus to development in the countries concerned. Donors must meet their commitment to allocate 0.7% of GNI to ODA without counting debt relief initiatives, refugee costs or student costs to that total.

As well as increasing the volume of aid, donors should also increase its predictability so that recipient countries can make the necessary planning to develop

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successfully. Commitments by donors to support developing country government budgets are welcome, but require predictable multi-year commitments and the delivery of those commitments on schedule. A big issue here is providing sustained budget support that can be used to fund the increase in workers needed in key service sectors such as health and education. But budget support mechanisms must also include avenues for sustained democratic engagement and participation.

7. Donors and governments meeting in the September 2008 Accra High Level Forum III must agree on an Accra Agenda for Action that sets in motion ambitious initiatives over the next two years to deepen their commitments to aid reform beyond the Paris Declaration.

Civil society organizations, north and south, have welcomed and responded to recent opportunities to reflect with donors and governments on progress in aid reform and the implementation of the 2005 Paris Declaration. This Reality of Aid report documents the reality in actual aid practices that many CSOs experience as development actors, confirming their deep concern and scepticism about progress to date and the actual commitment to reform. But the Accra High Level Forum presents a unique opportunity to set a new and more authentic course for aid reform.

CSOs, working together in the International Steering Group (ISG), which brings together Reality of Aid Network CSOs

with other representative coalitions such as Civicus, Social Watch, Alliance 2015 and the Association for Women's Rights in Development (AWID), have presented a practical agenda for deeper and more fundamental aid reform:

- eliminate the use of imposed policy conditionality
- reform the practice of technical assistance as a demand-driven resource for developing country counterparts
- make growing aid budgets more predictable and aligned to priorities determined by people who are the intended beneficiaries and affected by aid
- creating robust mechanisms for accountability served by increased aid transparency
- establish development indicators for aid effectiveness based on impacts for poverty reduction, gender equality, human rights and social justice.
- set the agenda for a visionary HLF IV in 2011 that addresses the need for an equitable multilateral aid architecture that includes CSOs as equal development partners and enshrines human rights, social justice, gender equality and environment at the heart of aid effectiveness.

The ISG will be active in Ghana promoting this plan for the next two years that would result in real outcomes for developing countries and people living in poverty.

Notes

¹ Untying the knots: How the World Bank is failing to deliver real change on conditionality. Retrieved from http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20deliver%20real%20change%20on%20conditionality.pdf

² Critical Conditions: The IMF maintains its grip on low-income governments. Retrieved from http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Critical_conditions.pdf



Chapter 1
Aid Relationships
Have Not Changed



Introduction

The first chapter of the 2008 Reality of Aid Report sets out how, underneath the superficial changes and the commitments of donors, the fundamental realities of aid relationships have not significantly changed.

Indonesia

An article from the Indonesian NGO INFID explains how it has remained impossible to have equal relationships between donors and recipients based on mutual accountability given the power imbalances between the two. Countries such as Indonesia have been led into a situation of aid dependency, with the people of the country having to pay for the debts incurred by corrupt and repressive regimes.

In Indonesia there is an explicit commitment to country ownership. However, the reality is that this ownership is being manipulated through World-Bank-led agencies, demonstrating collusion and nepotism, which coordinate their programme priorities. They force NGOs and sub-national authorities to reorient their activities along these lines. Bottom-up processes risk being undermined by this approach.

The reality is that aid has been used to undermine the interests of the people, causing evictions, displacements, the loss of property and the loss of access to better lives. Even international NGOs are sometimes forced to work according to the terms of the World Bank agencies because of their desperate need for funding.

Bangladesh

The Bangladeshi NGO VOICE highlights the continued impact of conditionalities on the ability of democratic processes to take ownership of development in poor countries. A prescribed neo-liberal model of development is being promoted by the rich nations and IFIs which use their control of aid flows to pressure recipient countries such as Bangladesh into market liberalisations and privatisations of key public services. Donors interfere in the political, economic and cultural spheres.

Although donors are now working through Sector Wide Approaches (SWAPs), which are theoretically based on a government-led programme to which all donors contribute funds, the reality is that these SWAPs are often led by donors and simply endorsed by government.

CSOs have criticized donors such as the ADB for pursuing their own priorities, setting aside the national interest. Recently they conducted an independent mid-term review of the education SWAP, finding that procurement policy was not following the rules of sector-wide approach. Instead of the expected one fund, three funds exist in the project and the government, the ADB and the pool of donors are using their own procurement policy. UNICEF, JICA and AusAID are also expending in parallel for teachers' training and other activities. As a result the entire procedure has become cumbersome and less accountable.

It has been shown that aid conditionality hampers the development of

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the countries they are supposed to help and infringes on countries' democracy and sovereignty. Poor and marginalized groups such as indigenous communities, women, and fishing communities in particular have been left out of the aid discourse and policy conditions can undermine already fragile independent and democratic political frameworks.

Some of the consequences of aid policies in Bangladesh undertaken with a total disregard for the voice of civil society have been to: increase the price of gas and power; increase the cost of production and thus reduce the competitiveness of Bangladeshi products; seriously damage indigenous wildlife, fish and crop biodiversity; flooding of agricultural land; and displacement of communities.

Australia

The Australian NGO AidWatch presents the interesting case study of changes in bilateral aid to Australia's former territory of Papua New Guinea (PNG) to show the continued vulnerability of aid funds to becoming instruments to serve the shifting commercial and foreign policy interests of donors.

Australia has ostensibly adopted a more 'partnership-based' approach to bilateral aid with PNG in recent years. This has involved the shift from project aid to Sector-Wide Approaches (SWAs), and the elaboration of new, locally-owned performance and budgetary mechanisms to better manage aid flows.

However, the reality is that new kinds of conditionality have emerged, linked to aid outputs and performance reviews, with a system of benchmarks used to trigger additional funding packages. Whilst the payments are to be spent in PNG's priority areas such as health and education, the benchmarks pertain to policy reform objectives in Australia's priority areas of the economy and governance. It is clear in this case that the 'partnership' approach is still defined in donor terms with entrenched

power relationships continuing to pervade these newer aid modalities.

Tied aid and technical assistance are proving particularly resistant to changes in the international aid architecture with funds still going to Australian companies and consultants even if not formally tied. This undermines democratic participation and results in aid that fails to reach the poor and marginalised.

Italy

The case study presented by the Italian NGO CRBM examines the use of Italian aid in Ethiopia, not so much to promote this poor country's urgent development needs, but to subsidise a major Italian company operating there. The Gilgel Gibe II hydro-electric project appears as a case of super-tied aid from Italy, lent in a situation full of shadows.

Once again, there has been a move from formally tied aid to a more subtle version of the same thing. Rather than giving aid to Ethiopia on the contractual condition that it spend it on specific Italian goods, the company leads the way in obtaining the allocation of a significant contract from the Ethiopian government. Official Italian development aid is then sought for this specific project.

Numerous problems are outlined in this case, including the lack of transparency in the tendering processes, the lack of respect for environmental provisions and adequate risk assessments in starting the work, a lack of consultation with the people on the ground who are most effected by the project, and a lack of coherence with Ethiopia's major development needs.

India

PIRC seeks to raise awareness of the fact that all is not positive in the increasing emergence of extensive micro-credit schemes. The recent trends indicate that microcredit programs are moving positively away from the 'development as charity' model, but towards a more profitable

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'development as business' approach, as financial institutions see the impressive returns from these schemes. The logic of these schemes then switches from poverty reduction to profit-making, which has serious consequences for the appropriateness of loans to a supposedly beneficiary population that instead ends up indebted.

Micro-credit can play a valuable role in giving people the opportunity to rise from poverty. However, it is not a panacea. In places where the infrastructure, health and education services, employment, food and water supplies are all inadequate, microcredit will, at best, provide very fragile micro-solutions in specific cases.

The authors suggest that microcredit depends on wider changes in the development agenda to be successful. Many women entrepreneurs need support services, such as child care, as well as other urgent needs to be able to develop a micro-business successfully. There is already evidence that people in desperate situations are using micro-credit as a stop-gap measure to buy essential goods, getting themselves into even more precarious situations of indebtedness.

The Philippines

The article from the IBON Foundation focuses on the lack of democratic ownership in development policies. This means that aid goes primarily to furthering foreign and elite policy interests and only secondarily to addressing the country's considerable development needs. Outside forces have strong direct and indirect influence over the Philippines' policies and large parts of aid are disconnected from social realities and priorities.

Formal mechanisms for greater public involvement in development policy making in the Philippines are either absent, underutilized or even bypassed and subverted. These internal weaknesses stem from the on-going democratic transition. The author also highlights that recent years

have even seen worrying anti-democratic tendencies.

The article asserts that a major problem is that CSOs are disconnected from large parts of aid and aid-related processes. Infrastructure projects and program loans take up at least two-thirds of total ODA and there is no indication that it is standard practice for CSOs to be involved in setting project or program frameworks. They are for the most part seen as mere implementers of grassroots projects largely designed according to donor preferences and priorities. There is rich anecdotal evidence of projects inappropriate to actual needs and communities' overall politico-economic context being implemented because of this approach.

Conclusions

The reforms in the aid architecture emerging from the Paris Declaration and the development of alternative solutions such as micro-credit schemes may seem to be positive steps on the road to successful sustainable development for the world's poorest countries. However, according to the Reality of Aid authors, these trends have to be seen in the context of an increasingly exploitative global order in which the dominant position of donors and financial institutions is used to drive macro-economic policies of liberalization and globalization.

This reality of aid means that democratic ownership is more rhetoric than reality and that many of the steps forward through aid allocation are accompanied by steps back as countries face indebtedness and loss of control over key policy directions and services. Problems arise both from the unacceptable influence of economic powers— through practices such as tied aid and the enforcement of policy conditionalities — and from internal weaknesses within many developing countries.

Rather than being merely technical or theoretical problems, these issues are



The **Reality** of Aid 2008

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having direct and negative impacts on the lives and livelihoods of some of the world's poorest communities. In the name of development they are losing control over

their own natural resources, which instead contribute to the increasing wealth of Northern governments and companies.



Aid is Power - The Challenge for CSOs and Democratic Ownership

Don K. Marut

International NGO Forum on Indonesian Development (INFID)

Introduction

Aid relationships are relationships of power and have become an issue of global politics. In such power relations, inequality, and, to a certain extent, injustice can become principal characteristics. It has been revealed by various sets of research and the testimonies of key actors over the years that injustice has been systematically and structurally created and maintained in development policies by certain political and economic world powers.

Who gives aid holds power, at least over what the aid is used for. Additionally, various conditionalities linked to other policy areas that favour donors are imposed on aid recipients, who, in many cases, are then trapped in a situation where they have to accept further conditions, even when these are harmful to their citizens.

It is clear from the data that foreign aid has impacted upon the citizens of recipient countries. Some have benefited from the aid, but the majority of citizens are affected in more negative ways. Citizens have to bear the burdens of debt repayments, whilst the benefits are mostly felt by the repressive and irresponsible regimes supported by technocrats in the country who act as the extensions of the international donors. In many cases, people have had to accept that they must concede all their ancestrally inherited property rights on natural resources to transnational corporations and that they must pay for expensive public services.

Indonesia has historically been a clear live case.¹ The mainstream development philosophy since the late 1960s has been dominated by the technocratic and top-down approaches implemented by the repressive military power. Growth-oriented economic policies were introduced, mainly representing the interests of the donors. The technocrats in the Indonesian administration were trained to serve the interests of the donor countries and the international financial institutions. The military and the technocrats were the two sides of the same coin in the state-led economic development projects and programs.

The occupation of East Timor by the Indonesian military was also a consequence of the policies of the leading political and economic world powers. Despite pressure from global citizens and the United Nations against the violation of human rights in East Timor - and several regions in Indonesia during the reign of the repressive military regime - the donors continued to support the latter.

Despite the poverty, violence and denial of the rights of the people, the donors were well coordinated in supporting the military dictatorship of General Suharto through the IGGI (Inter-Governmental Group on Indonesia). Every year, before the government approved the annual budget, the development plan had to be submitted to an IGGI Meeting for approval. This was replaced by the CGI (Consultative Group on Indonesia) in 2002, which lasted until early

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2007 when it was terminated by President Susilo Bambang Yudoyono.

Even when democracy is established, the government cannot easily get rid of the power attached to past foreign aid. Injustice continues and the people continue to have to pay the high taxes necessary to repay the foreign debts that were not even beneficial to them but were accepted by the repressive regime for its own benefit and that of the donors.

Democratic Ownership

Given the importance of aid relations to people's lives and their links to power relations, how should aid mechanisms be managed? It may seem to make sense to look at achieving equal relations between the aid providers and the aid recipients. However, in reality, such a goal seems implausible; how can aid be determined by the recipient while the aid belongs to the provider or donor?

Aid has become a commodity exchanged in a market. For that market to work effectively, buyers and sellers (recipients and donors) need to have equal positions. Notably, recipients should have the freedom to make choices based on their own utility preferences. However, since the (repressive and technocratic) regimes in developing countries have been puppets of the donors, it has been impossible to have equal positions in the transactions. This has been particularly true where economic policies were designed such that the economy became dependent on foreign debts.

Since both providers and recipients are public institutions that represent their countries, their freedoms in the aid market transactions should be limited by the mandates of their citizens. Where the citizens have little or no control over the actions of their government, the democratic ownership breaks down. In the Indonesian case, the senior bureaucrats who are the main actors in the aid

negotiations are from the previous regime and had been recruited not on merit but on collusion and nepotism. These technocrats are the guardians of the interests of the multilateral financial institutions and transnational corporations rather than those of the citizens. In such cases, it is clear that it is against the spirit of democracy when ownership of aid is limited to government ownership.

The Paris Declaration (PD) has provided fresh momentum for changing aid mechanisms to allow recipient countries to have a more equal position with donors. The use of the term "partner" in the PD instead of "recipient" is promising. The PD puts "ownership" as the first principle, implying that the partner country should have the ownership of the aid and the aid-supported projects and programs. What is key here is that this means country ownership and not government ownership. This implies that all sectors of the country should be involved in determining whether the aid is needed or not and how it is used, and in monitoring the implementation of the projects and programs supported by the aid (grants or loans). Although governments represent partner countries, they can no longer act unchecked, but have to be accountable to the country as a whole, meaning the citizens, parliament, business sectors and civil society.

Democratic ownership also implies the participation of the people from the very first design stages of any project or program to be funded by foreign aid. The project and program implementation should similarly be transparent and directly or indirectly accountable to the people through democratic procedures at national and sub-national levels.

Donors Club: Against the Spirit of Democratic Ownership?

If democratic ownership can change aid mechanisms at the conceptual level, can it be implemented in practice at partner

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country level? The realization of ownership at country level is not as easy as it might be hoped. There is a push-and-pull between the partner country and the donors and among the donors based in the country. It seems it is not easy for the donors, particularly the multilateral institutions such as the World Bank and Asian Development Bank, to just allow country ownership to function.

Whilst ownership is respected more in theory, there is a tendency for the donors to try to manipulate this ownership. The World Bank in Indonesia has established several agencies that act as donors' consortia, each with its own scope of work and area of coverage. These include the Decentralization Support Facility (DSF), Multi-Donors Trust Fund (MDTF), SOFEI (*Decentralization Support Facility for Eastern Indonesia*) and SPADA (*Support for Poor and Disadvantaged Areas*). The rationale given for the establishment of these agencies is to facilitate coordination among the donors, but in practice seems to be more about manipulating the country ownership.

Concerns have been increasingly raised over the presence of these agencies. The donors pool their funds in the agencies, which either implement their own projects or distribute funds to other agents, whether international or local NGOs, national ministries or local governments. Given this more centralized control of the aid flow, it is then of major concern that these agencies are not under the supervision of government or of democratic institutions, but are designed, managed and controlled by the World Bank. Some Indonesian academics and politicians sit on the Boards of the Agencies, but have only ceremonial functions in practice.

Since these agencies act as the new donors in the country with their own program priorities, the NGOs and sub-national authorities who need funds have to align their activities with those priorities. These agencies are small in number, but given their control of the aid flow, are able

to determine the agenda for development projects of the sub-national governments and NGOs that receive funds from them. The agencies can thus be seen as the conductor of the orchestra of the NGOs and local governments. This impedes the genuine initiatives of local NGOs, local communities and sub-national governments.

Furthermore, in certain provinces in the East of Indonesia, the staff members of SOFEI are integrated within the structure of the government.² But they remain free from its procedures and obligations. The staff are given special authority to advise the governors directly on policy choices and in many cases the SOFEI staff made the policies issued by the governors.

These World-Bank-controlled agencies representing the donors thus intrude into the government system at the sub-national level, from where they can redirect discussions on bottom-up development planning. The development plans seem to be people-oriented through bottom-up procedures and processes, but in fact are made and designed by the consultants of these World Bank agencies. The available data reveals that the sub-national governments where these World Bank agencies are working submit proposals for loans from the World Bank. The question then arises as to whether these loans are really taken in the interests of the people in the region or for securing the jobs of the World Bank staff (through on-lending loans)? Does their presence and intervention not manipulate the democratic ownership of the aid and betray the basic spirit of democracy that is emerging in the country?

The Role of CSOs in the Democratization of Aid

Development programs, economic policies and the repressive military power were the effective devices in the past for securing the interests of the donors and suppressing democratic movements in Indonesia. Civil society organizations, particularly NGOs,

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emerged to challenge these mainstream development policies and the repressive measures of the regime and to protect the interests of the citizens.

The national and local NGOs, supported by their counterparts in the North, developed alternative development policies and practices through participatory and bottom-up approaches. The results of this work are obvious: although the foreign aid-funded projects displaced people and took their property without compensation, local communities were able to survive and sustain their livelihood. With small support from the NGOs, the social solidarity that has become the main capital of the local communities has kept them going.

The presence of NGOs close to the local communities - rural communities and urban poor communities - provides special advantages for the implementation of bottom-up and participatory approaches. The local communities have easy access to information and the NGOs are able to receive first-hand information right on-site. This enables both the NGOs and the local communities to develop democratic processes in designing community development projects and action plans for advocacy to protect their rights, particularly in the face of the top-down projects of the government and donors.

The support of Northern CSOs was crucial strategically and practically at a time when everything was made uniform and was controlled by the regime. Indonesia's NGOs benefited in various ways from the support of Northern CSOs. Firstly, without the funding support of Northern NGOs, many Indonesian NGOs would have found it impossible to survive. Secondly, the northern NGOs were the only sources of important information and knowledge for Indonesian NGOs. During the military regime, there was strong control over the flow of information, including about development. All correspondence was controlled and checked by the military; even post offices were controlled.

Visits from Northern CSOs were used to bring in new books and materials to be distributed among NGOs in Indonesia. Trainings, conferences and workshops held outside the country and supported by Northern CSOs provided substantial support for the capacity-building of Indonesian CSOs. This helped develop the ability of the NGOs to deal directly in development debates with government officials at all levels, contributing alternative technical solutions in development activities.

The possibilities for the participation of CSOs in development planning improved when the government of Indonesia issued regulation No. 39/2006. The Regulation outlines the procedures and processes of participatory and bottom-up control and monitoring of development planning and implementation through annual district, provincial and national development plans. CSOs have more spaces and opportunities to participate in the processes starting from the village level up to the national level, allowing them to monitor whether the interests of the people are accommodated in the district, provincial and national development plans. To a certain extent this participation is substantially meaningful for communities; however, in other cases the processes are unfortunately intercepted by the rent-seeking groups, including the World Bank agencies.

Another case where CSOs and community groups participated and showed their strong ownership was actually the Poverty Reduction Strategy Paper (PRSP) that was made in multi-stakeholders processes in 2003 and has been taken as the National Poverty Reduction Strategy Document (NPRSD, or better known as SNPK - *Strategi Nasional Penanggulangan Kemiskinan*). The SNPK was integrated in the Medium Term Development Plan 2004 - 2009 that was made into Law No. 25/2004. The SNPK was made in participatory ways and included a rights-based approach, and had clear gender perspectives. For the implementation of the SNPK, the government has developed a National

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Program on People's Empowerment (known as PNPM) that sets out the details of operational plans for poverty reduction through promoting the capacities of the local communities and providing funds for development.

The participation of CSOs in providing capacity- building support for local communities to identify and formulate their interests in the participatory planning with the government and other stakeholders is strategic for ensuring the democratic ownership of the district, provincial and national development plans. Importantly, the process will determine whether the development projects and programs should be funded by foreign aid, by the government budget or by the self-sufficiency of the local communities.

Challenges to CSOs

The poverty reduction program brings opportunities, but also certain challenges for NGOs. The main challenges for Indonesian NGOs relate to funding sources, which, as we have seen, become sources of power. The official donors prefer to channel their funds to the World-Bank-managed agencies rather than to UN agencies or International NGOs. This means that the International NGOs have to bid to the World Bank agencies, or at least co-operate with them to obtain funds. Although the agencies are challenged by Indonesian NGOs, some international NGOs based in the country keep working with the World Bank agencies because of their desperate need for funding, without being aware of the risks involved.

The first risk is the homogenization of the development agenda, with the communities and local governments becoming convinced that the international market, particularly the presence of transnational corporations, is the best institution for the economy and for the people. Already, transnational corporations (TNCs) have been integrated and accepted

as part of Indonesian development. People are proud of having investments from these corporations in their regions, even though the TNCs do not respect the rights of local communities and deny them participation in local development.

Secondly, projects supported directly by loans and grants from the World Bank-managed agencies risk undermining the processes that have been developed by the NGOs over the past three decades, as was the case with the PNPM. Whilst there is the regular bottom-up process of national development planning, the planning for the poverty alleviation program is conducted in separate procedures.

A third risk is duplication of effort and consequent inefficient use of resources. Several big NGOs have established training centers with national and local coverage and have trained thousands of community animators, facilitators and development managers. At present the government and the World Bank agencies conduct the same trainings; this can be a waste of resources for both the government and the donors.

A further risk is that the flow of funds to the communities can break up the social capital that has been strengthened by the community organizing processes developed by the community groups and the NGOs.

Conclusions

It would be against the spirit of democratic ownership if aid was aimed at undermining the interests of the people, causing evictions, displacements, the loss of property and the loss of access to better lives for people. Yet, these have been the characteristics of aid and aid-funded projects and programs in the past. The government of Indonesia has been under strong pressure from donor conditionalities on market liberalization and legal reform that favor the transnational corporations. Official funding and the development agenda is dominated by the World Bank agencies.

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In the face of this, northern NGOs and Indonesian NGOs could respond by strengthening their cooperation again as they did when they jointly faced the dictatorship in the past. Unfortunately, it seems this will not happen since many International NGOs also join the donors club established and coordinated by the World Bank agencies and which practices collusion and nepotism - which have long been the enemies of civil society.³ Certain international NGOs prefer to promote the agenda of their governments rather than the agenda of the poor people in the developing country.

There are still opportunities for Indonesian CSOs and community groups since the local movements have spread throughout the country and awareness of self-sufficiency and self-reliance is growing. These community and social movements have also started engaging with political parties that will raise and promote their interests at policy levels. Even if the local and national NGOs are no longer supported by their counterparts in the North, these movements will continue their agenda of democratizing development and democratizing aid.

Notes

- ¹ Pilger, G. (2002). *The new rulers of the world*. London and New York: Verso.
- ² Information from the staff of the World Bank in Jakarta during the consultation meeting between World Bank and CSOs on 19th March, 2008.
- ³ Government officials and CSOs in Jakarta have complained that the World Bank campaigns for good governance while the institution is itself practicing collusion and nepotism.

Aid Conditionality and Democratic Ownership

Ahmed Swapan Mahmud
Voices for Interactive Choice and Empowerment (VOICE)

"The conditions that donors attach to their aid programs go far beyond any legitimate measures to ensure that aid money is used efficiently for its stated purposes. Indeed, they go to the heart of the public policy-making process in the countries concerned. Utility privatization is a prime example of this trend, and is particularly worrying given its relevance to poverty reduction. In a large number of low-income countries, donors are pressuring governments to sell off and sub-contract services in water and electricity to private companies. They do so despite the lack of evidence that this increases access for poor people, accountability to consumers or cost-effectiveness." ¹

Although the principle of democratic ownership was agreed upon by donors and recipients under the Paris Declaration, there is increasing concern - not only among civil society organizations (CSOs) but also among governments - that conditionalities and tied aid are threatening its application. It has been shown that aid conditionality hampers the development of the countries they are supposed to help and infringes on countries' democracy and sovereignty.

This article provides an overview of aid conditionality in the context of the Paris Declaration on Aid Effectiveness. It considers the impact such conditionality

has on democratic ownership and its consequences for the populations and economies of developing countries.

The Paris Declaration and Democratic Ownership

The Paris Declaration on Aid Effectiveness marks a commitment to make aid more effective towards the goals of poverty reduction and better quality of life. It not only talks about institutional and structural reform for efficient and effective development, it also raises concerns about the effectiveness of the aid regime for sustainable development. It puts forward five principles of aid effectiveness that need to be respected, including democratic ownership.

Yet global CSOs have raised critical questions around the five principles and their effectiveness. Around ownership, fundamental questions include: what 'ownership' actually means; who owns the policy regimes for development; and who acts as the leader. The determination of the leadership role is important because it defines the characteristics of the process as a whole.

In theory, ownership implies not only participation, but quality participation, with transparency, accountability, democratic values, and rights at the heart of governance. The Paris Declaration acknowledges the importance of "country ownership". The ownership or leadership

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role over a country's development policies and strategies should belong to the national government. The developing countries' governments should formulate the strategies and policies to which donors respond to achieve effectiveness towards development.

However, the rich nations and International Financial Institutions that are spreading a neo-liberal economic model around the world have developed a 'prescribed development' template to be followed by developing countries. This has led them to impose policies and conditionalities to encourage recipient countries to take the prescribed path. This clearly undermines the democratic norms and values and sense of ownership called for by the Paris Declaration and has created an enormous amount of critical discussion among CSOs on global policies toward development.

The donors shape the policy framework and strategies through impositions, seriously undermining the rights, choices and decisions of the people to determine their own demands and actions needed for their own development. Local societal diversities and ownership are ignored by conditionalities. Thus, poor and marginalized groups such as indigenous communities, women, and fishing communities are left out of the whole discourse, and policy conditions interfere with the formation of an independent and mature democracy and political framework. Even the commitments of donors change according to their whims; there remains a huge gap between commitments and disbursements, which indicates a lack of responsibility.

Ownership should be democratically practiced through a rights-based approach requiring good governance to uphold strong and active participation of the citizenry, including the poor and marginalized groups. However, the commitments made by donors in theory are not matched by the reality on the ground where local ownership is hardly visible. This can lead us to critically analyze the whole paradigm of international aid architecture, and necessarily of 'global

development' discourse where the philosophy of development is driven by neo-liberal rhetoric rather than the principles of the Paris Declaration.

Conditionality Violates the Democratic Process

Donors apply conditions so that recipients must comply to obtain funding. The conditionalities are attached in different forms to loans or grants and act in a number of ways: as a financial accountability device; as a commitment device; and as a way of inducing policy change. The underlying principles of these conditions are to impose financial pressure to compel certain actions by the recipient country. The logic that leads to conditionality is always the same: donors lack confidence in either the commitment or the capacity of the recipient.

Aid is not only about resources and the redistribution of wealth from rich to developing nations; aid is quite political within this economic system with connections to democracy, justice, human rights and equality. It is power politics that shapes 'development', with the international political powers imposing their policies through donor agencies, which convert policies into conditions. Donors interfere in the political, economic and cultural spheres.

Conditionalities attached to loans or grants in the name of development often have negative impacts on the poor countries. They impose inappropriate policies, generate transaction costs and stop or start financing according to donors' whims. In all cases, they distort democratic processes by endowing donor agencies with significant policy influence outside the domestic political process. These agencies are thus not answerable to the people or elected parliaments despite their influence and power over the development process.

Influence and wealth have the power to dictate policies and there is no downward

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accountability. Donors even experiment with policies in poor countries. For example, the United Kingdom and the United States imposed a new "power privatization model" on Chile and India in the 1990s which was not only contradictory to the principle of democratic ownership, but also took dangerous risks with those countries' development.

Donor agencies always suggest privatization as a means to reduce poverty. Japan has identified 12 priority sectors, including private sector and power sector, under its new country assistance program. The priority sectors are information and communication technology, tourism, transport, agriculture and rural development, education, health environment etc. Donors always choose those sectors that can promote their business interests. There is also a lot of duplication among donors, whose programs are not at all coordinated.

The Aid Scenario and Strategies in Bangladesh

The Bangladesh Aid Group was formed in October 1974 under the direct supervision of the World Bank, comprising 26 donor agencies as well as countries that made the commitment of providing support to the country for its development. Overseas Development Assistance (ODA), was running at around 7.2% of the GDP in the 1970s. In the early 1970s most of this aid took the form of emergency food and commodity aid.

Peaking at nearly 9% of the GDP in the 1980s, ODA declined to an average of 4.4% in the 1990s. In 2000, the net ODA was just 2.4% of the Gross National Income. Today food and commodity aid is a small part of the overall flow - accounting altogether for 25% - indicating the extent to which aid can now support developmental rather than relief objectives, the national economy being that much more robust.

Most recently, aid has shown a decreasing share in the national budget. A report published in June 2005 shows that foreign aid to Bangladesh decreased from 1,585 billion dollars to 1,033 billion dollars in 2003. In the 2004-05 fiscal year, donors were committed to donate 715.2 million dollars, down by about 21.7% from the previous fiscal year.

So Bangladesh is gradually becoming freer of its dependency on aid - which is more about the expansion of the national economy than a gross decline in assistance. The aid dependency of the Annual Development Plan is also decreasing gradually; in 1991 it was 87 per cent, but in the financial year 2003-2004 it decreased to only 42 per cent.

Though overall dependency on aid is decreasing, some of the projects in different sectors remain dependent on foreign aid. The health, population and family welfare sectors still bear the dependency rate of 74 per cent, and the public administration sector 73 per cent, while the oil, gas and natural resources sectors face a dependency rate of 46 per cent.

Furthermore, debt has increased substantially. In 1973/74, the per capita foreign debt was US\$ 6.60, ballooning to US\$ 116 in 1998/99. In 1971/72 the total amount of foreign debt and grants was US\$ 270 million, increasing to US\$ 1.54 billion by 1998/99, representing a six-fold increase within a period of 30 years.

Donors are more interested in providing loans than grants. Over the last three decades, 52 percent of total foreign aid were loans and 48 percent were grants. Consequently, the rate of debt has increased over this period. During the 1971/72 fiscal year, total foreign debt was about 10 percent and foreign grant was about 90 percent; by the 1998/99 fiscal year, foreign debt rose to 57 percent. Such a trend clearly shows that although the foreign donors started providing support through

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grants, they subsequently became more interested in loans while different types of conditions— strong criteria and obligations— have been imposed on Bangladesh to receive these loans.

The changing nature of aid strategy over Bangladesh has been divided in four stages:

- 1975-85: moves to improve efficiency of the state sector through exchange rates, trade policy, and fiscal budgetary, financial sector and price reforms.
- 1985-95: growing disillusionment with the state sector leading to: Move towards supporting private sector development; Privatization of state owned enterprises; Induction of private sector in the area of infrastructure development in such sectors as power generation and distribution, telecommunications, airlines, railways, provision of healthcare and education; Introduction of NGOs in the areas of micro-credit and service delivery, particularly in rural areas.
- 1995 Onwards: increasing emphasis on governance-related issues such as public administration reforms, decentralization of administration, reform of the judiciary, involvement of civil society in enforcing greater public accountability, issues of corruption, improvement of law and order.
- 2000 onwards: emphasis on political issues in relation to state confrontation between the political parties, the malfunctioning of parliament, the issue of strikes and political violence, human rights violation and security concern.²

Khulna Jessore Drainage Rehabilitation Project (KJDRP)

The Khulna Jessore Drainage Rehabilitation Project (KJDRP) was undertaken in the southwestern coastal districts of Bangladesh to address the river drainage problem, the result of a series of earlier donor interventions - including by the Asian Development Bank (ADB) - to de-link the floodplains from the rivers. Supported by a \$33 million ADB loan out of \$62 million, the stated objective of the KJDRP was to upgrade existing flood control embankments and to reduce poverty by alleviating river drainage congestion. The project was also funded by the Dutch government and the Global Environment Fund (GEF).³

To achieve its objective, a series of sluice gates and regulators on the rivers are being constructed to protect the wetland areas from tidal and seasonal floods and extend the area suitable for agriculture, despite the protests of the local communities who know from experience (a similar project had been implemented in 1986) that such measures would not solve the problem. People had suggested an alternative concept of tidal river management based on indigenous practices developed over generations, but was this not considered.

During the project implementation, heavy silting and drainage congestion occurred in the river channels, blocking the natural tidal flow. As a result, silted-up rivers are drying up, indigenous wildlife, fish and crop biodiversity has been threatened, and thousands of hectares of land have been permanently flooded. Instead of increasing agricultural productivity, the project created water logging. To date, an estimated 300,000 people in the Khulna-Jessore region live in a water-logged traumatized situation. Children cannot go to school, farmers cannot grow food, and cattle are not able to graze freely. The area is still an ecologically damaged zone.

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Sundarbans Biodiversity Conservation Project

The Sundarbans Biodiversity Conservation Project (SBCP) was implemented between 1999 and 2006 in the Sundarban region of Bangladesh, home to the largest mangrove forest in the world. It was intended to establish a proper management system to maintain the biological integrity of the area whilst alleviating poverty.

The ADB was the major funder of the project, providing US\$ 37 million out of the total project cost of US\$ 82.2 million which was also funded by PKSF and Global Environmental Facilities. SBCP's consultancy budget was managed entirely by the ADB, which allocated 61% of the total costs to consultancy, showing how sincere the ADB was in its objective of poverty reduction. Local people were never properly consulted about the implementation of the project.⁴

The project caused widespread protest among the local NGOs and affected communities, who criticised the so-called 'environmental conservation' project for failing to take into account the real forces causing damage to the ecosystem. Industrial shrimp farming, which has converted thousands of hectares of agricultural village land into commercially-controlled ponds, has created severe ecological problems and displaced whole communities from their lands. Instead of addressing this and other issues of biodiversity loss, the SBCP actually encouraged aquaculture practice through micro-credit schemes. The SBCP Watch Group, composed of local community members and CSOs, was particularly vocal in challenging the injustices of this project and the exploitation of their natural resources.

Through projects like SBCP and KGRDP, donors have damaged the environment and ecology and consequently devastated the livelihoods of the people of the area and caused immeasurable sufferings. The principles of the Paris Declaration were not at all considered during the project phase. No consultation with civil society groups

was held, environmental assessment was not done, no representation of the local communities was included, and no participation of the people in the planning process of the projects was considered. CSOs did express their concerns and recommendations, but they were ignored.

Latest Strategies and Monitoring

The World Bank, ADB, DFID and Japan have prepared a joint Country Assistance Strategy for Bangladesh for 2005-09. The CAS is aligned with the PRSP that encourages other donor agencies to collaborate at the sector level through improved coordination of implementation.

To reduce overlap and misuse of funds, the government of Bangladesh in association with donors has adopted Sector Wide Approaches (SWAs), theoretically based on a government-led programme to which all donors contribute funds. Two programmes, namely Health, Nutrition and Population sector programme (HNPSP) and Primary Education development programme II (PEDP II), have been incorporated through this approach. There are as many as eleven donors involved in this latter project under the leadership of the Asian Development Bank (ADB).

Although this is perceived as a good way to reduce donor conditionality and increase the country's ownership, SWAs are often led by donors and endorsed by government. Although ADB's contribution to the programme is less than half of the government's, it has an increasing influence on the project since its contribution to the project is the highest among the donors.

CSOs have criticized the ADB for pursuing its own priorities, and setting aside the national interest. Recently they conducted an independent mid-term review of the education SWAp, finding that procurement policy was not following the rules of a sector-wide approach. Instead of the expected one fund, three funds exist in the project and the government, the ADB

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and the pool of donors are using their own procurement policy. UNICEF, JICA and AusAID are also expending in parallel for teachers' training and other activities. As a result the entire procedure has become cumbersome and less accountable.

There is a major need to improve governance. The World Bank Country Policy and Institutional Assessment (CPIA) performance criterion that assesses the quality of budgetary and financial management places Bangladesh at 3.0 on a scale of 1 (very weak) to 6 (very strong). To monitor performance in public financial management and improve accountability, the Public Expenditure and Financial Accountability (PEFA) framework will be used as an important tool. Reforms in core governance areas such as public and tax administration are underway, as are related sectoral reforms which seek to strengthen governance in banking, health and education.

The Government of Bangladesh and the donor agencies also agreed to harmonize and strengthen aid effectiveness. In line with the Paris Declaration, the government therefore approved a Harmonization Action Plan (HAP) in 2006. A high-ranking official from the Economic Relations Division was appointed to promote implementation and monitoring of the HAP and the Poverty Reduction Strategy (PRS). A PRS-HAP cell and a Harmonization Task Force have been established.

Conclusions

In the current global conditions, talk of 'ownership' is almost solely rhetoric and

purely theoretical. In reality, aid is a tool for establishing authority over the policy framework of developing countries. Power imbalance, social hierarchy, and the hegemony of the donors are major obstacles to the appropriate and equal distribution of resources to those who need it most.

Only in the context of democratic values can transparency and accountability of the aid system be ensured, along with the identification and prioritization of needs in a collective manner. Democratic participation is needed at all levels, where no one single body, lending institution or corporation may exert a controlling influence on the distribution of aid. This is one of the most important requirements of effective aid.

G8 leaders recently highlighted the importance of national governments' sovereign right to determine their own national economic policies. Economic policy decisions, such as whether to privatize essential services or liberalize trade barriers within any given country - developing or developed - should be made by national governments and not influenced by leverage of increased external funding.

Democratic ownership implies mutual accountability, transparency, and participation in policies and programmes, where both donors and governments feel equal, sharing responsibility and seeing CSOs as key players. Domination by the government or the donors in the process undermines the basic principles of democratic ownership. So the role of CSOs and local communities in channeling aid and as agents of change should be prioritized.

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Notes

- ¹ Money talks: How aid conditions continue to drive utility privatization in poor countries. Retrieved from <http://www.actionaid.org>
- ² Syeduzzaman, M. (2003). Aid and Policy Reform in Bangladesh.
- ³ Mah, P. (2008). The ADB in Bangladesh: A look back or a leap backward? A critical appraisal of the ADB's achieving results together: 25 years with the Bangladesh Resident Mission. In *Voice 2008*.
- ⁴ Ibid.

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Australian Aid to Papua New Guinea: Change Without Change

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Aid/Watch

This chapter evaluates the implementation of the Paris Declaration with specific reference to the Australian bilateral aid program to Papua New Guinea (PNG). It highlights the very significant changes that the aid effectiveness framework has delivered in recent years. However, it also cites a number of examples where obstacles to achieving the implementation of the Paris Declaration are emerging, which can be traced to the very weak definition of the principle of ownership.

For donors, the Paris declaration limits itself to the notion that they must “respect country leadership and help strengthen their capacity to exercise it”.¹ By confining itself to this restricted sense of ‘country ownership’, the Paris Declaration does not address obstacles to achieving aid effectiveness such as technical assistance, tied aid and different forms of conditionality, which continue to hinder progress towards ‘democratic ownership’ of aid in recipient countries like PNG.

This chapter also looks at the depth to which the new ‘country-owned’ strategy for PNG has institutionalised a principle of ‘donor-recipient partnership’ and reflects on the emerging projects in the Australia-PNG bilateral program designed to engage PNG civil society. It assesses the potential of this new strategy, but also some associated problems.

Overview

Formerly a colonial territory of Australia, Papua New Guinea has historically received a larger proportion of Australian aid than any other country. Australia is also PNG’s most significant and influential donor with its package of assistance totalling approximately AU \$356 million per annum.²

As highlighted by AID/WATCH in the 2006 Reality of Aid Review, Australian aid policy with regards to PNG and the Pacific has in recent years been profoundly influenced by the ‘war on terror’ and ‘the securitisation of aid’ in a regional context.³ The large proportion of aid funds diverted to regional policing, anti-terrorism initiatives, and the promotion of ‘good governance’ in the Asia/Pacific region since 2002 has exemplified the vulnerability of aid funds to becoming instruments of the shifting commercial and foreign policy interests of donors.

In the context of this over-emphasis on security and so-called ‘failing states’, the unilateralism of Australia’s approach to aid in PNG was a catalyst for an unproductive deterioration in diplomatic relations between the two countries from 2003 onwards.⁴

Since 2006, sensitivity to criticisms of Australia’s unilateral engagement in the region has led to a noticeable shift in its approach to development assistance. A new

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focus, initiated in the last years of the former conservative government and now embraced by the new Labor government, is emphatically based on a 'partnership' approach to bilateral aid. This shift has moved Australia more in line with the aid effectiveness principles and modalities prescribed by the Paris Declaration. This has included moving all bilateral recipients to country-owned strategies, underpinned by locally developed frameworks (in PNG's case, its own Medium Term Development Strategy - MTDS). It has involved the shift from project aid to Sector-Wide Approaches (SWAs), and the elaboration of new, locally-owned performance and budgetary mechanisms to better manage aid flows. These changes are enshrined in the 2006-2010 Australia-Papua New Guinea Development Cooperation Strategy (DCS)⁵.

The recent election of a new Labor government in Australia in November 2007 has also restored more amicable diplomatic relations and a renewed spirit of cooperation between the two countries. In addition, the Australian aid agency, AusAID, has decentralised its activities and decision-making away from Australia's capital Canberra. Its offices in Port Moresby have now taken the leading role in project planning, procurement and implementation.⁶

These moves mark a significant departure from Australia's bilateral aid program that in the past has been criticised for its unilateralism, the carrot-and-stick tactics utilised to push for governance reforms, the ad-hoc nature of project-based aid, and the high proportion of Australian projects running parallel to rather than working within government systems, which undermined PNG's own capacity for service delivery and which, until 2004, were tied exclusively to Australian contractors.

These are significant gains. However, the intent here is not simply to document the changes that Australia has made in transforming its bilateral aid program in this area, but to use the PNG/Australia relationship as a case study to examine

where the obstacles are emerging to the implementation of the broader goals of the Paris Declaration.

Performance-Based Conditionality

One of the largest oversights of the Paris Declaration is the absence of a critique of donor conditionality and the prominent impact this has on democratic ownership and accountability.

Conditions placed by donors on aid funding have long been acknowledged by much of the development community as a barrier to aid effectiveness. However, in the context of the Paris Declaration, where aid effectiveness has been linked to managing performance and measuring results, new kinds of conditionalities emerge, linked to aid outputs and performance reviews, that bring with them their own problems and are likely to present significant issues in aid delivery.

Although the new Australian government has taken a much more conciliatory approach to diplomatic relations with PNG, since their election in November last year, they have signalled that they will be increasing the performance-based conditions on the aid program beyond those implemented by the past government, as the necessary companion to scaling-up aid volume.⁷

The 2006 Australia/PNG cooperation strategy emphasises that PNG has developed a *locally owned* performance review process and has formulated for its donors a set of benchmarks against which it can measure its own performance.⁸ However, the way Australia operates its benchmarks and incentives structure undermines the capacity of the PNG government to make its own policy decisions.

The essence of performance-based aid is a system of benchmarks which, once reached, trigger additional funding packages - \$30 million dollars in the case of PNG. However, details in the 2007/08 aid

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budget statements reveal that, although the incentive payments are to be spent in PNG's priority areas such as health and education, the benchmarks pertain to policy reform objectives in Australia's priority areas of the economy and governance.⁹

Measuring and monitoring performance is acknowledged as a fundamental element of aid effectiveness. Yet, if the implementation of donor-recommended economic and governance reforms are used as the indicators, this will only continue to undermine both the sovereignty of recipient governments and the accountability of governments to represent the interests of their own people. The risk here is that political and economic conditionalities are reinvented in the context of 'producing development results'.

Country Owned strategies - Genuine Partnership?

The 2006-2010 Australia PNG Development Cooperation Strategy repeatedly insists that the current bilateral aid program is based on a genuine partnership and defined by PNG's own priorities. Within the document, a schematic table aligns the aid priorities identified by PNG and those identified by the Australian government.¹⁰ Whilst there is some crossover, it is not exactly clear how the current strategy has been *actively oriented* towards PNG priorities. Rather, it seems to be laying Australia's own priorities, which focus principally on governance and economic growth over the top.

As an example, one point of difference between Australia and PNG's own MTDS priorities is the priority area of the promotion of income-earning opportunities for adults.¹¹ With limited opportunities for adult employment in PNG, the PNG government has used lobbying opportunities such as the Pacific Islands Forum to encourage Australia to open up its labour

market to PNG citizens¹². This push has been continually resisted by Australia, principally in terms of the threat to Australia's own national interests. Despite pressure from all quarters, including the World Bank's Robert Zoellick¹³, the previous Australian government's response to these demands was instead a policy to build technical collages in PNG and across the Pacific region, which may provide skills, but does not directly address the question of unemployment.

Labour migration is a very complex issue, but the resistance of Australia to opening up its labour markets crystallises a broader concern about whose interests ultimately prevail in a donor-recipient economic relationship.

This is highlighted in a remark by Charles Lepani, the High Commissioner of PNG to Australia, about the means by which the donor community has driven the aid effectiveness agenda. At a 2007 conference on Australia and the South Pacific he remarked "We went from budget support aid in Papua New Guinea to project-tied aid, and now you're bringing in SWAP or Sector-Wide Approach"¹⁴. There is, in these remarks, a strong sentiment that the 'partnership' approach is still defined in donor terms with entrenched power relationships continuing to pervade these newer aid modalities.

Finally, of course, there is a need to democratise country-owned strategies themselves. On the positive side the MDTS policy is well recognised by PNG's donors and has become institutionalised as a development framework. However, in essence, this kind of national plan remains a "top-down blueprint", as PNG permanent representative to the UN, Robert G Aisi, has remarked¹⁵. Though the Paris Declaration makes reference to the need for such plans to emerge from 'broad consultative processes'¹⁶, this should be redefined in terms of broad, inclusive and meaningful *participation* if genuine ownership is to be achieved.

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Tied Aid and Technical Assistance

Tied aid and technical assistance are two aspects of aid that are proving particularly resistant to the changes in the international aid architecture that are emerging from the Paris Declaration. The hundreds of consultants and advisors to the large corporate project management firms that receive most of Australia's contracts in PNG are adapting easily to the changed policies and programming and the new partnership model to protect and maintain their vested interests.

While Australia formally untied its aid program in 2006 in line with the Paris Declaration, AusAID's annual contract listings show that the same Australian providers still dominate and contractors from aid recipient countries are virtually absent.¹⁷ Superior knowledge of the procurement process and favourable bureaucratic structures have meant that large Australian contractors dominate and local providers are still only accessing aid funds primarily in subcontracting relationships conducted privately through the larger firms. The AusAID website is up front about the fact that the untying of aid was principally motivated to facilitate reciprocal access for Australian companies to European aid contracts.¹⁸

Australian companies have proved remarkably adaptable to the shift from project-based aid to program-wide and sector-wide approaches in PNG. Top Australian Firms such as Cardno ACIL, Coffey International, GRM International, and JTA International who dominated the project-based aid market now manage large sector-wide programs in the education, health, law and justice, infrastructure, and governance sectors. These primarily provide technical assistance and capacity to PNG government departments.

As an example, JTA International, an Australian firm that specialises in health sector project management, is contracted to run a Capacity Building Service Centre (CBSC) for the health sector in PNG.

Following on from an 'institutional strengthening' project within the PNG ministry of Health, the CBSC is intended to work with the partner government department to advise on priorities, financial and human resource management and technical assistance needs, to produce policy recommendations and recruit this assistance both nationally and internationally¹⁹.

Whilst an end to unsustainable parallel projects is a key benefit of the Paris Declaration principles, an unwillingness to significantly increase funds for the expansion of critical infrastructure in health and education has seen sector-wide funding principally focused on using expensive technical assistance to better manage the existing operations of PNG's own government departments. As the Australia/PNG DCS strategy states "donor resources will leverage and not displace Papua New Guinea's own transparent expenditure commitments".²⁰

The commercial-in-confidence nature of these large contracts, some 50-100 million dollars for five-year commitments, also makes it impossible to calculate the inputs and outputs for these programs including the internal procurement of what are often very expensive technical assistance consultants.

However, broader trends apparent in a report on the effectiveness of Australia's aid program released by the Australian government in March 2008 suggest that 50% of Australia's country programs consist of technical assistance²¹. This is a disappointing statistic. In 2004 an OECD DAC review of Australian aid judged levels of Technical Assistance, which it calculated to be 47%, to be too high²². Four years on that figure has actually grown.

Whilst the new Australian government is signalling that it will put more focus on increasing the reach of service delivery in health and education in PNG than its predecessors²³, the main step it will need to take is to manage the scaling up of aid

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effectively without feeding the technical assistance industry.

Concerns about conflicts of interest within the private companies also inevitably arise as many of these firms exist within a complex web of corporate subsidiaries with trading interests in similar markets where they act as consultants to governments. In one case GRM International, a company that is managing a \$27 million dollar, AusAID-funded, agriculture research and development facility in PNG, also has a trading arm, Austrex, which is one of Australia's largest agricultural exporters in the Asia-Pacific Region²⁴.

The predominance of these private interests which are 'tied-up' in the aid program, if not formally tied, ultimately reduces the transparency of aid funds to public scrutiny and acts as a barrier to democratic ownership and democratic accountability. Not only does expensive technical assistance in policy making undermine democratic participation, it also results in aid that fails to reach the poor and marginalised as it funds the salaries of foreign advisors and goods and services.

Civil Society and Democratic Governance

One of the biggest challenges for aid programming to emerge from the Paris Declaration is the role that civil society, as a legitimate development actor, can play in promoting development effectiveness outcomes. There has been some recent recognition of the emergence of a strong civil society in PNG, through the proliferation of NGOs, CBOs (Community Based Organisations) and in particular women's groups who have been active in calling governments to account in areas of women's rights.²⁵

A number of strategies are being pursued by the Australian aid program in PNG around this question. However, particularly since 2006, they have become almost entirely framed around the role that civil society can play in promoting "better

democratic governance".²⁶ To this end, AusAID has initiated a very significant aid project in PNG designed to bring the disparate 'civil society empowerment' programs - run with CSOs, churches, sporting groups and the media - together under the banner of one Democratic Governance Program called 'Strongim Pipol Kirapim Nesen' or 'Empowering People Strengthening the Nation'. The cost estimated in AusAID's 2007/08 procurement plan is \$100 million over five years - a comparatively large volume of funds for a project of this kind²⁷.

There is much that is exciting and intriguing about the opportunities of this package - not least the very strong emphasis that is placed on civil society as actors, which can increase the accountability of governments, and the long-term possibilities to build capacity, and empower and nurture a vibrant civil society.

However, this project is not without significant risks and concerns. The largest is the extent to which civil society groups are instrumentalised within a broader objective of improving political governance, a much narrower focus than fostering 'democratic participation' more broadly.

The initial draft democratic governance strategy, which was strongly linked to the 2006 White Paper of the previous government highlights the objective of matching supply-side (economic and governance reforms) with demand-side governance in PNG - fantastically 'market-esque' language.²⁸ There is also an emphasis on identifying and cultivating young leaders and 'change agents' seen to be capable of generating future democratic outcomes.

The very narrow view of the role of CSOs in this respect is to see them as performing a range of pre-determined functions such as educating the public in normative models of civic behaviour as a means of promoting greater understanding of the PNG political system.

Furthermore, there is a danger within this strategy that certain types of civil society organisation and indeed particular

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individuals will be seen as 'inappropriate' to this prescribed strategy by the donor country. This could prevent the recognition of the very diverse and sometimes quite critical role that a robust civil society can play in increasing the accountability and transparency of aid. Indeed it may also encourage the silencing of dissent in return for donor financing. There has already been one example elsewhere of Australia renegeing on funding for an East Timorese NGO when it was found that they had criticised Australian policy²⁹.

New Horizons

Australian aid policy looks set to go through a significant period of change with the new Labour government signalling its interest in embedding the Millennium Development Goals as the central framework of the aid program. This is certainly a positive step. Furthermore, the "Port Moresby Declaration" which emerged following the recent visit by Australian Prime Minister Kevin Rudd to Papua New Guinea suggests a

genuine interest in pursuing and even enhancing a partnership-based approach, creating what has been termed 'Pacific Partnerships for Development'.³⁰

However, Australia has often been referred to as a 'monopolistic donor' to PNG and there remains a growing concern that these partnerships will be conceived purely on a government-to-government basis, where the old emphasis on rapid economic growth, free trade and governance that underpinned Australia's past unilateral approaches will simply become rebadged under the mantle of partnership and 'mutual responsibility'.

Despite a welcomed emphasis on 'country ownership', genuine democratic ownership seems more difficult to attain where donor conditionalities and the vested commercial and foreign policy interests of donor nations continue to influence aid flows. It is in this context where firmly articulated principles of genuine partnership and democratic ownership could go a long way in moderating the historical power relations between countries.

Notes

¹ *High Level Forum*. (2008). February - March). Paris Declaration on Aid Effectiveness. Paris. p. 3.

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The Gilgel Gibe II Hyrdoelectrical Project - A Case of Super-Tied Aid

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Introduction

Whilst the Paris Declaration calls for ownership, alignment, harmonisation, managing for results and mutual accountability, the reality is that many donor countries are still engaging in practices which deliberately contravene good practice expectations. This article examines a case study where Italian aid has seemingly been used in Ethiopia, not so much to promote the developing country's urgent development needs, but to subsidise a major Italian company operating in the country.

Background

The Gilgel Gibe II hydroelectric project is a 25-kilometer long tunnel that generates power by exploiting the drop between the basin created by the Gilgel Gibe I dam on the Gilgel Gibe river and the river Omo. Gilgel Gibe II, when finished, will be connected to the electric grid with a long transmission line to Addis Ababa and a short one to Gibe I.

A EUR 490 million contract for the construction of the infrastructure was signed in May 2004 between the Ethiopian Electric Power Corporation (EEPCo) - a fully state-owned company and the sole electric utility in the country - and Salini Costruttori S.p.A., an eminent Italian construction firm that has a strong presence in many African countries.

The contract was awarded following a direct negotiation between the two companies; no international tender was called. This contravenes the procurement procedures issued by the Ethiopian Ministry of Finance and Economic Development as well as Italian law and international best practices on procurement.

Despite the irregularities in the procurement procedures, in October 2004, the Directorate General for Development Cooperation (DGCS) at the Italian Ministry of Foreign Affairs approved the allocation of a EUR 220 million aid credit to Ethiopia for the realisation of the Gilgel Gibe II. The loan was the biggest aid credit ever granted by the Italian development revolving fund. The project also benefited from a EUR 50 million loan from the European Investment Bank.

Only three months later (in January 2005) the Italian Government ratified the cancellation of EUR 332,35 millions of Ethiopian bilateral debt. Besides the question of procurement irregularities, such practices by the Italian Government are totally incompatible with the best practice adopted by other countries participating to the HIPC initiative aimed at preventing the reindbtment of HIPC countries and consisting in lending only small loans strictly addressed to poverty reduction projects.

Concerns Within Italy

The DGCS provided no explanation regarding its decision to approve the

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funding. In particular, it failed to justify its disregarding of the negative opinions expressed by the DGCS internal Technical Evaluation Unit and Ministry of Economy and Finance.

The DGCS internal Technical Evaluation Unit in its assessment pointed out that:

- The contract was secured through direct negotiation, contrary to existing DGCS procedures, Italian law (law 109/94), and the current procedures undertaken by International Organisations and the European Union in this regard;
 - No feasibility study had been carried out;
 - No costs relating to environmental impact mitigation measures were contemplated;
 - Contract management and control procedures were given inadequate attention;
 - The concessionality rate of 42.29 percent was completely inappropriate, taking into account the critical debt situation of the country.
- The expected returns are assumed to come from the profits deriving from power exports and from national end-user tariffs. However, some forms of subsidy for increasing electricity access will be required, as Ethiopia ranks among the poorest countries in the world.
 - This is an unprecedented amount of credit since the creation of the revolving fund and it undermines the commitments that have already been made.
 - The overall cost of this project might not be covered in full, as Ethiopia is supposed to contribute EUR 132million.

The Italian Ministry of the Economy and Finance, formally responsible for the revolving fund management, expressed deep concerns on the following points:

- Ethiopia is an HIPC (Heavily Indebted Poor Country), therefore, the granting of this loan is a substantial breach of Decision n. 139 of 29.7.2003 on developing countries' eligibility for aid credit.
 - This aid credit has a 42.29 percent concessionality level and it is in sharp contrast with IMF forecasts concerning Ethiopia.
- Concerns were raised within the Italian Parliament. Between 2004 and 2006 two parliamentary questions on the Italian funds allocated to the Gilgel Gibe II project were submitted to the Lower Chamber and the Senate respectively. On 25th November 2005, a parliamentary question was submitted by MPs Calzolaio and Spini to the Chamber of Deputies. The questions sought to clarify the positions of the different ministries and institutions involved and attempted to discover the relationship between the concession of the loan and the HIPC initiative aimed at relieving Ethiopia's debt burden.
- Undersecretary Luigi Mantica answered on 19th January 2005, addressing the question but giving no explanations with regard to the main issues raised. On 9th February 2006, a new parliamentary question was submitted by Senators Iovene, Martone, Tonini and others. The question highlighted the fact that this was one of the highest loans ever granted for a single project, considering that the financial resources allocated by Italy in 2003 throughout the world amounted to less than EUR 180 million. It was also noted that Salini Costruttori S.p.A.

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had subcontracted part of the work to Società SELI, a company that in March 2005 started drilling the hydroelectric tunnel. The procedures that led to the allocation of the contract appear dubious at best. This question received no response due to the termination of the mandate of the then government.

In March 2006 the Prosecutors' Office in Rome instigated criminal proceedings concerning Gilgel Gibe II hydroelectric project. At the moment, it is still not possible to know the nature of the charges filed because of the investigation's secrecy, though it is plausible to think that they are likely to concern alleged corruption in the DGCS.

On February 2007, the DGCS office concerned put together a file containing relevant documents on the Gilgel Gibe II case for the DGCS Secretariat to be forwarded to the Tax Squad of the Finance Police. So far, the DGCS has not been formally contacted by the investigators to check documents and interview people as would be standard practice in such cases. It is not clear if the investigation ever started. Suspicions of a cover-up are being voiced.

Other Donors

The European Investment Bank provided EUR 50 million for the project in October 2005. However, it did not examine the details of the contract, but accepted the statement of the Ethiopian government that claimed the funding was necessary to redress the imbalance between electricity supply and demand that was creating an emergency situation and hindering the country's economic growth.

The European Investment Bank approved the loan when the contract was already signed and the construction work well advanced, requiring an international tender procedure only for the EIB's funded components: the purchase and the installation of the electromechanical

equipment for which sub-contracts were awarded. Moreover the EIB was not concerned about the fact that construction work began more than one year before without the environmental permit issued by the Environmental Protection Authority.

The World Bank did not support Gilgel Gibe II because the contract was signed before the securing of finances and because of the inadequate procurement process. SACE, the Italian Export Credit Agency, identified similar risk factors to the Italian Ministry of Economy and Finance and also refused credit.

Problems and Inconsistencies

The justification used for the project of an emergency in energy supply is really questionable. Ethiopia has one of the world's lowest levels of access to modern energy services and relies primarily on traditional biomass. Furthermore, in February 2004, only a few months before the signing of the contract of Gilgel Gibe II, Gilgel Gibe dam (now known as Gilgel Gibe I) became operational. This increased the national generation capacity to 783 MW while Ethiopia's peak domestic demand as of January 2006 was only 587 MW.

Gilgel Gibe II is now facing a delay due to the inadequacy of the preliminary studies. The project was originally planned to be finalised in December 2007 but it is currently facing, at minimum, a one-year construction delay. A large drilling machine is stuck in the main tunnel and the problem is yet to be solved. An optimistic forecast would be a minimum delay of 18 months.

Under the EPC (Engineering Procurement Construction) contract, the contractor is responsible for virtually all extra costs and can be sanctioned for delays. However the delay in question is due to geological reasons and as the construction started without accurate geological studies, the project contract included an exception of contractor

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responsibility for geological risk. This was agreed by EEPCo and Salini to be an exception. Therefore, Salini has received an extension and is not subjected to the sanction's payment.

Aside from the project delay and investigations into contract procurement and financing, a team from the European Commission monitoring the project identified several other "lessons learned": *"The Project was defined without a comprehensive sector support strategy. Possible negative consequences are: limited coordination and policy influence for the long-term sector development in synergy with other interconnected sectors; limited scope for supporting best practices with regard to (socio) environmental impacts of large infrastructure projects; absence of an accompanying programme for social development and capacity building; de-link with grant programmes and projects financed by the Italian Development Cooperation in Ethiopia."*¹

An On-Going Strategy

The 'Gilgel Gibe Affair' is more than simply one irregular or 'dodgy' project. The hydro-projects are part of an overall strategy to develop electricity supply, in which Salini Costruttori S.p.A. is continually a central actor. Today, there are five hydro-electric projects under construction: Gilgel Gibe II (428MW); Tekeze (300 MW); Beles (400 MW); Amerti-Neshi (100 MW) and Gilgel Gibe III (1870 MW). Salini Costruttori S.p.A is actually involved in three out of the five projects under construction (Gilgel Gibe II, Beles and Gilgel Gibe III) and also constructed Gilgel Gibe I.

The Beles, Amerti-Neshi and Gilgel Gibe III projects were not even identified in a list of projects under construction, study and design in government documents from 2005.² In that year, the Government of Ethiopia released an aggressive 25 year national energy Master Plan with the aim of exploiting the huge country hydro potential

estimated at between 30,000 and 45,000 MW and over 300 sites have been identified for possible future development. The Master Plan implies a large hydro infrastructure development aimed at exporting energy to Kenya, Sudan and Djibouti. EEPCo identifies Salini Costruttori S.p.A. as a main commercial partner in this plan.

Gilgel Gibe III is the latest and most worrying episode of this saga. On 19th July 2006, Salini Costruttori S.p.A and EEPCo signed another contract for the building of the Gilgel Gibe III dam on the Omo River, which is the biggest hydro-electric project ever realised in Ethiopia, with a 240m drop and generating 1870 MW, for a total cost of EUR 1.4 billion. This contract, as with the previous one, was awarded through direct negotiation without an international tendering process. The construction of the dam began immediately after the signing of the contract and, as of November 2007, 13 percent of the infrastructure was reportedly complete.

The dam site is located in the upper Omo basin. The area is characterised by a large plateau with a long and relatively narrow canyon where the river flows. The climate in the basin is arid to semi-arid. Upstream of the dam site, a 150km-long reservoir will be created with the Gojeb River emptying into it, flooding the whole canyon from the dam upstream to the Gibe river. The reservoir will have a surface area of about 34,150km² (the Gibe I reservoir is about 4,200km²) and with a useful capacity of 11,750m³. Five hundred hectares of agricultural land will be flooded as well as 1,532 ha of riverine forest and 25,506 ha of deciduous woodland. Despite local people living mostly on the plateau, it is envisaged that around 400 households will be displaced. The banks of the rivers are mostly used as grazing land and for firewood collection and as an important route of exchange between the communities living on the both sides of the river.

Downstream of the dam's site, the Omo river flows another 600km to the south, crossing the Omo National Park and

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reaching Lake Turkana, located at the border with Kenya. The Omo National Park is one of the areas with the largest biodiversity in Africa and it is populated by more than fifteen different tribal groups still living through traditional means. In 1980, the lower Omo Valley was declared a World Heritage site by UNESCO because of "*The discovery of many fossils there, especially Homo gracilis, has been of fundamental importance in the study of human evolution.*"

The construction of such a mega-dam and, the consequent creation of this large reservoir will definitively compromise a very fragile and unique ecosystem, as well as the social environment of the entire region, which is nationally and internationally identified as a protected area. It is important to note that, a Gilgel Gibe IV dam is also envisaged on the same basin, very close to the Omo National Park perimeter. Feasibility studies for the dam are currently ongoing. The contractor will again be Salini Costruttori.

Who is Interested in Supporting Gilgel Gibe III?

By April 2008, the project had still not received any financing from public institutions³. The finances for starting construction were secured by EEPCo itself. Given the procurement irregularities and likely social and environmental impact of the hydroproject, it can well be questioned whether the project is in the development interests of Ethiopia. Yet the provision of aid to fund the project, would certainly be in the interests of a major Italian company and therefore also possibly of interest to the Italian government.

The Italian government has been formally approached by the Ethiopian Minister of Foreign Affairs for a EUR 250 million loan, but its official response states that the Italian government could take into

consideration a new loan for Gilgel Gibe III only after the completion of Gilgel Gibe II. Salini Costruttori is proactively lobbying all levels of the Italian Foreign Ministry in order to obtain the loan.

The ongoing criminal investigation and the DGCS's dubious conduct in the Gilgel Gibe II project appraisal have not resulted in the Italian Government categorically ruling out its participation.

The World Bank is not willing to finance an additional electricity generation project because there is not sufficient energy demand to justify such a huge investment. Moreover the procurement is not in line with the bank's guidelines. Finally the bank is worried about the EEPCo's financial situation as it requires between USD 3,2 million and USD 4 million to complete the ongoing projects.

The African Development Bank has a positive attitude towards the project considering that it has reached a point of no-return. Under these circumstances, it deems that it is more practical to complete the infrastructure. Although the Bank recognizes that the project's contract procurement is not in line with the Bank's guidelines, it is looking for a way to overcome this problem, namely by subcontracting the purchase and installation of electromechanical components through official and open tender procedures. They are willing to support the project up to USD 200 million but they are waiting to know the final position of other donors before taking a final decision by mid-2008.

Other donors identify the European Investment Bank as a highly possible investor in the operation, lending up to EUR 200 million. It has been formally approached by EEPCo. Meanwhile, the Chinese Government is clearly not interested in being involved in the operation. SACE, the Italian Export Credit Agency, has officially declined a request by Salini for an export credit guarantee, a replication of its 2006 decision.

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Conclusions

Despite Italy already being warned by the OECD's Development Assistance Committee (DAC) in 2001 for the consolidated practice of tying its aid, nothing seems to have changed and with Gilgel Gibe II additional allegations of maladministration have been reported. Gilgel Gibe II appears as a case of super-tied aid from Italy, lent in a situation full of shadows and in the presence of an already signed contract without tendering procedure for a project involving a well known Italian firm, involved in other controversial dams in Africa such as Bujagali in Uganda and Bumbuna in Sierra Leone.

It seems highly possible that in the near future the Italian Government will step into the Gibe III project, perpetuating the

"Sistema Italia", in other words subsidizing its national companies through aid projects.

At the European level, the European Investment Bank should operate its external lending in support of the EU development goals and in this case, in the framework of the "Cotonou agreement". However, European development policy seems to be still incoherent and lacking effective operational frameworks.

Campagna per la Riforma per la Banca Mondiale (CRBM) and CEE Bankwatch Network released on February 2007 a full report about Gilgel Gibe hydro-electrical projects titled "The Gilgel Gibe Affair" available at <http://www.crbm.org/modules.php?name=download&f=visit&lid=216>

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Notes

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Women's Empowerment and the New World of Microcredit Evangelism

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Introduction

Microcredit has become a buzzword in development circles. Advocates of microcredit often perceive it as a panacea for poverty alleviation. Historically, microcredit programs were initiated by women's groups and non-governmental organizations (NGOs) as a potential tool for women's empowerment, giving poor women greater access to financial resources. By and large, microcredit programs have remained localized, functioning within existing savings and credit facilities. Now, attempts are being made to launch microcredit programs at the global level, hard selling it as an anti-poverty formula.

Recent trends indicate that microcredit programs are moving away from the 'development as charity' model to a more profitable 'development as business' approach. According to a recent World Bank survey, microcredit lending will reach nearly US\$ 12 billion worldwide by the end of 1997. In the case of India, not only private donors but a large number of governmental financial institutions (NABARD, SIDBI), bilateral donors (SDC, GTZ), World Bank and other international financial institutions are promoting microcredit programs on a large scale.

Even the transnational banks are jumping on the microcredit bandwagon. It is not wrong to say that there has been a flooding of financial resources to carry out microcredit programs in India and elsewhere. Thanks to microcredit, for the

first time, we see a "partnership" between two diverse groups - NGOs and women's groups on one hand and multilateral financial institutions and transnational banks on the other. Historically, these two groups had nothing in common in terms of world view, ideology, strategy or "clients".

The reasons for growing interest in microcredit programs by the commercial banks and financial institutions are as varied as the players in the field of microcredit. There are two types of micro-lenders in India and elsewhere:

1. Those whose primary goal is empowerment of the poor. These combine microcredit with health care, training and organization of labor to raise the living standards of women and poor people. They view microcredit programs as a potential tool for empowerment, giving women and poor people greater access to financial resources to break the shackles of poverty.
2. Those whose primary goal is profit. These micro-lenders see microcredit as a new profitable avenue of business. Many financial institutions have realized that micro-lending offers immense opportunities to make profit as interest rates can range from 20 to 100 percent and repayment rates are over 90 percent, far above commercial lending rates. However, exorbitant interest rates often keep the poor people

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trapped in a downward spiral of debt. This economic logic makes the poor more attractive to banks and financial institutions, but not the other way around.

Growing Influence of Donors and World Bank

The sudden spurt of interest in microcredit among developmental banks and financial institutions unfortunately stems from viewing it as a 'win-win' option, wherein investors profit handsomely while the poor gain access to financial resources. They see microcredit as a 'cheaper' alternative for poverty alleviation because it avoids the 'overhead' costs of a wider development agenda covering areas such as group organization and mobilization, support for campaigns, access to natural resources, redistribution of resources and skills training.

However, this thinking totally undervalues the role and significance of public policy through measures such as social sector spending and other developmental initiatives which contribute to the eradication of poverty. It needs to be emphasized that microcredit is not a substitute to social-sector spending and anti-poverty programs. How beneficial is credit if cuts in social services continue to exacerbate women's poverty and increase their total labor hours? This is not to argue that credit has no role in alleviating poverty but what can women do with credit if they do not have child care, education, training, and health services?

In this context, the role of the World Bank in promoting microcredit needs to be discussed and debated. In 1995, the World Bank launched its own micro-lending arm, CGAP, with the goal of 'systematically increasing resources in microfinance.' The Bank's President, James Wolfensohn, announced this program at the 1995 Fourth World Conference on Women in Beijing. Unfortunately, CGAP appears to be narrowly

focussed on micro-lending as an end in itself.

A recent report prepared by the Washington DC-based Institute for Policy Studies found that 46 percent of CGAP's expenditures in its first year of operation was spent on policy reforms which may benefit lenders but end up hurting poor borrowers, particularly women. For example, CGAP views micro-lending as unviable in the presence of usury laws - laws which provide ceilings on interest rates. Thus, its first dictate at a conference in Mali was to get government officials to repeal their nation's usury laws.

CGAP also calls on countries to completely privatize their micro-lending institutions, removing all subsidies for banks which service the poor. CGAP advocates stronger debt collection laws - specifically collateral laws - which will result in a safer environment for bankers but which could exclude the poorest, and poor women in particular, from access to small loans.

Microcredit Summit

A global campaign to ensure that millions of the world's poorest families receive credit for self-employment was launched at the three-day Microcredit Summit in Washington, DC, 2-4 February 1997.

Organized by RESULTS Educational Fund, a US-based non-governmental organization, the Summit goal was 'to ensure that 100 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the year 2005.' The Summit was supported by a number of financial and development banks including the World Bank, International Fund for Agriculture and Development, Citicorp, MasterCard, Chase Manhattan and American Express.

Surprisingly, the registration fee for the Summit was \$200, not a small amount for many small practitioners of microcredit. Hardly anyone from small and grassroots

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organizations of the South sat on the panels. On the other hand, International Financial Institutions, especially the World Bank and its microcredit facility, Consultative Group to Assist the Poorest (CGAP), were well represented. Similarly, the summit was addressed by high-level speakers such as Hillary Clinton, President Fujimori of Peru and Queen Sophia of Spain and representatives of financial institutions. Most NGO participants were from the larger and best-known organisations such as FINCA, Women's World Banking, Accion International, Catholic Relief Fund, and Save the Children Fund.

Although Summit organizers claimed that no single model of microcredit delivery was promoted during the event, an emphasis on scale, commercial viability, and quantitative assessment criteria was evident throughout, according to Nan Dawkins Scully of the Institute of Policy Studies who attended the Summit. She argued that this was not surprising given the attendees were donors and commercial financial institutions which tend to favour a market-based model, in which commercial banks team up with profitable micro-lenders seeking increases in 'market share' as a means of reaching larger numbers of 'clients' (poor borrowers). Donors and international financial institutions increasingly promote such a model as 'best practice'.

A number of participants expressed concern that the Summit might produce negative consequences. Many feared that the Summit's rhetoric framed microcredit as a sole source or best possible solution for poverty - particularly women's poverty. NOVIB, a Dutch NGO, issued a statement stating, "the goal of the microcredit Summit to 'solve' poverty by providing credit is highly over-rated; the poorest groups in societies cannot take control over their own future - nor completely over the use of credit - without change in more structural issues like literacy, unequal power relations, employment and wages that reinforce their present position. The solution of poverty

cannot be totally put on the shoulders of the poorest."¹

Jaya Arunachalum of Working Women's Forum in India echoed this concern: "Addressing economic interests alone is not sufficient. Poverty is a consequence of systematic social exclusion from policy options or productive measures for the most vulnerable groups." Similarly, Oxfam's Ben Rogaly and Susan Johnson pointed to trickle-up microcredit programs implemented by small, local-level initiatives as the most likely to be successful.

Despite the fact that small practitioners were not well-represented on plenaries during the Summit, a coalition of 43 African microfinance providers issued the following statement: "Any future criteria for accessing microfinance funds needs to take into account the involvement of small, start-up organizations. We are concerned that a significant global microfinance fund set up by donors has already bypassed our nascent, indigenous organizations." The coalition went on to say that "criteria for selection of microfinance operators should be developed through a broad-based process and popular participation."

The Summit's quantitative objective of reaching 100 million people needs to be challenged, since achieving this goal would require a massive increase in the scale of microcredit programs. It seems that nothing has been learnt from past experiences that clearly show that this risks resulting in institutions that are too big and too removed to be effective. Further, increasing outreach to 100 million people requires a marriage between commercial banks and practitioners of microcredit. Like donors, commercial banks prefer practitioners who offer financial services only - not the credit programs which offer 'expensive' services such as training, education, child care, labor organizing, etc. Thus, the achievement of this goal may lead to the promotion of credit at the cost of other developmental measures.

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Indian Scenario

Overall in India, a number of self-help savings and credit groups and microcredit programs have been initiated since the 1980s to provide credit facilities to the poor, especially women, in both urban and rural areas. These programs stumbled upon a surprising finding: by targeting women, repayment rates came in well over 95 percent, higher than most traditional banks. Impressed by the repayment rates, banking institutions like National Bank for Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) began increasing their lending to such groups.

However, the lending rates to borrowers are not cheap. For example, (SIDBI) lends to NGOs at 9%; NGOs are allowed to on-lend to credit groups at a rate up to 15%; and groups, in turn, are allowed to charge up to 30% to individual borrowers. Although such high-interest credit is touted as a vehicle for poverty alleviation wherein the poor use the funds to undertake commercial ventures, various studies have also found that the loans are often used by poor people to meet their daily consumption needs rather than creating productive assets.

Now on a much larger scale, microcredit institutions are being established in India, with liberal grants, in the form of seed money, from international donor agencies like the Ford Foundation, UNDP and Swiss Agency for Development and Cooperation (SDC). This seed money, in turn, will attract additional capital from the corporate sector and financial institutions. Loans are to be provided to borrowers through a network of subsidiary lending institutions. To assure investors a good rate of economic return, these corporate entities will lend at market rates. This market-based approach has evoked sharp criticism from many researchers who argue that it may keep the poor on the treadmill

of debt or bypass them altogether in favour of those who can afford credit at market rates.

Keeping the CGAP framework in view, the World Bank recently financed a project in India called Rural Women's Development and Empowerment Project. The entire focus and emphasis of this project is to launch credit programs through the establishment of self-help groups in India. Whilst one might expect that a project with such a progressive title as "Empowerment" would include developmental components other than credit, women's empowerment is only seen in terms of economic development with a narrow focus on credit and income-generation programs.

Other aspects are clearly essential to genuine empowerment. In the case of rural women, their control and ownership over land can play a very important role not only in economic welfare but, more importantly, in terms of social and political empowerment as land is a symbol of political power and social status in rural India. Furthermore, it is not realized by the World Bank and even many women's groups that self-employment is the last choice for poor women in India. Perhaps the Bank is not interested in a process of women's empowerment that may be too political and requires various other strategies. This could explain why the Bank - and the women's groups that will be involved in this project - have agreed to adopt a "soft" approach towards women's empowerment by promoting the credit programs and self-employment activities.

In general, and as the number of micro-lenders in India multiplies, a proper regulatory framework under which these entities should function must be developed to ensure that those involved in microcredit come under close public scrutiny. Otherwise, these new entities may end up as an exploitative form of organized money lending with no public accountability.

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A More Balanced View of Microcredit

Microcredit has to be seen in the context of an increasingly exploitative global order in which macro-economic policies of liberalization and globalization are destroying formal sector jobs, decreasing social-sector spending in real terms, and leading to increased unemployment. In this scenario, the last option left for poor people is self-employment, which microcredit aims to promote. With the support of credit, many poor women are involved in income-generation activities of producing consumer and household goods.

However, the odds are stacked against the success of the self-employed in the market, as they do not enjoy any market protection. Besides, they have to compete with the goods made by big business and transnational corporations. How can poor women compete with the transnationals and big businesses that have strong financial clout and can spend millions every year on advertising, brand selling and marketing? Similarly, how can they be successful if they are not adequately supported by the

relevant service infrastructure in fields such as health, education and childcare?

Thus, these women are placed in an extremely disadvantaged position in the market and are not empowered to succeed. To make this situation advantageous to women requires radical changes in macro-economic policies and significant spending in the social field. There are very few examples of microcredit programs where macro-interventions for more favourable economic policies for poor women have been sought or where associated social spending has been foreseen.

This is not to undermine the valuable role that microcredit can undoubtedly play in poverty alleviation in various situations. Yet, any developmental strategy will require far more than the 'band-aid' of microcredit on the gaping wound of poverty and unemployment. Otherwise, microcredit programs, at best, can lead to just micro solutions. Advocates of microcredit must heed the warning of U.N. researcher Linda Mayoux that, "Microcredit's success is dependent on, rather than a substitute for, wider changes in the development agenda."

Notes

- ¹ From *Novib's View on the Role of Micro-credit in Fighting Poverty*, Declaration presented during the Microcredit Summit, February 1997.

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Democratic Ownership of Aid in the Philippines

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There are many challenges to democratic ownership of official development assistance (ODA) in the Philippines although there are also some reasons to be hopeful. Aid goes mainly to furthering foreign and elite policy interests and only secondarily to addressing the country's considerable development needs. Aid has been used to influence national policies that are adverse to the Filipino people's interests. Large parts of aid are also disconnected from social realities and priorities.

The Philippines has some internal weaknesses stemming from the country's still being in its long-drawn-out democratic transition. Whilst citizens actively engage in governance efforts, especially through civil society, the formal mechanisms for greater public involvement are either absent, underutilized or even bypassed and subverted. Within such a context, aid has tended to align with and reinforce the inequitable political and economic status quo. Recent years have even seen some worrying anti-democratic tendencies.

Filipino citizens and civil society nonetheless continue to strengthen themselves. They struggle to hold government accountable and to open up avenues for greater democratic involvement by women and marginalized sectors. In terms of aid effectiveness these social pressures, organized advocacies and principled engagement are vital to increasing democratic ownership of aid. They create the solid basis for improving

decision-making on where aid goes, how it is used and towards what ends. They are essential to strengthening transparency and accountability in the country's aid processes.

Overall Aid Trends

Aid flows to the Philippines have been generally declining since their peak in 1992, including in the period 2000 to 2006 for which the most recent full-year data are available. The value of total on-going ODA loans fell from US\$13.3 billion in 2000 to US\$9.5 billion (for 135 project and six program loans) in 2006, while total ODA net loan commitments dropped from US\$19.0 billion to US\$15.4 billion (for 237 loans).¹

The country's top five donors accounted for nearly 95 percent of all on-going loans in 2006. The biggest donor was Japan, through the Japan Bank for International Cooperation (JBIC), whose US\$4.7 billion in loans accounted for 49.3 percent of total on-going loans.² This was followed by the Asian Development Bank (ADB) with US\$1.8 billion in loans (18.6 percent of the total), World Bank (WB) with US\$1.5 billion (16.0 percent), United Kingdom with US\$588 million (6.2 percent) and China with US\$460 million (4.8 percent); the balance of US\$484 million was provided by thirteen other donors.

China was only the fifth biggest donor in 2006 but its loans were the largest on

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average at some US\$153 million per loan (i.e. US\$460 million for just three loans). The sheer size of these loans combined with China's more lax approach to ODA compared to the more established donors has tended to foster irregularities and corruption.³ China's donor standing in the country could, however, change significantly with the signing of a China-Philippines Framework Agreement in January 2007 that potentially covers at least US\$1.6-2.7 billion in additional ODA for seven infrastructure projects.⁴ This rising aid presence reflects China's increasing global aggressiveness in the ODA realm and, at least in the Philippines, the filling in of gaps due to falling contributions from traditional donors.

ODA remains very significant in economic terms especially since the Philippines remains essentially underdeveloped and unable to generate sufficient capital resources internally.

The value of total on-going loans remains substantial and was equivalent to 8.1 percent of gross domestic product (GDP) in 2006; total net loan commitments in turn were equivalent to 13.1 percent of GDP.⁵ ODA from bilateral and multilateral sources has fallen from its peak of 81.8 percent of the total public external debt stock in 1994 to a still large 56.4 percent in September 2007.⁶ The total share of ODA in the external debt stock likewise fell from 66.6 percent to 38.5 percent over the same period.⁷ The country has had no outstanding International Monetary Fund (IMF) loans since 2006.

Actual ODA disbursements of US\$1.94 billion in 2006 were large relative to national government finances and were equivalent to 13.5 percent of total non-debt expenditures and 10.2 percent of revenues collected for the year.⁸ ODA is particularly significant in the case of particular line agencies.

For instance, ODA disbursements of US\$454.5 million to the infrastructure-heavy Department of Public Works and Highways (DPWH) in 2006 were equivalent to 27.3

percent of the agency's expenditure program.⁹ A similar situation is found in particular sectors. Total ODA disbursements of US\$226.2 million to the agriculture, agrarian reform and natural resources sector in 2006, for example, were equivalent to 24.4 percent of the national government's allocation for the sector.¹⁰

This significance of ODA means that, in the absence of pro-active measures that can create a firewall against donor influence, the Philippine government is put in a situation in which the donors have considerable direct and indirect leverage over it. This has strong implications for the democratic ownership of aid.

Aid, Conditionality and Ownership

The Paris Declaration (PD) narrowly construes ownership as partners' having "operational development strategies". The limitations of this approach are clear in the case of the Philippines where the government feels able to claim that it "has well advanced efforts to comply with the PD principles [on ownership]". Simply by asserting the existence of a Medium-Term Philippine Development Plan (MTPDP) and its subsidiary or accompanying documents, the government argues that the Philippines "truly owns its development agenda and processes."¹¹

Yet governance and policy-making in the country remain deeply undemocratic. The direction of major national policies such as the MTPDP historically comes from foreign and elite interests, which subsequently end up benefiting more from these policies than the majority of the population. At first glance this appears to be a purely internal problem: the Philippines is still in the process of building a genuinely broad-based and representative democracy. However, in reality, donors are effectively exploiting and indeed reinforcing the lack of democratic accountability to serve their interests.

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Donor countries use foreign policy tools for their economic and geopolitical objectives. In this regard, ODA, whether bilaterally or through the multilateral agencies which donor governments control, is one of the most important mechanisms for exerting influence. This self-interested use of aid has effects extending far beyond the timeframe of specific loans and cut across the breadth of national life. The accumulated adverse impacts are even grave enough to offset the small and scattered micro-scale benefits of aid projects. This is what makes policy conditionalities, direct or indirect, the central and overriding problem of the aid system.

Economic policy conditionalities are a particularly brazen form of exerting power through aid. This is in addition to the effects of decades of relentless big power economic, political and ideological influence. For instance, local policy-making elites have already largely embraced neoliberal "free market" ideology, the main economic content of conditionality, thus greatly reducing domestic official resistance. Economic strategies are nowadays from the very start crafted to be appealing to donors and foreign investors.

Three decades of "free market" conditionalities have already turned the Philippines into one of Southeast Asia's most open economies with the lowest tariffs and least restrictions on foreign capital next to Singapore - so there are now fewer policy areas needing a "free market" overhaul compared to decades past. Yet, because there are still some hold-outs, formal conditionalities do still persist. The country's last IMF loan was a US\$1.4 billion stand-by arrangement from 1998-2000 which had 110 conditionalities euphemistically called "structural reform measures". This capped four decades of stabilization programs with tight fiscal and monetary policies contained in 24 IMF loans totaling US\$3.0 billion and SDR3.1 billion.

The WB meanwhile continues with its structural and sectoral adjustment loans that have totaled some US\$2.8 billion so far.

It gave a US\$250 million Development Policy Loan (DPL) at the end of 2006 that covered, among other things, fiscal austerity and new taxes - picking up from where the IMF left off - as well as power privatization. The DPL is an innovation from previous adjustment loans in that it was formally drawn up and given wholly only after the policy changes were made, rather than being negotiated and then subsequently disbursed based on prior formal commitments.

Donor pressure is also applied on the basis of the sum of all ODA and not just on a case-to-case basis. The pending Japan-Philippines Economic Partnership Agreement (JPEPA) is an example of aid being used to leverage particular policy outcomes. The JPEPA was signed in 2006 and only needs ratification by the Philippine Senate to come into effect. Japan has effectively been using its past and current yen loan packages as leverage for the free trade deal's ratification with constant allusions to its being the country's largest donor. Philippine government economic managers themselves have openly argued that non-ratification of the JPEPA could antagonize the country's biggest aid source. The latest 27th and 28th yen loan packages have been reported to be worth at least PhP67 billion so far (around US\$1.7 billion at current exchange rates).

Aid has also been used to advance donor geopolitical interests at the expense of national sovereignty and development objectives. The United States (US) is the country's largest grant donor and since 2001 has accounted for between a third and nearly half of all grants received in any given year. It has used this as leverage for an increased US military presence in the Philippines as part of its global "war on terror". US foreign assistance to the country - covering both development and military aid - immediately tripled post-9/11 from US\$48.7 million in 2001 to US\$132.4 million in 2002.¹² Levels have remained high since then with the total US\$743.0 million over the period 2002-2007 implying an average of US\$123.8 million per year. This is

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even as the Philippine military and its paramilitary forces have been found to be complicit in mounting human rights violations and a wave of political killings, forced disappearances and abductions.¹³ Outside of these grants, the US has, since 2000, been providing some US\$20-40 million yearly in Public Law 480 (P.L. 480) loans ostensibly as "food aid" but really to purchase US food surpluses and support its own domestic agribusiness.

The US's whole approach is patently geared to promoting its strategic military presence in the country. Its total grant package is divided into USAID funding and military and security-related funding. The share of military and security-related aid in its total grant package for the Philippines increased four-fold from 10.5 percent in 2001 to 39.5 percent in 2007, with the absolute amount increasing eight-fold from US\$5.1 million to US\$41.7 million; the cumulative total for 2002-2007 reached US\$273.1 million.¹⁴

United States Agency for International Development (USAID) funding in turn increased only slightly from US\$43.6 million in 2001 to US\$63.9 million in 2007 - with, for instance, the Development Assistance (DA) component actually halving from US\$30.3 million in 2001 to US\$14.9 million in 2007. Moreover, some three-fifths of USAID funding - covering DA, Economic Support Funds (ESF) and Child Survival and Health (CSH) - has become concentrated in local community projects in the Mindanao region.¹⁵ These southern provinces were the re-entry point for US military forces in the country in 2002. Since 2002, there has been in the Philippines a continuous presence of US troops - from a few hundred to over 6,000 (especially in Mindanao) - pre-positioning of war materiel and the transit of US forces heading for Afghanistan and Iraq.

China is rapidly emerging as a new source of geopolitical influence in the Philippines and is the Philippines' fastest growing donor by far. Even if only the

pipeline projects discussed recently come on-line, China will have over US\$2 billion worth of commitments to the country - bringing it from virtually nowhere to being a close second to Japan in just a few years. This is happening at around the same time that the Philippines has made an unprecedented concession to China over disputed territory in the South China Sea. In 2004, the Philippines effectively downgraded its sovereignty claims over the disputed Spratley Islands by entering into an agreement with China for joint exploration and possibly development of the area's energy resources.¹⁶ Four Association of Southeast Asian Nations (ASEAN) have territorial claims on the area, aside from China and Taiwan, so the unilateral Philippine action breaks ASEAN solidarity on the issue.

A Non-Participatory Aid System

There is an urgent need for a more democratic and participatory aid system to resist the pressures of the major donors. However, aid policies are heavily centered on official bodies and the executive branch in particular. Government policy is defined by the ODA Act of 1996 which also identifies the main bodies involved: the economic planning agency National Economic and Development Authority (NEDA), the Commission on Audit (COA) and a Congressional Oversight Committee on ODA (COCODA). The long-time donor-government venue for taking up ODA-related policies was the Consultative Group (CG) which was broadened into the Philippines Development Forum (PDF) in 2004.

There is still much to be done for citizens to be more genuinely engaged in the ODA process. The COCODA is a potentially important parliamentary mechanism but this remains basically dormant. It was only convened in 2005, a decade after the enactment of the ODA law; since then it has only had a handful of

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meetings mostly involving general ODA briefings. The PDF is nominally a multi-stakeholder body, but donor and government voices remain extremely dominant. There is also the risk that the PDF, by coordinating donor efforts, simply serves to further increase their individual and collective leverage over the country's policies.

Civil society organizations (CSOs) meanwhile are disconnected from large parts of aid and aid-related processes. Infrastructure projects and program loans already take up at least two-thirds of total ODA and CSOs have no direct involvement in these. Yet CSOs have the potential to play a significant role here. With sufficient transparency, access to information and real mechanisms for engagement, they could serve as effective independent watchdogs against project-level corruption, social dislocation and undue environmental damage. CSOs are also uniquely positioned to bring grassroots perspectives to policy processes.

CSO involvement has largely been as ground-level implementers of aid projects in their perceived areas of greatest expertise - typically social and rural development. The case of Japanese ODA with respect to local non-governmental organizations (NGOs) is revealing, particularly since Japan is overwhelmingly the country's largest donor so its behavior strongly influences the character of the overall aid package. Japan's Grant Assistance for Grassroots Human Security Project (GGP) is the main window for CSO involvement. Yet, in 2004, the GGP accounted for a miniscule 2.3 percent of total Japanese ODA to the country.¹⁷ The WB and ADB are more active users of CSO channels for their assistance - the WB recently reported that up to 70 percent of its projects involve CSOs - but they are the notable exceptions amongst official donors. In any case, a substantial portion of the value of WB and ADB assistance goes to infrastructure and program loans that by their nature exclude CSOs.

There are also no indications that it is standard practice for CSOs to be involved in project framework- and direction-setting. They are for the most part seen as mere implementers of grassroots projects largely designed according to donor preferences and priorities. There is rich anecdotal evidence of projects inappropriate to actual needs and communities' overall political-economic context being implemented with the donor bias for short-term measurable indicators influencing the design of community development programs. Furthermore, donors can even be wary of greater engagement with CSOs especially when these adopt a critical posture towards the government.

As the formal ODA process becomes more vulnerable to irregularities, increased CSO involvement is becoming even more urgent. For instance, the NEDA's Investment Coordinating Committee (ICC) - which is tasked to approve ODA loan projects - was weakened in early 2007 and foreign-assisted infrastructure projects can now proceed without its screening and approval. This was done ostensibly to speed up loan processing, but it increases the risk of irregularities and the adoption of questionable projects with low or negative socio-economic returns, resulting in unnecessary debt service burdens and undue pressure on already scarce government budgets.

Political influence over loan decisions was also recently highlighted with scandals of alleged kickbacks of US\$50 million (for an on-going US\$400 million railways project) and US\$130 million (for a US\$329 million national broadband network project cancelled because of the controversy). Both cases involved Chinese ODA with project implementation tied to Chinese state firms. There are allegations of involvement by high-ranking government officials closely associated with the president of the Philippines and, in one case, the president's husband himself.

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Conclusions: Towards a More Democratic Aid System

The Philippine experience draws attention to three levels of effort necessary to build democratic ownership of aid. At the international level there is an urgent need for greater donor willingness to de-link aid from their specific foreign policy objectives especially insofar as these conflict with or compromise recipient country interests. Explicit loan conditionalities and tied aid are the most blatant expression of this and certainly the most urgent to remove. Conditionalities in ODA are the single biggest barrier to democratic ownership and aid effectiveness and it is vital that they are removed. Similarly, the other indirect and less obvious ways that donors use aid as leverage to further their ends are also significant and need to be addressed.

At the national level there is a need for more democratic planning, monitoring and implementation of aid. This means improved official mechanisms for greater involvement of citizens through parliament and CSOs - such as in national or regional development planning and consultative meetings with donors, and ODA project monitoring. There can also be improvements towards greater transparency and accountability, increased access to information, and stronger measures against rent-seeking and corruption. This presents a challenge for CSOs to have greater constructive engagement with governments and donors without compromising their grassroots grounding or core development principles. Greater CSO capacity for policy-

formulation, advocacy and lobbying would help make such engagement more effective. Multi-stakeholder policy advocacy groups - but with a bias for amplifying grassroots voices - could be formed alongside aid project implementation watchdog groups. These groups could encourage indicators of aid outcomes focused more on development, tempering of disbursement-focused approaches, and enhanced anti-corruption efforts.

Lastly, democratic ownership can be improved with even greater CSO involvement at the project or community level where their comparative advantages are greatest - i.e., integration with marginalized sectors and grassroots communities, relative independence from political interests, skills with participatory processes, commitment to empowerment approaches, and a focus on the poorest and most oppressed. CSOs have also proven to be particularly strong in mobilizing farmers, workers, indigenous peoples, women, youth and other marginalized sectors as well as in increasing their involvement in social and political issues.

Underlying all these necessary measures and changes is the basic principle that truly democratic ownership of aid is essential to ensure that it genuinely serves the interests and welfare of the largest number of people. Only when aid is allocated and implemented democratically will it be sure to contribute to the development of sustainable societies free from poverty.

Notes

¹ Data for on-going loans from National Economic and Development Authority (NEDA) 15th Official Development Assistance Portfolio Review (2006) and for net loan commitments from Commission on Audit (COA), Official Development Assistance Audit Reports 2000 and 2006.

² Unless otherwise noted, all ODA donor loan data from NEDA's 15th Official Development Assistance ODA Portfolio Review (2006).

³ For instance, the Senate Blue Ribbon Committee in September 2007 started investigating alleged high-level corruption involving US\$130 million in bribes in a Chinese ODA-funded telecommunications

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project. Tying aid to Chinese contractors and without competitive bidding has also sparked accusations of overpricing and dubious quality goods. See for example Roel Landingan, "The Perils and Pitfalls of Aid: ODA Surge Sparks Scandals for Arroyo, Debt woes for RP," Philippine Center for Investigative Journalism (PCIJ), February 11, 2008.

- ⁴ NEDA Public Investment Staff-Investment Programming Division (PIS-IPD) ODA Firm Pipeline as of December 11, 2006 and NEDA *DevPulse 10(65)*, February 15, 2007.
- ⁵ IBON computations using NEDA ODA figures and *Bangko Sentral ng Pilipinas* (BSP) national income and foreign exchange rate data.
- ⁶ IBON computations on BSP data.
- ⁷ Ibid.
- ⁸ IBON computations on total non-debt expenditures totaling P734.7 billion and revenues collected of P979.6 billion in 2006 using an average peso-dollar exchange rate of P51.31. Data on ODA from NEDA's 15th ODA Portfolio Review, on national government expenditures from the Department of Budget and Management (DBM), on revenues from the Bureau of Treasury (BTr) and on the exchange rate from the BSP.
- ⁹ IBON computations comparing ODA disbursement to the DPWH of US\$454.5 million in 2006 with the DPWH budget then of P85,289.4 million. Data on ODA from NEDA's 15th ODA Portfolio Review, on DPWH's expenditure program from the DBM, and on the exchange rate from the BSP.
- ¹⁰ IBON computations comparing ODA disbursement to the sector of US\$226.2 million in 2006 with the sectoral allocation then of P47,660.3 million. Data on ODA from NEDA's 15th ODA Portfolio Review, on sectoral expenditure allocation from the DBM, and on the exchange rate from the BSP.
- ¹¹ NEDA. (2008, February). Report on the baseline study and survey of the government of the Philippines' compliance with the Paris Declaration commitments.
- ¹² Unless otherwise noted, all US foreign assistance data from the Congressional Research Service (CRS) Report for US Congress, "The Republic of the Philippines: Background and US Relations", RL33233, Updated August 10, 2007.
- ¹³ Alston, P. (2007). Report of the United Nations Special Rapporteur on Extrajudicial Summary or Arbitrary Executions about his mission to Philippines from February 12-21, 2007.
- ¹⁴ Covering Foreign Military Financing (FMF), International Military and Education Training (IMET), International Narcotics Control and Law Enforcement (INCLE), Non-Proliferation, Anti-Terrorism and De-Mining (NADR), Peacekeeping Operations (PKO) and Peace Corp funding.
- ¹⁵ United States Agency for International Development (USAID) Program Overview 2007.
- ¹⁶ Wain, B. (2008, January/February). Manila's bungle in the South China Sea. *Far Eastern Economic Review*.
- ¹⁷ Philippines-Japan NGO Partnership (PJP). (2006, November). Empowering the poor for poverty alleviation towards 2015: Partnership building between Philippine and Japanese NGOs. A paper presented during the Philippines-Japan NGO Symposium.





Chapter 2
The IFIs Have Significant Responsibility
for the Lack of Change



Introduction

The second chapter of this Report looks at the predominant role of the International Financial Institutions in maintaining aid relationships as relationships of power. It examines the direct and indirect conditionalities that the IFIs still apply to their loans and also looks at the hugely significant gate-keeper role, by which the IFIs exert tremendous influence over recipient countries.

Eurodad

An article from the European Debt and Development Network presents the results of its own research on IFI conditionality. This shows that despite contrary signals from the IFIs conditionalities are still being applied.

The IFIs are able to strongly influence the national Poverty Reduction Strategy Papers (PRSPs) and control the related lending schemes: the WB's Poverty Reduction Support Credit (PRSC) and the IMF's Poverty Reduction Growth Facility (PRGF). This gives them great power over countries' paths to development.

The average number of IMF structural conditions increased from 10 to 11 in the period 2002-2006. Although conditions attached to World Bank policy loans fell from an average of 46 to 37, up to 7% of the conditions were classified as 'bundled-conditions'. Unbundling these increases the total number of conditions by 12%. Research also shows that the number of (binding and non-binding) conditions has risen on average

from 48 per loan to 67 per loan between 2002 and 2005.

Furthermore, the significance of the conditions imposed lies in their subject matter. Of all WB conditions for poor countries, 20% are economic policy conditions. Over half of these (11%) impose some sort of privatization and trade liberalization, which end up limiting poor people's access to vital services. Some 43% of all IMF structural conditions focus on economic policy reforms and half of those are privatization-related.

A major problem is that the IFI's advice is usually replicated by donor countries who see them as yardsticks against which to measure developing countries. Accordingly, many donors link their disbursements to the requirement of being 'on-track' with the IMF programme. There have been disastrous results of withholding aid when countries go off-track with the IMF programme, such as when Malawi experienced a severe food crisis.

Indonesia

A second article from the NGO INFID presents how structural adjustment requirements attached to programme aid by IFIs have had huge impacts on the social and economic livelihood of the majority of the poor population of the country. It argues that IMF policies have created a debt trap from which there is little chance of escape.

The article highlights the most controversial loan in the history of Indonesia, which was the specific funds deposited by

the IMF in the Indonesian Central Bank to secure its foreign exchange reserve. Not only were these funds of no use to Indonesia, the country also had to repay the funds with interest and observe the long list of conditionalities attached.

The true power of the IMF over Indonesia was revealed by the fact that when Indonesia decided to end the IMF programme in 2003, the donors decided that Indonesia was no longer eligible for debt rescheduling through the Paris Club. Countries such as Indonesia are all but forced to accept the misdiagnoses and failed prescriptions of the IFIs or lose access to other donors. This gatekeeper role of the IFIs is one of the major obstacles to successful aid policies.

Bangladesh

Another article from the Bangladeshi NGO VOICE highlights yet further the significance of the signaling role of IFIs. It argues that the WB and IMF have spread their wings well beyond their original mandate in taking such a central and controlling position within the international aid system.

The sad reality is that governance of the WB and IMF is severely skewed towards rich countries that dominate decision-making in these institutions and thus loans come tied with conditions which do more to serve donor interests than those of a country such as Bangladesh.

The IFIs continue to impose policy conditions, particularly related to the liberalization of markets and the privatization of national companies along neo-liberal economic lines. They also impose rules on macro-economic stability, interfering in monetary policy in a way that does not allow countries to invest in their own development.

The article argues strongly that Bangladesh has suffered through the implementation of IFI conditions. The policies imposed have resulted in job losses, inflation, higher costs of key goods and services and reduced competitiveness on

international markets. These have all impacted directly on the lives of everyday people and particularly the poorest. However, the country's room for maneuver is strictly limited because other donors accept the IFI assessments and the criteria for the allocation of aid.

Furthermore, even where things clearly go wrong, such as in the presented example of the Khulna-Jessore Rehabilitation Project (KJDRP) there is no accountability of donors for the cause of people's suffering.

Pakistan

An article from the Pakistani NGO PILER looks at the negative effects of IFI-funded projects in its country. Flawed projects emerge from the faulty development paradigm put forward by the IFIs which believes that investment in major infrastructure projects will generate economic growth that will then seep into local communities and reduce poverty. The question of accountability at local level is omitted at very outset, because the gains are measured at the macro-economic level. The article argues that mega-infrastructure projects have served to detach people from their historical entitlements to natural resources. The social disruption, loss of livelihood and environmental degradation associated with these projects push local communities into poverty and deprivation. Furthermore, the IFIs seem to be unconcerned by the concomitant violation of rights such as to food, development and shelter, considering them to be merely 'transitory costs'.

This paper looks deeply into the case of a World-Bank-financed project - the Left Bank Outfall Drain (LBOD) in the Sindh province of Pakistan. This demonstrates how the World Bank failed to take into account the needs of local communities and ended up uprooting them from their means of survival, violating their fundamental rights. It also shows how the WB failed to take responsibility for its actions.

The IFIs

Nepal

This paper from the Nepal Policy Institute argues that whilst the rhetoric around aid policies is strong on ethical symbolism, the reality is dictated by the interests and calculations of global financial capital, represented by the IFIs and private global corporations.

The problem for poor countries like Nepal is that they will be punished heavily both economically and politically if they fail to comply with the global corporate agenda of development. But no punishment or enforcement measures are allowed in the event of violations of UN human rights and environmental treaty obligations in the pursuit of such corporate-led development.

By controlling the purse strings of international aid, the IFIs were able to have such control over politics in Nepal that not even strongly left-wing elected parties could stand up and implement the policies they wanted. This reality not only hindered development, but also encouraged political insurgency.

There are major problems with the IFI-supported contract frameworks including FIDIC (Federation Internationale des Industries et Consultants) and BOOT (Build, Operate, Own and Transfer). Whilst the former almost always leaves recipients liable for unexpected overspends, the latter often takes away communities' sovereign rights to their own natural resources for the duration of the contract, receiving an out-of-date and expensive to run system at the end.

Recent elections in Nepal have re-elected a left-wing government. The paper wonders whether this time the IFIs will allow the country's own political choices to determine its development agenda, taking a human-rights based approach.

The Netherlands

Finally the Netherlands considers to what extent the EU represents a better model of

multilateral aid for the future. It argues that, whilst still being far from perfect, it goes some way to providing the kind of aid that is needed, particularly through the use of budget support.

The Commission provides the main share of its budget support on the condition that a country meets three general eligibility criteria: it should have a poverty reduction plan; it should work towards improving public finance management (PFM); and it should aim for macro-economic stability. The remainder of the funds are disbursed according to the country's performance against specific indicators on health care, education, and PFM.

In a study of the EC's general budget support agreements with 11 different African countries, over half of the performance indicators call for direct improvements in poor people's health and education, in particular for girls and women. By moving away from specific economic policy conditions, and instead often focusing on gender-specific outcomes in health care and education, the Commission sets a positive example to other providers of budget support.

Evidence suggests that the EC's budget support does change poor people's lives. Government spending on education has increased by nearly a third (31 per cent) in eight of the African countries that receive some of the largest amounts of the Commission's general budget support. In all but one country, this has resulted in an increase in the number of children enrolled in primary school.

The paper recognises that the Commission is not exclusively responsible for the positive results, but the evidence does show that where it provides large amounts of budget support, headway is being made in reducing poverty. Furthermore, the EC's conditions can sometimes be deemed somewhat intrusive. In Ethiopia, for instance, the EC required the introduction of a competition law, application for accession to the World Trade Organisation, and revision of urban land lease laws.

Conclusions

Whilst the previous chapter looked at how power relations still dominate the delivery of aid, this chapter argues that the IFIs are the worst offenders. They give loans without adequately considering or consulting the local communities most directly affected. They also continue to apply serious economic policy conditionalities to aid. Both of these factors often have devastating consequences on the livelihoods of the poorest people.

Furthermore, through their gate-keeper role, the IFIs often prevent recipient governments from accessing funds from

alternative sources as many donor countries accept the IFIs' assessments and criteria. In the context of current aid practices, harmonization of donors is only serving to strengthen this influence. Poor countries often find themselves with little choice but to follow the conditions applied.

Of all the multilateral donors, the European Commission shows the most promise as being ready to apply good principles in allowing recipient countries to plan their own development strategies through the use of budget support. Even here, however, much progress is still needed towards optimizing the benefits of aid for developing countries.

The Impact of IFI Conditionality on the Development Aid System

Javier Pereira
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Introduction

Among the International Financial Institutions (IFIs), the International Monetary Fund (IMF) and the World Bank (WB) are the most well known. Their history can be traced back to the Bretton Woods agreement and, through the years, they have attained and maintained a leading role in the global economy. This status as keepers and champions of the global economic order has, by extension, made them two of the most influential players in the field of development and they rule over aid flows with the golden sceptre of conditionality.

Despite both internal (Guidelines on Conditionality and General Good Practice Principles) and external (The Paris Declaration) initiatives, they are failing to hand over their power. Perversely, as more and more countries increase their budget support to developing countries, they reinforce the WB and the IMF's stronghold by buying-in to their conditionalities.

The main instrument through which both the IFIs influence development is the Poverty Reduction Strategy Paper (PRSP) and related lending schemes. This initiative, endorsed by the Executive Boards of the World Bank and IMF in September 1999, articulates the High Indebted Poor Countries (HIPC) debt relief initiative and laid the foundation for two lending schemes: the WB's Poverty Reduction

Support Credit (PRSC) and the IMF's Poverty Reduction Growth Facility (PRGF). The IMF and the WB thus play a double role as donors and advocates of development policies.

In 2005, both the WB and the IMF signed the Paris Declaration on Aid Effectiveness, committing as donors to increasing recipient countries' ownership of development aid and aligning and harmonizing aid flows under recipient countries' leadership. Furthermore, the PRSP was intended to address the criticisms aimed at the WB's Structural Adjustment Programs of the 1990s. By definition, a PRSP should be "country-driven, comprehensive in scope, partnership-oriented, and participatory".¹

However, criticism remains high and doubts persist about the real extent of PRSP ownership and participation by recipient countries. If IFI conditions are supposed to be aligned to national PRSPs, loans have been usually granted under stringent conditionality, pursuing objectives not always shared by recipient countries' governments. Ghana's last PRSC, signed in 2005, contained the striking number of 197 conditions.²

The following sections analyse why conditionality plays such a central role in the WB and IMF's development aid. They also discuss whether the Paris Declaration has had any impact on the practices of these two IFIs from the perspective of

recipient countries and in light of their experiences.

IMF Conditionality

Following the introduction of the PRSP scheme, both the IMF and WB have been the target of severe criticism as a consequence of conditionality practices. The IMF was the first organization to react to criticisms about conditionality and in September 2002, it published its Guidelines on Conditionality.³ The WB took a little longer to react, publishing its Review of World Bank Conditionality,⁴ conducted between November 2004 and July 2005 and containing the Good Practice Principles on Conditionality (GPPs) in September 2005.

Both these internal initiatives are in line with the commitments made in the Paris Declaration and any outcomes of these 'new approaches' should have been reinforced by the international agreement. Enough time has elapsed to allow for results to be observed. Unfortunately, however, NGO research reveals that even the most positive appraisal can only claim piecemeal progress.

Six years after the Guidelines on Conditionality and three after the Paris Declaration, the IMF shows a not altogether surprising lack of results. Research carried out by Eurodad on 20 developing countries shows that the average number of IMF structural conditions increased from 10 to 11 between 2002 - when the IMF issued its new staff guidelines to reduce the number of conditions it imposes - and 2006.⁵

Moreover, the evaluation of the IMF conditionality carried out in 2007 by the Independent Evaluation Office (IEO) of the IMF concluded that "the streamlining initiative did not reduce the volume of conditionality".⁶ The latest data made available to Eurodad by the IMF, covering the first half of 2007, shows that this trend has not changed.

On average, half of all IMF structural conditions imposed on poor countries via

the PRGF are binding conditions. The IMF imposes policy reforms that have to be acted upon prior to receiving funds and others that must be enacted within one year of receiving the funds. The proportion of binding conditions has stayed relatively steady over time.

Furthermore, the PRGF agreements signed in 2007 still meddle with extremely sensitive issues, most of them far from the IMF's field of expertise. Some 43% of all IMF structural conditions focus on economic policy reforms and half of those are privatization-related. The large majority of privatization conditions are focused around banking. Nine out of the 11 poor countries (including Bangladesh, Benin, Ethiopia, Mozambique and Tanzania), facing privatization-related conditions from the IMF had some form of banking privatisation imposed upon them, whilst the energy sector was the second most common target.

In Nicaragua, conditions still push for the reform of the country's pension fund system. This system is still in tatters after the attempted privatization heralded by the WB and the Inter-American Development Bank, which was halted because the government could not cover the expenses and guarantee the pension to its citizens at the same time.⁷ The IMF also continues to push for the reform of the cotton sector in Burkina Faso with the privatisation of the public company SOFITEX (Société de Fibres Textiles).

WB Conditionality

Current Eurodad research appears to show a slightly better picture of WB conditionality.⁸ Comparisons between the number of conditions before and after the GPPs - the research compares the number of conditions attached to the PRSCs before 2005 and those in the period 2005-2007 - confirm that the average number of conditions attached to World Bank policy loans has been reduced from 46 to 37.

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However, up to 7% of the conditions where classified as 'bundled-conditions' - general conditions whose fulfilment requires a number of reforms and policy actions; unbundling these increases the total number of conditions by 12%. More than fifty conditions were attached to each of the current World Bank grants for 14 out of the 20 low-income countries studied and three had more than 100 conditions. The research shows that the number of (binding and non-binding) conditions has risen on average from 48 per loan to 67 per loan between 2002 and 2005.

In addition, the World Bank is continuing to impose a significant number of controversial economic policy conditions on low income countries through its development lending. Eurodad assessed that 15 out of the 20 poor countries have privatization-related conditions as part of their World Bank lending. These cover sectors of the economy such as agriculture, banking, and water. Of all WB conditions for poor countries, 20% are economic policy conditions. Over half of these (11%) impose some sort of privatization and trade liberalization, which end up limiting poor people's access to vital services.

The number of conditions varies wildly from one country to another. Rwanda, for instance, faced 144 conditions in the PRSC approved in 2006, including the privatization of Rwandatel, Rwandex, the Nshili-Kivu tea plantation and the rice factories of Rwamagana, Gikonko and Bugurama. Similar stringent conditions have been applied to Afghanistan, a post-conflict 'fragile state' with less than 10% of workers in the formal economy, where more than 50 state-owned enterprises will be privatised and, according to government estimates, 14,500 jobs lost.

The research reveals that although the number of conditions which call for direct privatisation has marginally declined, there has been a massive increase in the number of conditions that push for reforms associated with facilitating privatisation, such as regulatory reforms, restructuring of certain sectors and corporate reform. The

number of 'privatisation-associated reforms' have almost doubled between previous and current loans across the 20 countries assessed.

The Bank's new guidelines for development policy lending employ the concept of 'criticality'. This is meant to confine the Bank to setting conditions that are deemed critical for the implementation and expected results of a country program. However, there is a high prevalence of micro-management conditions in World Bank lending, and an inability by WB staff to make rational judgments as to what should or should not constitute a condition in development finance.

The Paris Declaration and Current Conditionality Practices

Since the introduction of the PRSP, 58 countries have approved this instrument. However, although an evaluation carried out by the World Bank⁹ shows that it is starting to introduce more conditions drawn from the PRSP, this section explains that PRSPs have not been able to introduce real changes.

In the Paris Declaration, donors committed to "draw conditions, whenever it is possible, from a partner's national development strategy..."¹⁰ In practice, what is happening all too often is that a PRSP and a national development strategy (NDS) are becoming one and the same.¹¹ In Afghanistan, for instance: "The Interim NDS will be submitted to the Boards of the World Bank and the IMF in the expectation that it will also meet the benchmarks of an Interim Poverty Reduction Strategy process, developed by the World Bank and IMF in 1999."¹²

Rather than independently designed national development strategies informing the PRSPs, it is obvious that the IMF and the WB have a strong say on the NDSS. The WB and IMF claim that the PRSPs are owned by recipient country governments, but the actions of these two behemoths contradict,

once more, their statements of good will. During the drafting of the second PRSP for Niger, fifteen Nigerien representatives were flown to Washington DC where they met World Bank, UNDP, EC, Belgian and IMF officials. After this meeting a Senegalese consultant was hired and sent to Niger where he finished drafting the PRSP.¹³ This example gives an idea of the real manoeuvre-space recipient governments have when designing these strategies.

Furthermore, researchers suggest that allies closer to the US receive fewer conditions in their IMF loans.¹⁴ This indicates that conditionality is too often used as a political tool rather than an instrument to furthering reforms which are deemed necessary to ensure poverty reduction.

It is obvious that recipient country governments barely own their development aid strategies. The mechanism that allows for the IMF and the WB to dominate development aid processes is sadly summarised by the Head of the National Treasury Research Service of Niger: "we need the money; therefore we accept performance indicators even if we don't think we will be able to meet them. These negotiations are by their nature unequal as we need the money."¹⁵ The IFI's hegemony will not be broken until the role of both institutions as an international reference is challenged and a more coherent and pro-poor system introduced.

Furthermore, beyond the waning role of recipient countries' governments with respect to the IFIs, the lack of democratic ownership outside of government is a key issue in developing countries. In Mozambique, neither PARPA I nor PARPA II - the local name for Mozambique's PRSPs - were subject to approval by Parliament.¹⁶ Similarly, the Honduran parliament has also been bypassed with regards to development strategies.¹⁷

Additionally, the resulting PRSPs usually have vaguely-defined objectives and are inadequate for donors to monitor budget support. Accordingly, when donors want to

provide budget support they form, together with the national government, a 'Budget Support Group'. This group drafts a Performance Assessment Framework (PAF), which sets out a number of benchmarks theoretically to oversee budget support flows in line with the objectives of the PRSP. Unfortunately, however, the PAF is not the result of a dialogue with the recipient country's government, but of a unilateral process led by donors. As the UK Department for International Development's Head of Operations in Sierra Leona points out: "initially the donors do a draft to agree on the conditions, and then these are taken to the government and discussed".¹⁸

If democratically-elected parliaments play such a feeble role, the power granted to civil society organisations in this process is even less. The problem is such that even the OECD has to remind donors that: "Parliaments, civil society organisations and the wider public, as well as political institutions at the sub-national level, are important 'owners' of development strategies and policies, and drivers of change. Genuine ownership requires political leverage and space as well as a legal-institutional framework that ensures that citizens - including the poor and the most marginalised women and men - are able to engage in decision-making processes and hold their governments accountable."¹⁹

The Real Weight of Conditionality

Conditionality is the most important tool the WB and IMF have to push reform. Furthermore, the IMF remains extremely influential despite being a minor donor - several of the IMF's three-year PRGFs signed in 2005 and 2006 provide a relatively small amount of funding: US\$ 10m in Niger; US\$ 38.2m in Ghana; US\$ 9.2m in Burkina Faso; and US\$ 9.1m in Benin.²⁰ There are several factors which explain the weight of WB and IMF's conditions in development aid.

Firstly, the WB and the IMF play a central role in the global and economic

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systems and their advice is usually replicated by donor countries who see them as yardsticks against which to measure developing countries. Accordingly, many donors link their disbursements to the requirement of being 'on-track' with the IMF programme. Recent Eurodad research confirms that this is the case, for example, in Nicaragua²¹ and Sierra Leone²², where this requirement has caused severe problems as a result of donors freezing predicted disbursements. WB and IMF conditionality allows for the existence of a self-perpetuating vicious circle. The real significance of conditionality rests in the power of cutting not only money flows directly from these two institutions, but also from other donors.

Another issue which helps to strengthen the grip of the WB and IMF on development aid is cross-conditionality. This word describes the phenomenon of finding one condition duplicated in both the WB's PRSC and the IMF's PRGF. The practice of cross-conditionality increases the pressure exerted by conditionality and is, furthermore, usually applied to push through the most sensitive reforms, such as the privatisation of public companies. This is the case, for instance, of IFI conditions requiring the privatization of the Rupali Bank in Bangladesh, the Bank of Ethiopia, the Inter-Bank of Mali and Nicaragua's telecommunication company Enitel.²³

The Paris Declaration was intended to address these problems and to cede to recipient countries the driver's seat of development aid by promoting the principles of ownership; alignment; harmonisation; mutual accountability; and managing for results. Nonetheless, the unfortunate truth is that, by backing budget support, the Paris Declaration helps to close the circle in the sense that more and more donors will buy-in to this aid modality. This strengthens the link to conditions agreed in processes, such as the PAF, where recipient governments have very little say.

In 2002, Malawi endured a severe food crisis, during which it went off-track with the IMF programme. Subsequently, all budget support to Malawi was suspended, aggravating the humanitarian and economic crisis, creating a sort of catch-22 situation.²⁴ The power of the WB and the IMF to impose conditions and promote changes is founded on the possibility of this type of crisis. To solve this problem it is not only necessary to increase recipient countries' real ownership, but also to provide funds through longer term agreements which cannot be immediately broken when the conditions imposed by the WB and the IMF are not met.

One of the most remarkable failures of IMF and WB policies has been water privatisation in developing countries. In Bolivia, the privatization of the company Aguas del Tunari ended with the famous 'War of Water' after the prices rocketed and service standards dropped.²⁵ Following a similar case in Tanzania, last January the British company Biwater was ordered by a London tribunal, acting in accordance with international law, to pay £3m to DAWASA, a Tanzanian water utility, after it was found that the service had deteriorated under its management.²⁶ The privatisation of water utilities as demanded by the IFIs has experienced similar problems in other countries such as Puerto Rico and the Philippines, proving this problem to be widespread.

On the positive side, the Biwater case represents a breakthrough as it has opened the way to hold companies accountable for their wrongdoings in developing countries. Unfortunately, the chain of responsibility does not reach the upper links, and the ultimate perpetrators do not bear any burden other than their own conscience. When one tries to carry out research on the IFIs positions on these issues, the silence is shocking.

Conclusions

There is no doubt that policy conditionality affects recipient countries' policies far beyond simply ensuring fiduciary accountability and that neither the WB nor the IMF are undertaking reforms at the pace that is needed. Up to now, they have failed to fulfil the commitments made in the Paris Declaration and their own conditionality guidelines, impacting negatively on development and the lives of people.

A key issue in tackling conditionality is that it still seems reasonable to expect that there should be mechanisms in place to monitor how aid flows are being used and to stop aid being delivered incorrectly. The problem with the WB and the IMF's conditionality is that it is used as a tool to force changes, which are frequently highly sensitive, in recipient countries, sometimes pursuing developed countries' interests.

A possible solution would be to look again at the real meaning of the word 'monitor' and focus conditions on the

output side of development policies, instead of on the input side. The European Commission has recently started to use an approach based on this principle. Outcome-based conditionality, as it is called, links aid to development results or outcomes and leaves recipient governments free to decide the way to achieve them. This is a much more desirable option to policy conditionality,²⁷ even though it is not free from problems; indicators are difficult to design and adjust and predictability problems still persist if long-term commitments are not applied.

Now is the right moment for change; this year the WB and the IMF will be closely scrutinized in Accra and both need to speed up reform to live up to the Paris commitments. Renovation is not always easy, but the reforms needed do not call for a revolution, just political will. Unfortunately, the WB and the IMF have shown very little willingness in the recent past to transform their current approaches to conditionality. For the time being, the power remains in their hands.

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Multilateral Aid and Conditionalities:¹ The Case of Indonesia

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Despite amounting to a relatively small amount of Indonesia's overall economy, foreign aid has had a significant impact on the country's domestic economic and political situation. This has happened through the conditionality imposed on loans by the IMF and which has been reinforced by the wider donor community under the leadership of the World Bank.

Since 1966/7 Indonesia has received foreign aid (loans and grants) from twenty countries and thirteen multilateral agencies. Nevertheless, most of the donor countries and multilateral agencies to Indonesia have been organised in one "consortium". From 1967 to 1991 this consortium was the Inter-Governmental Group on Indonesia (IGGI), chaired by the Netherlands. This was replaced by the Consultative Group on Indonesia (CGI) from 1992 to 2007, chaired by the World Bank. From 2005, CGI was officially chaired by Indonesia but in practice was chaired and directed by the World Bank.²

The IMF was not a member of IGGI or CGI, but it was always represented in the meetings and its presence in Indonesia has had strong implications for the country and the donor community. Not only has the IMF imposed policy conditions on the funds provided, but bilateral and multilateral donors have referred to the IMF before making loan agreements with Indonesia.³

Structural adjustment requirements attached to programme aid by IFIs have had huge impacts on the social and economic

livelihood of the majority of the poor population of Indonesia. The liberalisation and privatisation of state-owned companies and public services have influenced both state revenues and the costs paid by the poor for services.

Composition of Foreign Aid to Indonesia

The majority of Indonesia's foreign debts are bilateral with official development assistance making up the largest portion, via both concessional and commercial loans. Japan is the biggest bilateral donor, accounting for about 70% of the total bilateral aid to Indonesia. Bilateral aid mainly funds projects which are predominantly used to support physical and institutional infrastructure.

Multilateral aid is more heavily focused on programmes aimed at supporting crises in the balance of payments or state budget. In line with the policies of the IFIs, policy conditionalities are attached to this aid.

As the Table 1 shows, the Asian Development Bank (ADB) and the World Bank (through the IBRD) are the two major multilateral donors to Indonesia. The loans from the ADB have increased steadily and, in 2006, it became the biggest multilateral donor. IDA constitutes a relatively small portion of overall multilateral aid as does funds from the IDB (Islamic Development

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Figure 1. Multilateral Loans (%)

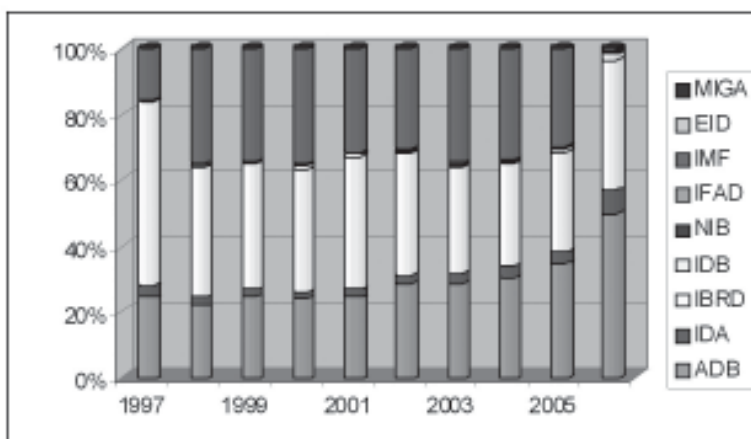


Table 1. Multilateral Sources of Loans (Million US\$)

Donor	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
ADB	4,557.00	5,694.00	7,517.00	7,544.00	7,179.00	8,310.00	8,582.15	8,869.14	9,140.13	9,409.21
IDA	720.00	702.00	682.00	719.00	726.00	788.00	884.39	949.06	1,002.59	1,321.75
IBRD	10,307.00	10,229.00	11,494.00	11,774.00	11,577.00	10,802.00	9,776.10	8,942.99	8,106.53	7,420.81
IDB	27.00	32.00	51.00	215.00	184.00	138.00	151.47	162.58	202.85	396.70
NIB	-	217.00	214.00	200.00	186.00	170.00	155.00	139.16	120.91	105.46
IFAD	57.00	84.00	72.00	65.00	57.00	65.00	78.71	78.98	71.06	73.72
IMF	2,973.00	9,082.00	10,255.00	10,983.00	9,105.00	8,829.00	10,238.61	9,653.89	7,806.03	-
EID	4.00	8.00	8.00	8.00	7.00	7.00	110.77	109.12	116.14	109.09
MIGA	-	-	-	-	8.00	3.00	-	-	-	-
TOTAL	18,645.00	26,048.00	30,293.00	31,508.00	29,029.00	29,112.00	29,977.20	28,904.92	26,566.24	18,836.74

Bank), although both have become more important in providing loans to Indonesia.

In 1971, programme aid was 2.5% of GDP compared to only 0.5% of GDP allocated for project aid. The oil boom in 1974 that contributed to increasing state revenues, and stabilising the Indonesian economy reduced the percentage of programme aid. At this time, the World Bank started to engage more in supporting physical projects and the technical assistance group

working in the National Planning Board and the Ministry of Finance.

For more than ten years (1974-1985) programme aid to Indonesia was not significant. However, the sharp decline in the world oil price in 1982 that caused a crisis in the balance of payment attracted programme aid to Indonesia once again through IMF/World Bank structural adjustment loans. In 1983, the IMF approved SDR260 million under Compensatory

Table 2: The World Bank Adjustment Loans to Indonesia

Type	Date of Approval	Amount Approved
Trade Policy Adjustment	1987	US\$ 300 million
Policy Reform Support	1999	US\$ 1.5 billion
Social Safety Net Adjustment	1999	US\$ 600 million
Water Resources Sector Adjustment	1999	US\$ 300 million

Source: BAPPENAS, 2001

Financing Facility (CFF). Indonesia received SDR463 million from IMF in 1987 under the CFF to compensate for the decline in exports. In the same year, Indonesia obtained \$300 million from the World Bank under the Trade Adjustment Programme Loan.⁴

Impact of World Bank Loans

Though programme aid is less than project aid and not very visible, its influence on the Indonesian economic and political systems has been significant. Programme loans were meant to rescue the country from crisis, particularly related to balance of payments and the state budget. However, through programme aid, World Bank staff have worked as if they are part of the Indonesian bureaucracy, freely influencing the policies of the national government. The Indonesian bureaucracy has become so open to the World Bank that none of its policies are immune to influence.⁵

Aid from the World Bank group started in 1968, through IDA soft loans. The first IBRD loan to Indonesia was made in 1974 when the country had started to catch up with development momentum. The World Bank provided Trade Adjustment Loans in 1987. When Indonesia was hit by the 1998 economic crisis, the World Bank provided USD 26.5m of International Development Association (IDA) aid and tied it to the privatisation and liberalisation of public services, including the cut of subsidies in social sectors.

It is interesting to observe that whilst the IFC (a family member of the World Bank) has been making a fortune purchasing the cheap shares of the public services and privatised companies, poor Indonesians have paid a high price for the soft IDA loans.

After increasing critiques of the relevance of the World Bank in Indonesia, the Bank is now enthusiastically promoting its new *Community Driven Development* project. This consists of two project components: *Kecamatan Development Project* (KDP) for rural areas and *Urban Empowerment Project* for urban areas and is seen, by World Bank staff, as a bait for new loans for Indonesia to meet the main mission of alleviating poverty.

Scott Guggenheim's paper on KDP has been treated by World Bank staff in Indonesia as the main reference on the success of the project⁶. In fact, the project has made poor people responsible for poverty alleviation in terms that mean the poor themselves will repay the debts in the future.

A 2004 BAPPENAS study⁷ raises the question of whether the loans being attracted are really for the benefit of the recipient country. The suggestion is made that, since more loans mean more overhead costs and project work for the donor agencies, the staff of these agencies are keen to encourage more loans to increase their job security rather than in the interests of the recipient country.

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Impact of IMF Loans

The most controversial loan in the history of Indonesia, however, was the specific funds deposited by the IMF in the Indonesian Central Bank to secure its foreign exchange reserve. These funds were of no use to Indonesia, since they were deposited when the Central Bank had enough reserves already. Nevertheless, the country not only had to repay the funds with interest, but also had to observe the long list of conditions stipulated in the signed Letter of Intent and Memoranda of Economic Policy Monitoring. In this sense, the IMF deposits can be seen as a 'Trojan horse' used by the IMF to control the policies of Indonesia along the neo-liberal lines preferred by the developed countries and multinational corporations whose interests are represented in the IMF.

Rizal Ramli, the Coordinating Minister of Economic Affairs in 1997, warned that "involving the IMF in Indonesia's recovery programme would inevitably plunge the country into a deeper economic crisis"⁸. Nevertheless, from 1997 to 2005, the IMF and Indonesia signed 20 Letters of Intent (LoI) and Memoranda of Economic and Financial Policies (MEFP) on policy measures and other conditionalities to be implemented by Indonesia. While the

People's Assembly Council (*Majelis Permusyawaratan Rakyat* - MPR)⁹ decided the general guidelines to solve the crisis without dependence on foreign creditors, the government was not able to resist the pressures from the IMF and the donors' community.

On 5 November 1997, Indonesia and the IMF signed a three-year stand-by arrangement (SBA) aimed at restoring market confidence. However, the fiscal austerity, tight monetary policy, floating exchange rate regime and bank closures prescribed by the IMF brought a banking crisis, which caused social unrest and uncertainty in the whole economy, deepening the crisis.

Following the Stand-by Arrangement (SBA), the inter-bank interest rate skyrocketed from 20 to 300 percent, causing a banking crisis. The closure of 16 banks, as recommended by the IMF in November 1997, caused capital outflow of USD 5 billion. This put further pressure on the Indonesian Rupiah provoking corporate bankruptcy and the loss of thousands of jobs.

To solve these problems, the IMF and Indonesian authorities signed the first Extended Fund Facility (EFF) of SDR 5.3 billion, imposing stricter structural measures on fiscal and monetary policies as well as banking and corporate restructuring. In

Table 3. The IMF Stabilisation Loans to Indonesia

Programme Type	Date of Approval	Expiry	Amount Approved	Amount Drawn (Disbursement ratio - %)
Stand-by	March 1972	1973	US\$ 14 million	
CFF	August 1983		SDR 360 million	
CFF	May 7, 1987		SDR 463 million	
Stand-by	November 5, 1997	August 25, 1998	SDR 34 billion	SDR 3.67 billion (44.0%)
EFF	August 25, 1998	February 4, 2000	SDR 5.38 billion	SDR 3.79 billion (70.6%)
EFF	February 4, 2000	December 31, 2003	SDR 3.64 billion	SDR 1.99 billion (54.6%)

Source: IMF website (www.imf.org).

February 2000, when the first EFF expired, the government signed the second EFF involving a commitment of SDR 3.6 billion from IMF. The second EFF was accompanied by a long list of conditionalities, including stricter measures on privatisation and legal reforms.

The IMF recommended the conversion of private debts into public debts. The government's domestic debts increased by up to US\$ 65 billion. At the same time Indonesia's public foreign debts increased from US\$ 54 billion to US\$ 74 billion, and the international private debts decreased from US\$ 82 billion to US\$ 67 billion, some of which had been converted into foreign public debts. As a consequence of the financial crisis and IMF policies, Indonesia's debt doubled over a period of just four years.

Each semester IMF staff monitored the implementation of the structural reforms required by the conditions of the Lol and the MEFP. The surprising thing is that reports from the IMF did not influence the market at all; rather the reaction went contrary to the reports. When the IMF reported that the Indonesian macroeconomy was becoming more stable, the exchange rate of the Rupiah weakened; and when the IMF reported that there should be stricter measures for reform, the

capital inflow from foreign investors tended to increase.

What is more, the IMF funds that provoked these conditions were not even used. The net foreign reserves of Indonesia, which were about US\$ 24 billion at the time when IMF and Indonesia signed the first EFF, were at a very healthy level, and there was no need for additional reserves to secure the balance of payments. Since Indonesia took the floating exchange rate regime, the Central Bank did not need to intervene in the exchange market on regular basis and therefore additional reserves were not necessary.¹⁰

Whilst Indonesia did not need to use the IMF money, it still ended up bearing the interest costs. In 2002 Indonesia paid US\$ 2.3 billion to the IMF, consisting of US\$ 1.8 billion in principal and US\$ 500 million in interest payment¹¹. On average the cost of this *idle* fund (fees and interest) was about 3.5 percent. IMF policies put unsustainable pressure on the government budget. For the 2002 fiscal year, debt servicing was estimated to total USD13 billion (IDR 130 trillion) including domestic and international payments. These payments amount to more than three times the total public sector wage bill including the military, and eight times the education budget.

Table 4: Disbursement and Repayment of IMF Loans (SDR)

Year	Disbursements	Repayments	Interests
2002	825,720,000	1,375,920,000	153,322,440
2001	309,650,000	1,375,920,000	369,498,855
2000	851,150,000	0	398,846,600
1999	1,011,000,000	0	267,539,445
1998	4,254,348,000	0	133,963,634
1997	2,201,472,000	0	0

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Impact of IFIs on Other Donors

The programme loans during the crisis period - including the conditionalities detailed in the Letters of Intent - were used as references by both the multilateral donors and the bilateral donors.¹² Donors united in putting pressure on Indonesia to implement IMF's policy prescriptions and conditions by making the disbursement of both programme and project loans dependent on whether the government of Indonesia had implemented the conditions. The unity of the donors was made possible because of the presence of regular meetings of the CGI, where the government of Indonesia had to provide reports to the donors, in addition to the regular monitoring from the IMF.

Programme aid reached its peak during the crisis period, when the multilateral donors came with a rescue package. The commitments of this "bail out" package from IMF were matched by commitments from the World Bank and the ADB and the Government of Indonesia itself. This first line totalled USD 23 billion. It was followed

by a second line totalling USD 20 billion from bilateral donors (see table below).

The main reason for involving other donors in the rescue package was to maintain and prop up market confidence by showing that the donors collectively were ready to help Indonesia financially with a large amount of money (US\$ 43 billion). The second line was only to be issued after the first line was fully exhausted. In reality, the second line was never utilised.¹³ The rescue package itself did not rescue the economy of Indonesia, but it was used as an instrument to impose the policy prescriptions of the "Washington Consensus" on Indonesia.

Loans from the World Bank, Asian Development Bank and other donors do not need to be tied to IMF conditionality. Nevertheless, when Indonesia decided to end the IMF programme in 2003, the donors decided that Indonesia was no longer eligible for debt rescheduling through the Paris Club.¹⁴ So IMF's programme package was needed and used by the foreign creditors, such as the World Bank, to profit from the crisis.

Table 5: International Financial Rescue Package for Indonesia

Contributors	Amount (US\$ Billions)
First Line	23.0
IMF	10.0
World Bank	4.5
Asian Development Bank	3.5
Government of Indonesia	5.0
Second Line	20.0
Singapore	5.0
United States of America	3.0
Japan	5.0
Australia	2.0
China	3.0
Malaysia	1.0
Hong Kong	1.0

Conclusions

The data and facts of multilateral aid show that most of them have been wasteful, with no clear advantage for Indonesia. Furthermore, they have been used by creditors and donors to dictate policies that should be left to the national government. Programme loans from multilateral agencies were used to justify the presence of the agencies and their staff in Indonesia rather than for promoting capacities of the government staff. The good governance that is promoted now in Indonesia is a result of the democratisation processes rather than the results of the works of the consultants paid by the programme loans.

Foreign debt amounts to less than 3% of the annual state budget, meaning its overall contribution to Indonesian economic development is limited. The major determinant is, in fact, domestic financial capacity. Nevertheless, the foreign debt becomes problematic and burdensome when the maturity of the debts is accumulated, putting pressure on the state budget in later years.

Most importantly, however, the relatively small amount of foreign aid caused heavy foreign intervention in Indonesia's economic and political system. The coordinated pressures from the donors/creditors through IGGI/CGI tied Indonesia to conditions imposed by the IMF and made it difficult for Indonesia to get rid of the debt trap. Furthermore, the fact that the staff members of the donor agencies are driven

by self-seeking behaviour, while they are working together with Indonesian officials in the offices of the Central Government of Indonesia, explains why the policy measures from Indonesian government are not more pro-poor, pro-job and pro welfare of Indonesians.

The programme loan from the IMF was the most striking example of wasteful and harmful loans in Indonesian history, and can become a case study of how an International Organisation undermined state sovereignty and ignored democratic processes in a country. The IMF policies created a debt trap from which there was little chance of escape. The IMF forced Indonesia to accept its misdiagnosis and failed prescriptions, including the conversion of private debt to public debts, or the transfer of the debts of the private corporations to the debts of the poor Indonesians.¹⁵

The World Bank has been rather successful at maintaining its image as a donor institution in Indonesia. When the country was burdened with structural adjustment programmes in the 1980s and the implementation of the policy conditionalities (privatisation and liberalisation) after the 1997/98 crisis, the World Bank could deny responsibility for the failure of policy reforms. However, whilst the IMF was the only institution to be publicly blamed, it was the World Bank that orchestrated the implementation of the IMF policy conditionalities through its leadership of the CGI.

Notes

- ¹ Paper for the North-South CSOs consultation on aid effectiveness. (2007, November 15-18). Nairobi, Kenya.
- ² Kwik Kian Gie was the Coordinating Minister of Economic Affairs (2000 - 2003) and Minister of National Planning (BAPPENAS) in 2003 - 2004. Paper prepared by Kwik Kian Gie to be presented in the CGI Meeting in 2002 was "edited" by the World Bank. Kwik complained that the content of the paper was changed and did not reflect his view and the GOI's but the World Bank's.
- ³ BAPPENAS study. (2004). (BAPPENAS is the National Development Planning Ministry).
- ⁴ Chowdhury, A. & Sugema, I. (2005). How significant and effective has foreign aid to Indonesia been? Center for International Economic Studies (CIES) Discussion Paper No. 0505. University of Adelaide, Australia, p. 15.

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- ⁵ A documentary video presented during the farewell party of the Country Director of the World Bank, Andrew Steer, in March 2007, described clearly how the World Bank has been integrated in the Indonesian Economic Team (the Coordinating Ministry of Economic Affairs, Ministry of Finance, Ministry of Trade and the Ministry of National Planning). The documentary video could trigger the question of the independence of the Indonesian economic team, and to certain extent, the question whether Indonesia is still sovereign in making its economic policies.
- ⁶ Scott Guggenheim, "Crises and Contradictions: Understanding the Origins of a Community Development Project in Indonesia", paper 2003 downloaded from www.worldbank.org. The Project was started with a local-level institutions study (LLI), which came out with rhetorical conclusions that re-justify the intervention of the World Bank in Indonesia's development which in fact - as the study from BAPPENAS revealed - is only to secure the jobs of the World Bank staff in Indonesia. (Scott Guggenheim is the Director of the World Bank's Decentralisation Support Facility (DSF)).
- ⁷ BAPPENAS. (2004). op.cit.
- ⁸ Ramli, R. (2004). The IMF's Indonesian myths.
- ⁹ MPR is like a Congress in US democratic system, consisting of the House of Representatives and the Senate.
- ¹⁰ Ibid.
- ¹¹ Ramli, R. (2002), p. 13.
- ¹² In 1998, the Fund postponed loan disbursement three times: March, May and November. This automatically affected the disbursement of loans from the WB, ADB and some bilateral lenders.
- ¹³ Chowdhury, A. & Sugema, I. (2005). loc.cit.
- ¹⁴ BAPPENAS. (2004). The existence and roles of the consultative group for Indonesia (CGI). Summary, p. 9.
- ¹⁵ Ibid. In 1999 The IMF admitted its errors in Indonesia in its internal reports. Despite stopping further errors, IMF and the donors kept pushing the implementation of IMF's conditionalities.

IFIs - The Major Barrier to Change in the Aid System

Ahmed Swapan Mahmud
Voices for Interactive Choice and Empowerment (VOICE)

Introduction

The IFIs sit at the heart of the global aid architecture. The World Bank is a major source of finance for developing countries and the IMF has a crucial function in “signaling” which countries receive more funding from both official and private sources. These roles confer incredible power to these two institutions that have spread their wings well beyond their original mandates. The governance of the World Bank and IMF is severely skewed towards the rich countries that dominate decision-making in these institutions.

The World Bank (WB), International Monetary Fund (IMF), Asian Development Bank (ADB) and other donor agencies have, for the past few decades, provided Bangladesh with loans and grants in the name of such lofty pretexts as ‘poverty reduction’ and ‘international development’. However, these loans inevitably come tied with conditions which hinder the country’s economic growth and poverty reduction. The detrimental effects these conditions have had on Bangladesh are immeasurable, putting the country under increasing pressure to abide by the prescriptions imposed by the donors.

IFIs and Conditionality

As advocates of corporate globalization, IFIs and their allies work for international

capitalism, exerting a heavy influence on global trade policies that mainly promote trade liberalization and public sector privatization. Many of the least developed countries (LDCs) have become a place of experimentation for trade liberalization at the hands of international financial institutions (IFIs) who pressure the government into liberalizing trade policies. This causes serious devastation in public service sectors including health, education, water, agriculture and food.

Despite the movement for democratization across the developing world, International Financial Institutions (IFIs) have continued to bypass parliaments, a trend at odds with donor insistence on ‘good governance.’ The WB, IMF and Regional Development banks attach conditions with an intention of economic reforms which they legitimize through a range of documents including Poverty Reduction Strategy Papers (PRSPs).

PRSPs contain conditions such as cutting social expenditures - also known as austerity - implementing user fees in basic services such as education and health, focusing economic output on direct export and resource extraction, devaluation of overvalued currencies or lifting import and export restrictions, removing price controls and state subsidies, privatization or divestiture of all or part of state-owned enterprises, enhancing the rights of foreign investors vis-a-vis national laws, improving

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governance and fighting corruption. Many of these have negative consequences for the situation of the poorest people in these countries.

IMF imposes two types of policy conditions, namely quantitative and structural. Quantitative conditions are imposed at the macroeconomic level of the poor countries, while the structural ones are for institutional and legislative policy reforms. All of them prove to be not relevant to tackling the challenges that the countries face, unfair, undemocratic, ineffective, and inappropriate mainly because they undermine democratic accountability within countries and deprive the poor of access to services (education, health, etc) at a low cost. Yet the influence of IFIs to open up the domestic market is so powerful that the government cannot resist or deny their illegitimate influence and power.

Since the 1980s, IFIs - backed by key G7 shareholders - have become increasingly preoccupied with the structural obstacles to growth and poverty reduction, and have sought to use loans to leverage the reforms that their Washington-based economists have deemed desirable. As a result, the average number of World Bank conditions per program tripled between the early 1980s and mid-1990s, and by the 1990s IMF 'mission creep' led to its bolstering the Bank's efforts with its own structural conditions.¹

The World Bank provides most of its loans for a specific project on the basis of particular strategic policies, called Structural Adjustment Programmes (SAPs). The main conditions of SAPs have been: massive privatization of industries and major utilities; the blanket application of the 'free market policy' which actually means a unilateral canceling of all tariff restrictions by the country on the receiving end of the loans; withdrawal of all types of subsidies for the sake of 'efficiency'; and drastic cuts in government spending in order to ensure so-called 'macro-stability' of the economy.

The Dominant Position of the IFIs

In many cases, in terms of policies and projects, IFIs are directly violating the principles of the Paris Declaration. Aid is more aligned to structural adjustment policies striving for trade liberalization and privatization than nationally created development plans. The supremacy of donors continues to rule the day. Furthermore, by acting as the gatekeeper of aid disbursements by other countries, they act as a major hindrance to aid effectiveness reforms.

In the mid-eighties, when Bangladesh was under a military regime, Structural Adjustment Programmes (SAPs) were introduced. The main conditions of these SAPs were: massive privatization of industries and major utilities; the blanket application of the 'free market policy' which actually means a unilateral canceling of all tariff restrictions; withdrawal of all types of subsidies; and drastic cuts in government social spending to ensure macro-economic 'stability'.

This resulted in the disintegration of a number of industries including the Adamji Jute Mills, which left millions of jute growers and jute mill workers in crisis and displaced 26 thousand workers and their family members. The Bangladesh Petroleum Corporation (BPC) has been under tremendous pressure to privatize, as well as the Chittagong Port, a move that would put the oil and gas sector of the country at the mercy of the large multinational companies.² Similarly, the small and medium enterprises of the country are on the verge of collapse due to the misguided policy decisions of the IFIs.

Overall the SAPs proved of no use in Bangladesh, leading the World Bank to introduce Poverty Reduction Strategy Papers (PRSPs). However, this was still prescribed by the WB and IMF and agreed to by other donor agencies including the ADB. It reiterated the free market, privatization and liberalization conditions of

the SAPs, and the country was forced to accept and implement this PRSP as a precondition for receiving money from the donors. Like other countries, Bangladesh is bound to prepare a PRSP every three years to qualify both for concessional lending from the World Bank and IMF and for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

The PRSP does not reflect the needs or the participation of the people but rather violates their fundamental right to development and a quality life. The strategies prescribed in the PRSP are not recognized by the people at large since these were imposed on the country. Civil society groups have had discussions and debate opposing the prescribed document and also criticizing the government for accepting enforcement of this policy. The major reasons for opposing it were because it neither represents people's aspirations and expectations, nor deals with the priority sectors.

The IFIs prevent democratic ownership by applying their strategies as conditional tools over the country. Furthermore, people are kept away from the whole process of the project formulation and implementation and there is no accountability of the donors for their actions. No democratic consultation is practiced either in policy formulation or project implementation processes.

Further issues arise. Not only is the PRSP a set of conditional lending policies imposed by the IFIs, but later other official donor agencies also agreed with the PRSP to be in place. In this way, the IFIs act as a gatekeeper putting strategies in place which other donors and recipient governments are only able to follow. The national government has little choice since it requires the aid and is forced to comply with this. However, it is noteworthy that it did this without even raising the issue in the national parliament. Clearly, the national development priorities have been undermined in the PRSP and the principles

of the Paris Declaration are totally ignored and sidelined by the IFIs and other donors.

This dominant position has not changed in recent times. The World Bank, ADB, DFID and Japan have prepared a joint Country Assistance Strategy (CAS) for Bangladesh for 2005-09. The CAS is aligned with the PRSP and encourages other donor agencies to collaborate at the sector level through improved coordination of implementation. By these means, the IFIs continue to dominate the other agencies and to get them to implement their strategies and policies.

Nor have the IFIs reduced their influence in the face of the emergence of Sector Wide Approaches (SWAPs) in the fields of health and primary education. They are yet to align themselves with these country procedures.

Impact of IFI Policies

Many projects undertaken by the IFIs in Bangladesh ignored the opinions of local communities. For example, Khulna-Jessore Drainage Rehabilitation Project (KJDRP), which was funded by the ADB and was implemented in the Southwest area of Bangladesh. The lack of consideration for local communities resulted in a project with disastrous consequences for the environment and communities' livelihood. More than one million people have directly suffered in the area.

Though the project was not successful - as admitted by the ADB - there was no accountability for causing the people's suffering. The victims have not been compensated, though the communities have been calling for this for the past few years. Donor's supremacy and the money-power nexus are imposed over the decision-making process and no accountability is practiced though there was a commitment by the donors to comply with the principles of the Paris Declaration.

In June 2003, the IMF provided Bangladesh with a loan to be released in

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three years in three installments, with some of the conditions being the renovation of government banks and the privatization of the Rupali Bank. The reform of the banking sector of Bangladesh has already been initiated by the Government of Bangladesh, the name of the project being 'Industry Development and Bank Modernization', with another one called 'Central Bank Strengthening Project' already in hand. The privatization of banks could hamper the capital market as well as the economy as the government would be dependent on foreign capital for a longer period and would lose control over the economy.

Bangladesh has become a place of experimentation for trade liberalization at the hands of international financial institutions (IFIs) which pressure the government into liberalizing trade policies within and beyond the WTO framework. Following conditionalities stressed by WB and IMF, the National Board of Revenue (NBR) decreased import taxes from 2% to 1.5% on 352 products. The IMF pushed for increasing revenue income and decreasing subsidies in the budget, and determined increases or decreases on product taxes. The government could not keep control over tax policies, and as a result, the price of essential commodities skyrocketed.

At the macro-economic level, the IMF has also played a major role in Bangladesh in fixing the national salary structure, reducing the interest rate of *Sanchay Patras* (savings scheme) and raising the exchange rate of the dollar against the local currency taka. These policies have significantly impacted upon people's livelihoods. When investment was much needed to accelerate growth and provide key services to reduce poverty, the IMF-imposed tightening of the credit supply brought strong protest from the country's business community. In the end, tightening the money supply and credit growth through raising interest rates failed to maintain macroeconomic stability; rather, it increased the cost of investment and thus had a negative impact on output and employment. The result, at the end of

2007, was that inflation was creeping up to double digits, but at the cost of investment, employment and GDP growth.

Also since conditionality relates not only to donor goals but also the process for achieving these goals, the people of the recipient countries are victimized in the process. For example, the de-industrialization programme and closure of the jute industry caused serious unemployment. Overall, people have had to bear the brunt of both higher inflation and reducing incomes due to IFIs policies and programmes.

Following IMF conditions, the developing countries' governments are forced to impose taxes on products to increase its revenue income. The Bangladeshi government had to commit to increase the price of oil and gas in order to obtain PRGF funding. The price of fuel has increased by 60%-75% in the past two years in Bangladesh. The price of petrol and octane has increased in the local market by just under 30%. The price of kerosene and diesel has increased by 50%-76%.³

The IMF is pushing to increase the price even further, which they believe is good for economic stability and GDP growth. But does that growth really help people? The price hikes of oil and gas have directly affected the livelihood of the people. Farmers and manufacturers, in particular, have been severely hit by the price hike of these core business costs. Even in the recent substantial food price increases, the IFIs are pushing to increase the prices of gas, electricity and fuels, whilst simultaneously prescribing reduced subsidies to agriculture and basic services. This 'double whammy' leaves farmers and people in general in desperate situations.

The goal of increased revenue is not achieved through tax control, a process detrimental to the livelihoods of the people. The IMF conditions are plunging people into misery. Revenue experts suggest that the government should take measures to protect local industries. However, Bangladesh has only experienced trouble

with respect to industry and overall economy by following IMF conditions.

The Asian Development Bank in Bangladesh

International Financial Institutions stress quite explicitly the necessity of cost recovery and commercial profitability of water services. They also promote 'reforms' of the water sector and introduce 'public-private participation' or 'increased private sector involvement' that essentially results in the gradual withdrawal of the state from the domain of the utility sector. To make things a little more complicated, the market for water is highly subsidised and especially so in crowded cities, which offer the most potentially lucrative markets, the policy regime is not favourable to commodify or commercialise water and there is a fundamental question of whether the poor should pay for their water.

'Bangladesh has cumulatively received over US \$ 8 billion in aid from the Asian Development Bank (ADB), ostensibly earmarked for the 'public sector'. Unfortunately, much of this money is used to finance projects supporting private sector growth and trade liberalisation. In fact, one of the ADB's key operational objectives in its South Asia regional Cooperation Strategy is explicitly stated as "promoting private sector cooperation." In other words, by "addressing policy constraints," the ADB proposes to open up Bangladesh's industries and expose them to the vagaries of the global corporate economy.

The ADB's Dhaka Water Supply and Sewerage Authority (DWASA) Project envisages eventual privatisation of the water distribution system. The ADB's massive \$838 million Dhaka Water Supply Project is also underway, which it notes will require substantial private investment.

The World Bank has also confirmed its commitment to support the water sector in Bangladesh and noted that the sector

requires about \$8 billion dollars' worth of investment over the next 20 years. An obvious means, and presumably the one preferred by both the agencies, to finance the water projects would be private investment gradually pushing the water sector towards privatisation.⁴

The ADB's recommendations for the future operational strategy are set out in its water sector 'Roadmap' of November 2003. It notes that Bangladesh had prepared a 'sound' National Water Policy, which was in fact funded by the World Bank and conformed to the set of prescriptions that lending agency must have provided, as well as a draft 25-year National Water Management Plan. Implementation of this draft management plan 'also needs to be initiated with continuous strengthening for strategic sector development', notes the roadmap.

The Asian Development Bank hails two specific initiatives regarding Bangladesh and both involve non-state actors. Its publications highlight a particular initiative of organisations that have established 126 locations where they buy water at the subsidised rates and sell it to the slum dwellers at four times the government rate, making a neat 300 per cent profit. This can only be seen as a precursor to wholesale water privatisation since the private operators would find it easier to increase water tariffs.

ADB has also tagged a lot of prescriptions onto its aid, providing a policy prescription to restructure and downsize public sector organizations in order to create space for foreign private sector. It encourages Foreign Direct Investment as a means to provide an inflow of foreign currency, arguing that this would ensure remarkable development of the energy sector and would contribute to develop other sectors as well. At their behest, blocks of the gas sector were awarded to the Multinational Corporations. As a result of these contracts, Bangladesh became obliged to purchase its own gas at triple the price of local companies and in foreign

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currency. The national exploration agency has been kept idle. The budget deficit and negative effect on foreign exchange reserves increased due to the obligations to foreign companies.

The results of these steps have been disastrous for the economy and the people:

1. the price of gas and power has continuously increased
2. the cost of production at every level has increased, resulting in a fall in competitiveness of Bangladeshi products
3. hard-earned foreign currency is being used to purchase gas and electricity which could be bought with local currency at a much cheaper rate
4. dismantling of local production skill and exploration establishment
5. huge financial losses of state agencies
6. common property becomes private property being used to maximize corporate profit
7. public non-renewable resources like natural gas becomes huge liability.

Conclusion

The International Financial Institutions represent a significant barrier to the achievement of the Paris Declaration principles and the achievement of development goals more generally. They play a very significant role in shaping the policies, strategies and priorities of the developing countries that they work with. They continue to impose policy conditions, particularly related to the liberalization of markets and the privatization of national

companies along neo-liberal economic lines. They also impose rules on macro-economic stability, interfering in monetary policy in a way that does not allow countries to invest in their own development.

Not only do the IFIs have a direct impact on developing countries through the conditions they impose on their own aid, but they are also able to exert tremendous influence over other donors who accept their assessments and criteria for the allocation of aid. This reduces the room for manoeuvre available to recipient countries because it reduces the competition between donors and prevents them from being able to seek out alternative funding sources.

The result of this reality is that developing countries are not just held back, but also pushed back into situations of poverty and deprivation. The policies imposed have resulted in job losses, inflation, higher costs of key goods and services and reduced competitiveness on international markets. These have all impacted directly on the lives of everyday people and particularly the poorest.

Overall, the various positive noises coming from initiatives such as the Paris Declaration and IFIs own commitments can be seen to be more rhetoric than reality. The gatekeeper role of the IFIs needs to be challenged along with their undemocratic approaches to policy-making. Rather than a mere reform agenda in the current aid system, a change of paradigm is needed based on democratic ownership, full engagement of civil society, transparency, openness and accountability. Only then will the right policies come about to deliver the best opportunities out of poverty for the poorest countries and the poorest communities.

Notes

- ¹ www.dfid.gov.uk
- ² Breaking the cycle of neo-liberal hegemony: How World Bank and IMF stand against the people. (2008, January). In *Voice 2008*.
- ³ Global capital vs local economy: Conditionalities of the IMF and Fiscal Reform. (2008, January). In *Voice 2008*.
- ⁴ Ahmed, T. (2008). Water for sale, Dhaka WASA privatization. In *Voice 2008*.

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The World Bank in Pakistan: See No Suffering, Hear No Cries, Speak No Truth

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Introduction

There is a wide power gap between the World Bank and local communities. The decisions made from a distance by powerful institutions are beyond the control of local communities. In this context, investments in mega infrastructure projects from donors such as the World Bank have served to detach people from their historical entitlements to natural resources. The social disruption, loss of livelihood and environmental degradation associated with these projects push local communities into poverty and deprivation. The concomitant violation of rights such as to food, development and shelter is considered a 'transitory cost' in the Bank's terminology.

Water infrastructure projects funded by IFIs have not only generated huge economic waste, but also caused irreparable damage to the environment and livelihoods. The World-Bank-financed Tarbela Dam and link canals project in the early 1970s reduced fresh water flow to lower riparian zones, especially the Indus Delta. Previously prosperous deltaic communities were forced to migrate. Ecological costs have included sea intrusion, loss of mangrove cover and the disappearance of flora and fauna species. The prevalence of massive poverty in the

area is a direct consequence of upstream structures funded by the World Bank.

Similarly, the Asian Development Bank financed the Chashma Right Bank Canal project, which massively disturbed the ecological and livelihood pattern of the area. Flooding caused by alterations in the course of water flows force communities to migrate and negatively impact on the long-term potential of ecosystem functioning and sustainable development, pushing people into vicious cycles of deprivation. Such infrastructure projects are instrumental in extending state and capital control over natural resources through dispossession and limiting people's choices and autonomy.

The reason these projects come about is the dominance of a faulty development paradigm and inadequate accountability. Projects are implemented under the flawed economic belief that investment in major infrastructure projects will generate economic growth that will then seep into local communities and reduce poverty. The question of accountability at local level is omitted at very outset, because the gains are measured at the macro-economic level. The past sixty years have witnessed donors in competition with one another to pour money into such flawed projects, ignoring the fact that previous projects based on economic growth ideology had basically robbed natural resources from poor people

and created situations of extreme deprivation.

Poor communities bear the brunt of these projects and yet they are kept away from decision-making processes at all the levels. In developing countries that lack sufficient democracy, the state authorities are unaccountable to the people. Furthermore, the international donor institutions enjoy immunity from domestic laws and there is no mechanism of international law to hold them accountable. Thus, violations of human rights go unchecked and accountability remains an illusion. Nevertheless, indigenous people all around the world have fought around issues of accountability, transparency and governance in powerful institutions like the World Bank, particularly since the last decade of the previous century.

This paper looks deeply into the case of a World-Bank-financed project - the Left Bank Outfall Drain (LBOD) in the Sindh province of Pakistan - which demonstrates how the World Bank violated people's fundamental rights, uprooting them from their means of survival in southern Pakistan. It also shows how the WB failed to take responsibility for its actions after inspection panel findings.

Left Bank Outfall Drain Project

Background

The Left Bank Outfall Drainage (LBOD) project was initiated in 1984. The project aimed to provide a drainage facility for irrigated agriculture in three districts covering about 516,000 hectares through the construction of a network of surface drains, installation drainage tube wells and the Chotiari reservoir.¹ The initial estimated project cost was US \$ 635 million. The cost was agreed upon by seven external co-financiers: IDA; ADB; Saudi Fund for Development (SF); Canadian International Development Agency (CIDA); Overseas

Development Administration (ODA-UK); Swiss Development Corporation (SDC); and the OPEC Fund for Development. The IDA and ADB were the major donors, contributing US \$150.0 and \$122.0 million, respectively. The early environmental assessments indicated positive effects for the project. It was considered that drainage would improve the productive capacity of farmland and the quality of vegetation, whilst reducing malaria.

The problems

The implementation of the project was disastrous and both the World Bank and ADB have accepted that their performance at the preparation and appraisal stages was not satisfactory. The work of the LBOD project could not be finished to the estimated cost and time and remaining works were included in the National Drainage Program (NDP) launched in 1998 and co-financed by ADB, the World Bank, and the Japan Bank for International Cooperation. The total cost of the LBOD at project completion was estimated to be US \$1021.0 million by the World Bank, \$385.3 million or 60% higher than the appraisal estimate.

Even more seriously, the project design was too focused on physical and engineering aspects, with insufficient emphasis on social, financial, communication, and environmental aspects.² The consequences for local communities have been devastating:

- The project has made communities so vulnerable that in any monsoon rainy season the upcoming drainage effluent could displace them.
- In the 2003 rains, flooding, breaches and sea intrusion caused the deaths of more than 50 people, thousands of houses were damaged and thousands of acres of agriculture crops were destroyed.

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Damage Caused By Project-Induced Flooding In 2003

Type of damage or loss	Number
Human life ³	56
No. of villages affected	506
No. of households affected	21,134
No. of people affected	126,804
Crops (acres)	
Rice	49,330
Sugar cane	13,699
Others	10,530
Total crop acres	73,559
Livestock (numbers)	
Buffalo/Cows	885
Goat/Sheep	2,623
Others	157
Total loss of livestock	3,665

Source: District Administration Badin Pakistan.

The total estimated cost of losses during the 2003 flood was Rs.1, 287 million.

- The drainage network has badly affected the environment of the Indus Delta. There is now no fresh water available to maintain the ecological value of the delta, which is essential for coastal forests and marine life. In the absence of fresh water, the disposal of toxic drainage effluent has contributed to the destruction of the remaining natural resources.
- Agricultural land is increasingly encroached by seawater channeled through the project

infrastructure and entire grazing areas have been lost.

- The ground water - which is a unique drinking source - has become badly polluted causing severe impact on human health.
- Important wetlands ecosystems (including two Ramsar sites) have been destroyed with severe loss of habitats and fish. These Dhands (wetlands) provided livelihood resources to forty villages of fishermen having a population of 12-15,000 living around these water bodies.
- After the loss of other sources of livelihood, pressure on scarce forests has increased.
- The project has badly affected the indigenous *Mallah* community. The flooding and devastation that ensued during the 1999 cyclone and 2003 monsoon changed the economic base of these people. Both these shocks were interconnected with the operation of LBOD and aggravated by the overflowing and breaches of infrastructure installed by the project.

A large number of people who either owned land or were happy with fishing, agriculture or livestock rearing have been impoverished. Local communities which were heavily dependent on natural resources for their livelihood have been robbed of the very means of survival and denied the right to life, livelihood and development. These effects and costs were not included in the cost-benefit analysis of this infrastructure project.

The project design and implementation suffered from major defects, many of which

contributed directly to the displacements and dispossession experiences during the extreme events of 1999 and 2003. The construction of a tidal link invited sea intrusion and the tidal link canal subsequently collapsed. The Cholera weir was a flawed engineering structure. Its subsequent collapse caused sea water to flow into and degrade wetlands. The Chotiari reservoir and related irrigation infrastructure was always unfeasible as there was no water to fill it. The tube wells and drains were dysfunctional. The project wasted money, took longer to implement than anticipated and cost more than planned.

Flawed accountability

When looking for the explanation of why such a bad project was able to come about, one sees quickly that the lack of accountability to the people most affected by it is a key issue. Since the project designers, donors and national government did not consult the people most likely to be affected by the project and there was no information sharing with the people, they were not made aware of all the issues and problems that needed to be tackled. They undervalued the importance of the wetlands to the environment and people's livelihood and totally failed to adequately consider the sustainability of the project's management.

The idea to dispose of drainage effluent through the southern coastal belt in Pakistan by connecting a drain with an active sea tide was never discussed with coastal communities. Historical routes where rivers use to drain into the sea were bypassed and an artificial drain in the form of a tidal link was created, cutting through coastal lagoons. Local wisdom would have been enough to avoid future disaster, but it was not sought. Where local communities became aware of what was happening and raised their voice against ill-planning and the future threat to their lives and livelihoods, they were ignored.

Violation of Human Rights by the Project

The project clearly violated human rights, for which the Government of Pakistan and multi-lateral donors must be considered responsible.

All these violations of the fundamental rights of people came in the name of development and development cooperation. The blind eye of international capital and its collaboration with local non-democratic elite structures forced people from their ancestral land and destroyed or removed their access to other resources. This case indicates the serious lack of accountability mechanisms in place to make aid work for the poor or at the very least not make them more vulnerable to shocks.

The only accountability mechanism available was to approach a World Bank Inspection panel. The owners of resources whose rights were massively violated did just this, raising their concerns and complaints. The investigation of the panel members backed up many of the communities' claims, thus endorsing the community's view of how irresponsibly the Bank played havoc with the livelihood of people.

The panel found:

1. Technical flaws in design

- The alignment of the main disposal drain was technically and environmentally risky. Remote sensing data confirmed doubts expressed by the local people.
- A more appropriate technical option would have been to follow the natural route (known historically to the communities) and link the LBOD with Shakoor Dhand.
- Significant technical mistakes were made during the design of the Tidal

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Human Rights Obligation	Violation
Article 3 of Universal Declaration of Human Rights which says "Everyone has the right to life, liberty and security of person"	56 people were killed in the 2003 floods and many more are at risk of flood and hunger.
Article 1 of the Declaration on the Right to Development "The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development..."	The project not only excluded people in its development, but the infrastructure created caused people to migrate and lose control over their natural resources and means of livelihood and developing.
The Covenant of Economic, Social and Cultural Rights, which calls on States Parties to take appropriate steps to <i>"improve methods of production, conservation and distribution of food by making full use of technical and scientific knowledge, by disseminating knowledge of the principles of nutrition and by developing or reforming agrarian systems in such a way as to achieve the most efficient development and utilization of natural resources"</i> ;	The project induced displacement, loss of crops, fishing and agricultural land. Malnutrition is very common in the area as local communities, after losing control over productive resources, are unable to meet their food requirements. The local communities' capacity to live healthy lives has been reduced whilst their vulnerability to disease - particularly amongst children - has increased.
Right to Safe Drinking Water, <i>General Comment 15 on the right to water mentions that "The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses."</i>	The project caused flooding and the pollution of surface as well as ground water resources used for drinking.
Ramsar Convention	Project structures have completely damaged two Ramsar sites i.e. Narreri and Jhubo lagoon

<p>Rio Declaration on Environment and Development, including: <i>Principle 1: Human beings are at the center of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature. Principle 3: The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations. Principle 4: In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.</i></p>	<p>The project was too focused on physical infrastructure, with people never being at the center of the development logic.</p> <p>An environmental management plan was not properly prepared and implemented. The project caused severe damage to the natural environment and reduced the future development potential of communities.</p>
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link embankments and the Cholera Weir. Tidal link structures were critical to the performance of the system but the design had substantial inherent risk. The underestimation of risk and lack of appropriate technical measures contributed to the suffering of local people in lower Badin.

- Designers did not evaluate the likelihood that, under prevailing metrological conditions, high surface water run-off from upstream areas would coincide with high water levels in the Arabian Sea causing flooding.
- The construction of the Tidal Link and embankments cut off and diverted the surface flow and consequently destroyed grazing areas in the area of Runn of Kutch.

The overall morphology of the region is being changed.

- The outlets of low-lying drains linked to the LBOD such as the Seerani drain are now under the influence of tidal movement. At high tide, water flows back into these drains causing salinization of groundwater and of adjoining land.

2. Social Problems

- Fifty-four breaches in the embankments occurred at different locations, bringing devastation and loss of life to adjacent communities.
- The LBOD system, combined with the partial destruction of the Tidal Link, has heightened the risks to

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local people from flooding. The situation is particularly bad when heavy rainfall inland and high tides and storm sea coincide. Floods during rains in 2003 led to the loss of many lives.

- The Bank failed to identify emerging risks during appraisal that LBOD/Tidal link problems could lead to significant harm and even displacement of local people, even though the project had plans to complete and expand LBOD.
- The Bank failed to take the necessary actions under OD 4.30 to identify and prepare for the possibility of such displacement, and the extent to which it has occurred.

3. Environmental problems

- Tidal link failure led to major harm to the Dhands ecosystem, wildlife and fisheries, upon which many people depend for their livelihood.
 - Although it is difficult to separate impacts of the LBOD system from those of investments financed under the NDP project, the evidence indicates that the two, in combination, have contributed to significant adverse impacts on the internationally recognized wetland sites.
 - Under the NDP project, neither the potential environmental nor the potential social impacts of the project in the area of concern to Requesters were considered in a meaningful way until the submission of the Request.
- Increased salinity has affected large tracts of agriculture land.
 - Saline intrusion up the Indus Delta has harmed agriculture, including damage to 1.5 million acres of farmland in Thatta and Badin, causing dislocation and extensive economic losses.
 - The water supply has been reduced and contaminated (by saline drainage and biocides), in Hyderabad, Karachi, Thatta and Badin.
 - The 1993 DSEA analysis of alternatives rapidly became out of touch with the situation on the ground. Most importantly, the analysis underestimated the potential negative environmental effects in southern Sindh of relying upon and expanding the LBOD.
 - There was a failure to develop and, in particular, to implement adequately an Environmental Management Plan for the project.
 - The project focused on ensuring the evacuation of LBOD effluents, and paid little attention to impacts on, or means to rehabilitate, the Dhands as a habitat and ecosystem. The negative effects on the Dhands amount to a "significant conversion or degradation" within the meaning of OP 4.04.
 - The Bank did not adequately consider the risks of further degradation of the Jhubo lagoon, a critical natural habitat.

4. Other Issues

- Unfortunately, the people of Southern Sindh, whose lives were already recognized as being affected by the Tidal link, fell outside the field of vision of those who designed and appraised the project.
- The Choleri Weir collapsed only one week after the publication of the implementation completion report (ICR). There is concern that the ICR that was circulated to the Board was insufficiently transparent on important shortcomings of the project.
- Management was slow to visit the site of the Tidal Link failure, and did not have a consistent approach to interacting with the local population to understand and address the social and environmental implications of this failure. Management's failure to consult with people affected downstream for over half a decade following the breaches in the Tidal Link is of great concern.

5. Conclusion

- To a very large degree, the damages suffered by people in the project-affected areas have not been redressed, and many of the same conditions that led to these are still in place.

The World Bank's Refusal to Take Responsibility

In the wake of the independent panel's observations, it was expected that the Bank would accept the truth and take responsibility. However, it refuted all of the

panel's observations. By not accepting the communities' concerns and trying to place responsibility on government institutions, the Bank called into question the validity of its own accountability mechanism (inspection panels). There was no other accountability mechanism available to make the Bank take responsibility for the damage it caused and the lack of respect of the people's right to natural resources.

The communities have used all the peaceful means at their disposal to protect their rights, but all in vain. They are still waiting for justice. Frustratingly, the Bank rightly identifies the problems facing the delta and surrounding areas, but is silent about the causes of this situation. In its management report and recommendations for the area it says: "While salinity may be the biggest challenge, other important threats to development benefits in the Indus Basin are growing in importance... urgency-management of the coastal zone and the delta, conservation of wetlands and related environmental services, and management of pollution and water quality. In Sindh and Badin District in particular, the major changes in the Indus Delta that have occurred since the development of the Indus Basin's water resources have resulted in sea intrusion, increased salinity and loss of mangrove forest diversity and extent, and reduced productivity of the estuary." (Para 17)

The management recognizes the degradation of the Indus delta and the poverty and environmental risks in lower Badin and Thatta districts but wrongly highlights natural disasters as the main cause. It also recognizes the suffering of Badin and Thatta as a result of inequity in water distribution. However, the plan of action prepared by the management to address the problems raised in the inspection request and backed up by the panel experts is a joke. None of the communities' concerns have been addressed, but rather the Bank has approved another loan to fix the problem created by two earlier projects.

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Conclusions

World Bank-funded projects, including the Left Bank Outfall Drain Project, construction of the Tarbela Dam on the river Indus and other upstream structures to divert water on the river Indus are major causes of the degradation of the Indus delta and sources of livelihood for local communities. Flawed designs and inadequate implementation have reduced fresh water flow, increased the risks from flooding and caused sea water to flood delicate fresh water ecosystems.

The bank used a totally misplaced analysis of the sustainability of the infrastructure projects it chose to implement and failed to take into account the needs and risks facing local communities. None of the projects recognized the need of water for the delta because they were all focusing on inequitable economic growth models, based on the idea of producing for export markets, rather than sustainable human development and meeting local needs. The projects totally disregarded the feasibility of alternative approaches such as drastically reducing water use and hence drainage by switching to ecologically-friendly crops and organic farming or reducing crop intensity.

The absence of accountability at both state and IFI level has encouraged these

institutions to continue with the same water resource development paradigm in the face of all the disastrous impacts on the livelihood of local communities. They continue to push a model, which only serves to increase existing inequalities in the control of natural resources, perpetuate poverty and keep violating the basic human rights of local communities.

By putting the burden of proof on communities, with only the limited scope to request an inspection, the existing accountability mechanism has been shown to be inadequate and counter productive. It is lengthy and time consuming, overly technical, builds false expectations in the communities and ultimately fails to hold the Bank to account. Even after establishing the fact that people have been severely negatively affected by projects, no justice has been provided to the communities.

In such a situation, aid has been used to strengthen existing power structures, which keep denying peoples' sovereignty over natural resources and facilitates exploitative forces to extract private benefits at the cost of historical owners of resources. Genuine and effective mechanisms of accountability are essential to put a stop to such practices and ensure that aid is used to support local communities in tackling poverty and deprivation.

Notes

- ¹ See Staff Appraisal Report (SAR), Left Bank Outfall Drainage Stage 1 Project, South Asia Projects Department Irrigation 1 Division, World Bank Report No. 5185-Pak, November 5, 1984.
- ² See para. 36 of the Implementation Completion Report, LBOD Stage-1 Project, Rural Development Sector Management Unit South Asia Region World Bank Report No. 18037.
- ³ People died in one sub-district Badin, of district Badin in Sindh province Pakistan. Information collected through police.

Democratic Ownership and Mutual Accountability to International Human Rights: A Reality Check of Nepal

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Introduction

Nepal's developmental failure over the past five decades is attributable not so much to the paucity of resources as to the lopsided consequences of the international aid-based economic and fiscal system. As happened in other countries of the world, aid-giving in Nepal gradually became the preserve of the most unaccountable, undemocratic and opaque international financial institutions (IFIs), working in tandem with private multi-national corporations (MNCs).

There is a crippling paradox at the heart of the international system of power. The rhetoric is strong on ethical symbolism, exemplified by the ratification of a profusion of human rights, developmental and environmental instruments of the UN and other regional organisations, mainly the European, Inter-American and African system of human and people's rights. The reality, on the other hand, is preponderantly dictated by the interests and calculations of global financial capital, represented by the IFIs and private global corporations which flagrantly violate all the international instruments of rights that are supposed to govern the relations between states and with their peoples.

IFIs Undermining UN Principles

Although the IFIs and other trade organisations - such as the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB) and World Trade Organisation (WTO) - ostensibly aim at promoting national development and claim to uphold the apparent values and principles of the UN, based on equality and human rights without any discrimination, their actions have primarily served more to de-legitimise and erode the credibility of this international organisation. It has also led to undermining of the funding for the UN's rights-based human rights and development programmes.

Inter-institutional conflict was clearly revealed at the 1993 UN World Conference on Human Rights in Vienna, the 1995 World Social Summit in Copenhagen and other follow up processes. By this time, the notion of the collective rights of individuals, peoples and the communities was under attack from the well-packaged global corporate framework of economic and trade liberalisation, privatisation and globalisation. This will not change until there is a well-defined balance of approach, translating the concept of profit into collective national interests, and not narrow corporate profit.

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The problem for poor countries like Nepal is that they will be punished heavily both economically and politically if they fail to comply with the global corporate agenda of development. But no punishment or enforcement measures are allowed in the event of violations of UN human rights and environmental treaty obligations in the pursuit of such corporate-led development. UN obligations are confined within the parameters of member states' moral and voluntary obligations and are invoked only if there is no conflict with corporate-led development or the geo-political interests of donor countries.

The tragedy is that the UN system of obligations is more strict and supreme in formal legal terms compared to those of the profit-led corporate institutions. However, what prevails today is the rules for profit and real politik. As a result, even national court systems have abdicated the responsibility to guarantee and protect the constitutional rights or international human rights of citizens. IFIs and MNCs not only enjoy all diplomatic privileges but also impunity for the human rights violations and the economic crimes they commit during the course of their operations.

The UN is reduced to a cash-strapped organization that has to rely on the largesse of tycoons like Bill Gates, who donate a small share of their corporate profits in return for unpublicised but obvious benefits, giving them a standing superior to the governments of the developing countries who make up the majority of the organisation's 193 members!

Why the Paris Declaration?

The Paris Declaration on Aid Effectiveness (2005) is no more than a reflection of the departure from or destruction of the international commitments made during the adoption of the UN Charter (1945), the Universal Declaration of Human Rights (1948) and numerous other instruments developed subsequently between the 1950s and 1970s.

These instruments were gradually put in cold storage as soon as the rich countries saw the UN promoting the cause of the third world countries and their billions of poor people.

All the development agencies of the UN were reoriented to conform to market principles and corporate interests and thus rights-based development was repudiated. The old and strong UN framework that the developing countries desperately need has been replaced instead by the Paris Declaration, the principles of which are legally weak, non-binding and unenforceable, with limited moral value. To compound matters, even this inadequate framework is routinely flouted by aid-giving countries and international agencies.

There is no doubt that the effectiveness of aid can be enhanced if all the Paris Declaration principles, limited though they are, are complied with by those who are managing, dictating and controlling the global development process and its outcomes. Even the Paris Declaration of mutual accountability can serve as a meaningful tool to measure development effectiveness. However, that is not the case today because aid and development have become the most effective post-colonial, neo-colonial and neo-liberal tool of the day to continue with the past legacy of domination and exploitation in a more indirect, more faceless and apparently more civilised manner.¹

Past Failures of Aid Effectiveness in Nepal

In Nepal as a country case study, it is important to highlight some of the characteristics of aid-funded projects and activities, particularly after the democratic changes ushered in after the 1990 peoples' movement. Nepal, relatively speaking, had a fair constitution that guaranteed most of the civil and political rights, and recognised all the basic economic, social, cultural, environmental and developmental rights

(although not explicitly as 'rights', but at least as directive principles of the state). They were to be enforced by law whenever possible.

However, the new democratically elected governments that replaced some three decades of absolute monarchical dictatorship were forced by the IFIs and bilateral donors, mainly the World Bank, the IMF, the ADB, the US and the United Kingdom, to put in place the globally designed free-market policies as a condition for receiving aid. As a result, even a Nepali Congress government with the strongest leftist opposition in parliament and, subsequently, a full-fledged but a minority government of the Communist Party of Nepal (Unified Marxist & Leninist) (or CPN-UML) could not do much in protecting Nepal's national interests and priorities in the economic and development sectors.

Any attempts these political groups made at formulating pro-people policies, such as the social security provisions for the elderly, or subsidies in food, drinking water and electricity, or grants for local government were heavily criticised by the aid agencies. Whatever the UML government tried to achieve on the fiscal, economic and developmental fronts provoked the ire of the liberal parties, leading to the collapse of the government in nine months in 1995. All Nepal's major aid agencies were involved in the political manoeuvring that led to the downfall of the first ever elected communist government. If the UML government had been given a chance to run the country for some years, the face of Nepal today would have been drastically different. The country could have been spared the 10-year Maoist insurgency launched by the Communist Party of Nepal (Maoist) (or CPNM) and the ensuing claim that Nepal had become a 'failed state'.

In fact, the same aid agencies and IFIs were mainly responsible for all the fundamental failures of the 15 years (1990-

2005) of the multi-party system. This was one of the main reasons behind the systematic growth of the Maoist insurgency and the successes of the People's War (1996-2006). Even the World Bank has recognised this fact and described the Maoist rebellion as an ideology-based political movement catalysed by the economic and development failures and corruption of the period.²

Two examples of failed initiatives by aid agencies are part of the development folklore of Nepal. In one instance, the UNDP failed to eradicate poverty even in the one district, Syangja, that it chose for intensive intervention. Its programme failed despite all its vision statements, missions, programmes, staff and funds. There is also the curious case of the USAID's development project in the Rapti zone. Soon after the completion of this project was announced amidst much fanfare, the Maoist uprising began in this very area. One main reason is that their development approach and process created more poverty and intensified the inequality between the 'haves and have not' and, thus, rural youth were ready to join an armed struggle once they were provided the visionary Maoist leadership.

Another instance of failed development intervention was an international NGO's model projects in the districts of Sindhuli and Sindhupalchowk which were withdrawn after a decade. The INGO not only left these two districts in a mess but also disturbed the local farming pattern and methods which they are now correcting gradually.

There were other potentially damaging interventions that would have had long-term damaging consequences, but which were stopped by popular struggles. The Arun 3 hydroelectric project was one such instance. It was to be implemented in 1993 with over four dozen lending conditionalities of the World Bank that would have made Nepal a virtual donor colony, but which was eventually cancelled in 1995 due to massive

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local and international campaigns offering better alternatives to implement smaller, cheaper and better hydropower projects.³

The ADB-funded Kali Gandaki 'A' hydroelectric project also had adverse lending conditionalities. The Khimti and Bhotekoshi hydropower projects funded by the private sector aid/loan window of the ADB and the International Finance Corporation involved conditionalities that resulted in power purchase agreements signed under duress by which inordinately high electricity tariffs were imposed. Due to the aggressive stance taken by donors on the aid/loan conditionalities imposed by the ADB on the Melamchi river diversion and Kathmandu water privatisation projects, even the Maoists are now afraid of pushing ahead with the cancellation of patently unnecessary and corrupt projects.

There are other examples of such projects which are heavily controlled by donors, with the national government not even exercising the right to decide which projects should be implemented and which should be rejected. There is never any transparency in the process and decisions are made unilaterally. Most of the experts, consultants, equipment and raw materials are procured from outside Nepal, so national capacity is never developed, and no information is ever furnished to the public about any of the details, procedures and consequences of the project in a timely and meaningful manner. Under such circumstances no underdeveloped country can ever progress.

The Latest Reality

Despite all the criticism that has been raised around such flawed projects and practices, these foreign-aided projects come with more strings attached than ever. They create more contractual obligations for the recipient countries to comply with, thereby raising the financial and environmental costs.

One of the main reasons for this is that IFIs support a contract framework known as FIDIC or Federation Internationale des Industries et Consultants. Once a project is signed as a FIDIC contract, the recipient countries or governments are bound to pay any amount of additional costs or cost overruns to the contractors as recommended by the consultants. Contractors win most of the cases that go to international contractual litigations and arbitrations. In Nepal project costs have increased up to 70 percent, such as in the case of Kali Gandaki 'A'. There are several on-going water supply and hydro projects in Nepal financed under the FIDIC framework.

Another aid-financed project framework is called BOOT, or Build, Operate, Own and Transfer, under which recipients as well as local communities lose almost all their sovereign and traditional rights to co-own the projects and associated natural resources such as access to rivers and water for future use or even daily use in some cases, e.g. the proposed controversial West Seti hydroelectric project.

As this is becoming the standard practice worldwide to guarantee the highest amount of profit for corporations, recipient countries are always on the losing side. Although these BOOT projects are supposed to be beneficial to recipient countries as they get it back 'free of cost' at the end, what they really get is the transfer of ownership of the project after its useful life is over, typically with unbearable maintenance costs.

No questions are or can be raised as regard disclosure of information to ensure transparency in such projects. The opportunities for participation and involvement throughout the project cycle are limited.⁴ Environmental assessments and compliance with mitigation plans are usually fictitious. No effective attempts are made at benefit sharing with the local beneficiaries. Moreover, such projects have violated international and domestic rules,

regulations, norms and standards of human rights and socio-economic justice. Even the ordinary and accepted rights of labourers and workers as per international law are not respected.

In such an aid regime, there is simply no possibility of establishing mutual accountability and transparency in aid-funded projects. There is certainly more willingness on the part of recipients to comply with such standards or principles, such as the Paris Declaration, but less or none on the part of the IFIs and major lending/donor countries or agencies.

A New Political Reality in Nepal: The Rise of the Left

In the case of Nepal, there is now a new dimension that the corporate world of aid and lending has to contend with—the institutional rise of radical left-wing politics. The recent and first ever elections to the Constituent Assembly amply demonstrated that Nepal is overwhelmingly a left-wing country, with the Maoists and the UML alone garnering more than 50 percent of the vote. Nepal now has another opportunity to correct the mistakes of the past, reforming existing aid policies and projects that are harmful for Nepal, removing the constraints to the growth of the country's trade and entrepreneurship and coming up with a comprehensive socio-economic and fiscal transformation package addressing the needs of a broad spectrum of Nepali society, in accordance with national requirements, national priorities and local capacities.

For the donors, the extraordinary performance of the Maoists has come as a surprise since they were confident that they would win only a small number of seats. While they have reluctantly come around to accepting the outcome, they are extremely unhappy with it. Accustomed to dictating terms to Nepal for decades, they

have suddenly come face to face with the reality that the people of Nepal wish to make their own independent decisions. The dilemma for them is whether to stand by norms of electoral process or to express their ideological biases beyond their territorial jurisdiction or legitimate concerns. If a new Nepal is to be considered a fully sovereign state, then the donor community will have to abstain from interfering in its domestic development priorities as has been their wont in the past.

The lesson that all the donors of Nepal need to learn immediately is that development effectiveness cannot be ensured in the country if they persist with their old ways. The spirit of welfare-based democratic socialism has been born in Nepal and reactionary forces will find it difficult to suppress it. The usual slogan they chant, "*communism is dead*," will not work in Nepal. For the majority of rural Nepalis and poor urbanites, the world of Bush and the US war on terror simply do not exist and their priorities are more focused on everyday issues of livelihood. The change that has come about in the Nepali polity is due not only to the Maoist People's War and the UN-monitored peace process but also to the desire for everyday transformation.

There are only two options in front of the Maoists. Either they will have to confront the donor community and take a strong stand or they can simply cave in to international pressure for the sake of remaining in power - a suicidal mistake the UML made in 1994-1995. The communist-phobic West must be made to realise that the dominant mood in Nepal is anti-neoliberal and anti-imperialist. The aid community must understand that the power structure of the new republic of Nepal will reflect the pluralism of society and must, therefore, pursue a progressive national agenda of independence and people-led development. This is difficult for members of the international community in Kathmandu to swallow since they have used their

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financial clout to purchase the loyalty of the entrenched upper caste vested interests that had been running Nepal.

International Civil Society as Donors

It is relevant also to touch upon the reality of aid that comes through international civil society as intermediary donors. Known as international non-governmental organisations (INGOs), many of these organisations channel their aid through national or local non-governmental organisations (NGOs). Some of these INGOs are not very different from official donors as they practice the same values of development and adopt the same corporate managerial style.⁵

This type of INGO takes money from their governments and establishes its own bureaucracy and control mechanisms in its own capital. The mutual agreement between such INGOs and their supporting governments is that the same philosophy of development will be perpetuated through the aid disbursed through them. Even the better INGOs are not allowed to go beyond the boundaries fixed by their governments as the original donors. There is now a new practice that development aid cannot be given to NGOs or civil society organizations in the south unless they have an INGO partner in the north - which then becomes a new form of dependency!

As a result, a huge part of the money allocated for the south goes towards operations, salaries and travel expenses of INGO officials in the north. The rest of the money is then invested in development through national or local NGOs that are more accountable to their paymasters in the north and proportionately non-transparent to local society in the actual areas of their operation. These I/NGOs are often actively engaged in undermining national states and political organisations through subtle and explicit propaganda in the areas where they work. In many cases,

local NGOs then hijack the prevailing social and political agenda and establish family and party-cadre-based NGO empires.

The main motivation of many of these civil society professionals is the easy access to huge foreign money they have, the capacity it gives them to build patronage networks and the freedom from local control and accountability that they enjoy in the absence of strong laws and a regulatory framework to monitor and ensure the effectiveness of the development work. The way these I/NGOs work is not very different from the operational style of private corporations and the perks of office are equally generous.

In Nepal, it is not difficult to understand why so many professionals and experts have left political and social movements and joined the NGO world or have established their own home-based NGOs for development. These same people are paid money by IFIs and I/NGOs for critiquing their national governments who have, through aid, been reduced to a state of supine dependence and acceptance of internationally driven development agenda.

Given this situation, it will not be surprising if the political struggle against the Maoists or a government led by the Maoists with radical agendas is led by the various NGOs in Kathmandu and elsewhere in the name of human rights. They will try to maintain their stranglehold and with the backing of the international community become focal points for reaction against any progressive and radical policies initiated by the new Nepali state. They will almost certainly also try to undermine all state agencies responsible for delivering public services in the social sector, such as drinking water, food, electricity and healthcare.

It is important to understand that NGOs should never attempt to replace the state and its agencies and they should focus their civil society work instead on advocacy. Learning from the lessons of various national and regional civil society consultations held

in Nepal for the Accra process, it was reaffirmed that NGOs like those involved with the International Steering Group (ISG) of the civil society parallel process to the OECD's HLF on Aid Effectiveness can play the role of bridging and liaising with the donor governments and agencies in changing their development policies according to the needs of recipient governments and national development entities. National or local NGOs can also facilitate policy formulation and planning of development within the country, particularly in favour of rural communities and their civil society organisations.

Conclusions and Recommendations

It is imperative to recognise that aid is a temporary instrument and should not be converted into a permanent and institutionalised mechanism of new forms of resource extraction, policy distortions, economic exploitation and political control by international financial institutions and major donors. Aid should not be regarded as money given by the poor of the rich countries to the rich of poor countries. Aid must follow national needs and priorities as proposed by its democratically elected governments in a true sense and not be dictated by IFI conditionality, whether formalised or not. The practice of aid conditionalities, and contractual arrangements such as BOOT and FIDIC in supporting large and destructive infrastructure projects must be stopped and discouraged.

The framework of any aid must be within the boundaries and obligations of UN and other multilateral or regional human rights, environmental and development frameworks, including the Paris Declaration. Aid should be directed towards those who need it most, should reach recipient communities directly and should be spent

in the manner most suitable for the local public good. Local government and development authorities must have a significant role in governing aid money and these institutions should be accountable to local communities and not beholden to the IFIs. Civil society can play an important role in ensuring a multi-stakeholder process of democratic decision-making and monitoring development effectiveness. Priority should also be given to budgetary support and national capacity-building and not to project-based approaches.

Developing countries should not be forced to do anything against their national and international framework of human rights and environmental obligations in ensuring equal access and opportunity to all rights and resources, including aid money, and the guarantee of not only civil and political but also economic, social, cultural, environmental and developmental rights. The aid community, and IFIs in particular - who play such a dominant role in this - should also refrain from disengaging with governments that may differ with them on the policies of liberalisation, privatisation and globalisation and rather take an alternative path of development such as that which may emerge in Nepal.

Nepal is now ready to provide an alternative model of development based on UN human rights principles, the Paris Declaration and other emerging norms of the right to development. However, the question remains as to whether the IFIs and aid agencies will allow the dream of a new Nepal to be translated into reality, or whether they will try to make Nepal continue to follow the existing pattern of aid packages or even pull out from the country. Furthermore, will Nepal be allowed to govern itself with full sovereignty by its giant neighbour and donor, India, whose main aim is to control the country geopolitically and to utilise its resources?

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Notes

- ¹ For a better aid framework, for example, see, Oliver S. Saasa, Galio C. Gurdian, Zenebeworke Tadesse & Gopal Siwakoti 'Chintan', Improving Effectiveness of Finnish Development Cooperation – Perspectives From the South, Ministry for Foreign Affairs of Finland, 2003.
- ² See The World Bank, Nepal Country Strategy Programme Document (2004-2007), Report No. 26509-NEP, p. 7-9.
- ³ Gopal Siwakoti 'Chintan', 'Constraints and Challenges for Building a New Nepal' in *Contemporary Perspectives: History and Sociology of South Asia*, Volume 2 Number 1, January - July 2008, p. 151-158 (published by Centre for Jawaharlal Nehru Studies Jamia Millia Islamia, New Delhi and Cambridge University Press, India).
- ⁴ For details, visit www.wafed-nepal.org, www.bothends.org at Encyclopaedia of Sustainability under the Integrated River Basin Management (Successful Campaigning against Large Dams: The shelving of Arun III in Eastern Nepal) and also www.inspectionpanel.org under Requests for Inspection at Nepal: Arun III Proposed Hydroelectric project and Restructuring of IDA Credit (1994).
- ⁵ In Nepal, a western-funded community NGO professional can earn more than of a full-time permanent university professor does. The affluence of the NGO world is evident also in the kind of vehicles that they purchase—Sports Utility Vehicle's like Pajero and Prado. See, Gopal Siwakoti 'Chintan', Foreign Intervention in Politics through NGOs: A Case of the Left in Nepal at Juha Vartola, Marko Ullivila, Farhad Hossian & Tek Nath Dhakal (eds), *Development NGOs Facing the 21st Century: Perspectives from South Asia*, Institute for Human Development, Kathmandu, pp. 134-143.

European Commission: Providing the Kind of Budget Support That is Needed?¹

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Introduction

Access to basic health care and education is a distant dream for millions of people, mostly women, around the world. Every day, 72 million children, mostly girls, do not go to school. Every minute a woman dies during pregnancy or in childbirth. Every three seconds a child dies, mainly due to diseases that could easily be prevented with access to a doctor.²

A key factor in this needless deprivation and suffering is the chronic shortage of health workers and teachers in the world. An estimated two million teachers and more than four million health workers are needed to reach the Millennium Development Goals (MDGs) on health and education.³ The workers that are there are often grossly underpaid and work in appalling conditions.

Access to basic health and education are human rights, and governments are responsible for delivering on these rights. Over the past decade, many poor-country governments have made extraordinary efforts to increase access to health and education. Countries such as Tanzania, Uganda, and Malawi, for example, have made education free, allowing millions of children to go to school. However, many poor-country governments simply lack the resources by themselves to guarantee access to quality health care and education

for all. External aid is needed to fill the gaps in their budgets for health and education.

Unfortunately, many rich countries not only fail to provide the level of aid they have repeatedly promised to give, they also fail to provide the right kind of aid. This article will show that the European Commission, which currently is the biggest provider of multilateral aid, does provide some of the kind of aid that is needed. However, it is still far from enough, and it will need to make some key changes if it is to lay down a challenge to other donors.

The Need for More Budget Support

Today's aid system is extremely fragmented, with hundreds of different providers of aid. Most of them mainly give project aid, which is short-term by nature, is outside the government's discretion, and cannot be used to finance recurrent costs such as salaries for teachers and health workers. This scattered system is highly inefficient and comes with great costs attached. For example, every single week the Tanzanian government receives 19 donor missions and every quarter it writes 2,400 donor reports.⁴

Furthermore, too much aid is still being spent on expensive foreign consultants. For instance, as much as 70 per cent of aid for education is spent on technical assistance.⁵

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Some of this is clearly necessary and useful, but in some countries 100 days of consultancy bills cost as much as the salaries of 100 teachers for a year, or the cost of keeping 5,000 children in school.⁶

Many donors provide aid only on the condition that poor-country governments implement specific economic policies, including, for example, the privatisation of services and liberalisation measures. Such conditions, frequently imposed by the World Bank and the IMF, can undermine ownership as they leave no room for poor-country governments to design their own economic policies. They can unnecessarily delay aid flows and sometimes do more harm than good, actually increasing poverty. In Mali, for example, aid from the World Bank and the IMF was tied to cotton sector reforms, which according to the World Bank itself would actually increase poverty by more than 4.6 per cent.⁷

Instead of this kind of aid, poor countries need more long-term and predictable aid, which is provided for at least three years and which becomes part of poor-country governments' budgets. This budget support - which can be provided either as general budget support or as sector budget support - should be aligned with national plans to fight poverty, developed in close consultation with civil society. Furthermore, it should be de-linked from economic policy conditions and instead be tied to outcomes related to poverty reduction that do not undermine ownership, and which provide space for poor-country governments to design their own policies.

There is increased international consensus about the need for enhanced levels of budget support and other government-based approaches, as for instance reflected in the Paris Declaration, a set of principles and targets that aim to increase the quality of aid, which were agreed by donors and partner countries in Paris in 2005 and which will be reviewed at a High Level Meeting in Accra in September 2008. Nonetheless, only about 5 per cent of

global aid is currently given as general budget support.

Risks of Budget Support

There is a widespread fear that giving aid to poor-country governments is a risky business, and that precious aid money could be wasted by corrupt governments.

However, as a joint review of general budget support in seven countries shows, budget support is not affected more by the risk of corruption or waste than other types of aid.⁸ In fact, there is no type of aid that is immune from the risk of waste; the rationale in providing aid, despite the risks, is that the returns in terms of poverty reduction are very high. Choosing to completely avoid this risk would mean not giving any aid, which is not an option.

This does not imply that all countries are well placed to receive general budget support. It should only be given to governments that can demonstrate a strong commitment to fighting poverty, in particular to increasing access to health care and education for all and to promoting gender equality. It is equally important that governments have reasonable financial systems to account for the use of resources and that they have plans in place to continually improve these systems, and in particular to enhance accountability towards their citizens.

In countries where the overall government environment is more risky, but where a particular ministry is functioning well, it may be more advisable to give sector budget support rather than general budget support.

The Positive Impact of Budget Support

Evidence shows that budget support does indeed help countries to expand access to basic health and education. A 2005 independent review of general budget support in Burkina Faso, Malawi,

Mozambique, Nicaragua, Rwanda, Uganda, and Viet Nam, commissioned by the OECD, reveals that recipient countries have stepped up pro-poor spending and have scaled up social service delivery.⁹

Furthermore, a more recent evaluation of the impact of general budget support, published by the UK auditing office in February 2008, demonstrates that, as a result of general budget support, in Rwanda, India, Zambia, and Ethiopia, many more children go to school and many people have gained access to medical help. The study notes that in Rwanda, for example, budget support has helped the government to increase vital recurrent expenditures in health, supporting the recruitment, training, and salary costs of health workers.¹⁰ In addition, it highlights the fact that defence spending in Rwanda fell between 2003 and 2007, demonstrating that budget support does not necessarily lend itself to abuse.

The European Commission's Budget Support

The European Commission (EC) is the biggest multilateral provider of aid and a strong proponent of budget support.¹¹ The European Consensus, a key document agreed upon in 2005 that lays out the development vision of the Commission and the EU member states, declares, for example, that general and sector budget support are "the preferred aid modality where conditions allow."¹²

The Commission's preference for budget support is reflected in its spending. Between 2002 and 2005, the EC committed a total of €4.9bn to budget support, or 18.6 per cent of all aid committed. Of this total, €3bn was for general budget support and €1.9bn for sector budget support.¹³ African countries are the biggest recipients of the Commission's general budget support, while sector budget support is focused more in the other regions. A positive feature of the Commission's general budget support is that

the Commission links it to improvements in health care and education.

The Commission provides the main share of its budget support on the condition that a country meets three general eligibility criteria: it should have a poverty reduction plan; it should work towards improving public finance management (PFM); and it should aim for macro-economic stability. The remainder of the funds are disbursed according to the country's performance against specific indicators on health care, education, and PFM.

Research by Oxfam and the European Network on Debt and Development (Eurodad), based on general budget support agreements with 11 different African countries, shows that each agreement includes performance indicators on health, education, and PFM. Overall, over half of the performance indicators tied to the eleven agreements call for direct improvements in poor people's health and education, in particular for girls and women.

To be more precise, health indicators, such as the rate of deliveries attended by skilled health workers, make up 29% of the total. Education indicators, such as the number of girls going to school, make up another 23%. In addition, 11% of the indicators call for increases in the national budgets for health and education. Another 28% of indicators are PFM indicators.

Sometimes the agreements include other indicators, such as roads, water, and private sector development. Very occasionally, these can be deemed somewhat intrusive. In Ethiopia, for instance, the EC required the introduction of a competition law, application for accession to the World Trade Organisation, and revision of urban land lease laws.¹⁴

By linking its budget support primarily to outcomes in health and education as well as improvements in PFM, the EC distinguishes itself from other donors such as the World Bank. Research by Eurodad based on 32 agreements in 16 different countries shows that a quarter of the World

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Bank's conditions consist of specific and sensitive economic policy conditions, such as privatisation and liberalisation.¹⁵ By moving away from specific economic policy conditions, and instead often focusing on gender-specific outcomes in health care and education, the Commission sets a positive example to other providers of budget support.

Furthermore, evidence suggests that the EC's budget support does help to make a change in poor people's lives. Government spending on education has increased by nearly a third (31 per cent) in eight of the countries that receive some of the largest amounts of the Commission's general budget support: Ghana, Kenya, Madagascar, Mali, Mozambique, Niger, Rwanda, and Zambia. In all but one country (Rwanda), this has resulted in an increase in the number of children enrolled in primary school. In Madagascar, the proportion of children enrolled in primary school increased from 69 per cent in 2001-02 to 92 per cent in 2005. Of course the Commission is not exclusively responsible for these positive results, but the evidence does show that where it is giving large amounts of budget support, headway is being made in reducing poverty.

Longer-Term Commitments

Another advantage of the EC's budget support is that it is fairly long-term. At present, it is usually provided for a period of three years. Furthermore, the Commission is working on a proposal for 'MDG contracts' which it aims to introduce in 2008 (see box). By providing general budget support for a period of six years, with just one mid-term assessment, this ambitious proposal could be a major step forward in terms of increasing long-term predictability. It is a proposal that European Union member states should support.

On-Going Challenges

But while there are several positive aspects to the EC's budget support, it is still far from adequate. The first main problem is that it is still not fully free from harmful conditions. It is particularly problematic that - like most other providers of aid - the Commission generally only gives budget support if countries have an IMF programme in place. IMF programmes commonly have a series of quantitative conditions, which insist that poor-country governments achieve a series of targets such as reducing inflation to single digits, reducing the budget deficit, imposing a ceiling on the wages paid to public servants, or committing to use aid to build up international reserves.

While these aims may not all be wrong in themselves, the IMF approach tends to be far too conservative and to subsequently act as a barrier to more ambitious spending by governments on poverty reduction. This can be counterproductive. Recent independent assessments have shown, for example, that much of the aid increases to some African countries have been ploughed into increasing international reserves at the behest of IMF programmes, meaning that poverty spending has not increased as much as it could have done.¹⁶

The second main problem is that too often the Commission's aid comes late because of its own burdensome bureaucratic procedures. In fact, according to a 2005 Special Programme for Africa review, as many as 29 per cent of the delayed disbursements are due to the Commission's own internal procedures. Although this is a major improvement compared with 2004 - when as many as 40 per cent of the delays were related to EC procedures - it is still worrying. While acknowledging that in the past five years the EC has shown 'significant improvement in financial management, contracting and processing of Commission paper work', a peer review of EC aid also stresses that partner country governments feel that the

Box 1: Key Features of MDG Contracts

The details of the proposal are not decided yet. The likely features of MDG contracts will be:

- Funds will be committed for six years, instead of the usual three years.
- The main share of the funds will be disbursed on the condition that there is no breach in the eligibility criteria; the remainder will be largely tied to performance criteria on MDGs and public finance management.
- Annual payments for the first three years will be fixed; annual payments for the next three-year period will be set after a mid-term review of performance with respect to MDG-related indicators.
- There will be annual monitoring of performance; under-performance will not immediately lead to cuts in funding (as is currently the case) but rather to a reinforced dialogue.
- If the country is not performing well on the eligibility criteria, this may lead to a temporary withholding of a small part of the annual allocation.
- In addition to the regular entry conditions, there are three further eligibility criteria: countries must have a good track record on implementing budget support over three years; they must show a commitment to monitoring and achieving the MDGs; and there should be an active donor co-ordination mechanism to support performance review and dialogue.
- Up to ten African countries are likely to be eligible.

Source: EC (2008) 'The MDG Contract. An Approach for Longer Term and More Predictable General Budget Support'.

Commission should simplify procedures further still and accelerate programme implementation.¹⁷

The third main problem with the Commission's aid is that it suffers from a severe lack of transparency and genuine ownership by poor countries. The EC's budget support is usually well aligned with national poverty reduction strategies. However, these often lack true democratic ownership. The EC could do more to ensure that poverty reduction strategies reflect what citizens want and more generally, to ensure that citizens are able to hold their government to account. Through parliament and civil society organisations (CSOs),

citizens should be able to influence the design of national policies and the budget, and they should be able to monitor whether the government's spending is in line with the promises made. The EC can support this by including indicators in budget agreements calling for improved downward accountability and by providing financial support to civil society organisations.

At another level, the Commission should do more to make the dialogue on budget support more inclusive. At present, involvement of CSOs or parliamentarians in the dialogue on sector and budget support is a rarity.¹⁸ In Malawi, for example, CSOs are sometimes invited to meetings of the joint

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donor budget support group, which includes the European Commission, but not to key meetings, and often too late.¹⁹ Contributing to this lack of involvement is the fact that CSOs often have limited access to information. It is not common practice for official documents, such as budget agreements, to be publicly available.

There are exceptions. In Ghana, for instance, the donor community has created a working group to promote a deeper involvement of civil society in the budget support process. In Zambia, civil society has been involved in reviews of the budget support programme.²⁰ Such examples are encouraging. The next step is for the Commission to embark on a more systematic approach by establishing a more formal mechanism to ensure the involvement of civil society and local members of parliament in the dialogue on sector and budget support.

In addition, in the case of general budget support, the EC should involve the line ministries in its dialogue, rather than only inviting the Finance Minister as is the common practice.

Recommendations

Considering the need for increased levels of budget support based on social sector outcomes, the EC is an important player in international development. In particular, its ambitious proposal for MDG contracts could constitute a positive challenge to other donors, suggesting the provision of budget support tied to social sector outcomes for a period of six years, which goes far beyond current common practice.

However, if the Commission is to show leadership and to challenge other donors to improve the quality and quantity of their aid, it must implement some key changes.

The European Commission should:

- Continue to increase spending on budget support, including by significantly stepping up sector budget support for health and education, in particular to African countries.
- Continue to tie budget support to gender-specific social sector outcomes, while also adding outcomes that promote women's civil rights.
- Continue to tie its general budget support agreements to targeted increases in spending on health and education. These targets should reflect an ambition to reach the Abuja Declaration target of spending 15 per cent of a national budget on health and the Global Campaign for Education recommendation to spend 20% of a budget on education.
- Delink its aid from the approval of the IMF and at the same time put pressure on the IMF, together with the other major budget support donors, to come up in its advice with more flexible fiscal targets and more ambitious spending scenarios. In countries that have achieved macroeconomic stability, the Commission should work with other donors to see a rapid exit from the country by the IMF.
- Reduce unnecessary delays caused by cumbersome bureaucratic procedures to a maximum of 5 per cent of the total by 2010.

- Make its budget support more predictable by implementing MDG contracts and expanding the principles of MDG contracts to more countries and to sector budget support.
- Ensure the involvement of civil society, members of parliament, and line ministries in all steps of the budget support process, including the design, monitoring, and review of the programme.
- Adopt a policy of automatic disclosure of relevant information, with a strictly limited regime of exceptions.
- Strengthen the capacity of civil-society organisations, local government bodies and parliaments to engage in national policy development and budget processes.
- Use their collective voice on the board of the IMF to push for the institution to leave countries that are stable at the macroeconomic level, and in remaining countries to press for more flexible fiscal frameworks.
- Use their collective voice on the board of the World Bank to push for it to adopt similar processes to the Commission's best practice.
- Increase expenditures on health to 15 per cent of the national budget (as recommended by the Abuja Declaration) and expenditures on education to 20 per cent of the national budget (as recommended by the Global Campaign for Education).
- Tackle corruption and guarantee full transparency and accountability for government expenditure by ensuring genuine participation of local government bodies, parliamentarians, and CSOs in the development of national poverty reduction policies and enable parliament and civil society to monitor and influence the national budget process and government spending.

European Union member states must:

- Support the plans of the European Commission to implement its proposed MDG contracts, including by providing financial support.
- Increase the amounts they give bilaterally as budget support.

Notes

- ¹ This article summarises the main findings of a paper by Oxfam International: Fast Forward. How the European Commission can take the lead in providing high quality aid for education and health. Oxfam International briefing paper, April 2008.
- ² UNICEF. (2008). State of the world's children. p.1.
- ³ Oxfam. (2007). Paying for people. Oxfam International briefing paper.
- ⁴ Eurodad. (2007, September). Linking budget analysis with aid advocacy: How civil society groups can monitor donor budget support.
- ⁵ World Bank. (2005). *Global monitoring report 2005*. IBRD/World Bank. p.93.
- ⁶ World Bank. (2006). *Global monitoring report 2006*. IBRD/World Bank. p.60.
- ⁷ Oxfam. (2006). *op.cit.*
- ⁸ IDD and Associates. (2006). *op. cit.*, p.S14.
- ⁹ IDD and Associates. (2006). Evaluation of general budget support: Synthesis report. OECD/DAC. Birmingham, UK.

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- ¹⁰ National Audit Office. (2008). DFID Providing Budget Support to Developing Countries. Report by the Controller and Auditor General. HC 6 Session 2007-08, 8 February 2008. The report notes that utilisation of health services rose from 0.25 outpatient attendances per person per year in 2001 to 0.59 by 2006.
- ¹¹ IDA. (2007, February). Aid architecture: An overview of the main trends in official development assistance flows. p.4.
- ¹² EEPA. (2008). Administering aid differently: A review of the European Commission's general budget support. p.21.
- ¹³ Beynon, J. (2006). Budget support. EC perspectives and the results-oriented approach. Paper presented during the European Commission OFSE conference held on December 5, 2006.
- ¹⁴ Financing agreement between the European Commission and the Federal Republic of Ethiopia, Poverty Reduction Budget Support II (ET/7200/005), EDF IX.
- ¹⁵ Eurodad. (2007, November). Untying the knots. How the World Bank is failing to deliver real change on conditionality.
- ¹⁶ Independent Evaluation Office of the IMF. (2007, March). The IMF and aid to Sub-Saharan Africa.
- ¹⁷ OECD. (2007). European Community Development Assistance Committee peer review. p.18, 72.
- ¹⁸ EEPA. (2008). pp.47-48; CIDSE. (2007). p.42.
- ¹⁹ Interview with Andrew Kumbatira, Malawi Economic Justice Network.
- ²⁰ EEPA. (2008). pp.47-48, 58.



Chapter 3
The Paris Declaration
Does Not Go Far Enough



Introduction

Chapter Three: The Paris Declaration does not go far enough - it fails to recognize human rights as the heart of development policy

Given that aid relationships are still relationships of power dominated by the IFIs, the Paris Declaration might seem to be a beacon of light foreshadowing a better reality. However, the authors in this third chapter of the 2008 Reality of Aid report argue that it does not go nearly far enough.

Philippines

The NGO IBON in the Philippines argues that, whilst the PD declares that it is about greatly improving the quality and effectiveness of aid, the unfortunate reality is that it serves to reinforce or even aggravate some of the more undesirable aspects of aid to its country. This has serious implications for the progressive realization of human rights in the Philippines - and may even prevent this from taking place.

The article points out that the PD is mainly about technical and procedural efficiency in the management of aid and it tends to reinforce the lack of a rights-based approach. It is fundamentally limited by its narrow analytical framework, which is not designed with human rights in mind. This is what makes the PD as it stands so dangerous in the Philippine context.

From the point of view of the realization of human rights, the PD's most

serious flaw is that it maintains ODA as an instrument for donors to advance their interests rather than to foster democratic governance. ODA is a major source of public finance and donors wield tremendous influence over the country's social and economic policies. Unfortunately, the PD as it stands noticeably sidesteps the need to reduce this influence.

The PD not only avoids the issue of policy conditionalities, but actually aggravates the situation in a way that cuts across the PD's declared principles. For instance, the PD indicator on ownership - "partners having operational development strategies" - ignores how these strategies are themselves already strongly influenced by donors. The PD fails to address the reality of alignment along neoliberal economic lines with a narrowing of the discourse about alternative policy options.

Similarly, the harmonization being applied serves more to strengthen donor domination of the aid system vis-à-vis the Philippines, rather than enabling a human-rights-based approach focused on genuine national, regional and local needs, particularly of the poorest and most marginalized.

The CBM

The NGO CBM points out there are several positive aspects to the Paris Declaration (PD) including commitments to engage "a broad range of development partners" in creating national development strategies.

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“Broad consultative processes” should be used to engage parliaments, NGOs and citizens.

However, the step taken by the PD, whilst welcome, is definitely too small. The paper argues that the commitments made are weak and do not set out a clear agenda of promoting democratic participation in development policy-making. Nor does it really promote the principle of subsidiarity which says that a central authority should perform only those tasks which cannot be performed effectively at a more immediate or local level.

Ultimately, the PD focuses too strongly on an aid effectiveness agenda dominated by governmental national development strategies and not enough on developing democratic ownership of development policies including the range of relevant stakeholders. The PD lacks a focus on human rights and the organisations that can help deliver such a focus, such as CSOs, which can help bridge the gap between those in power and those in need of services.

Given these limitations, it is unlikely that the PD by itself will be able to bring about the required development effectiveness to alleviate severe problems such as poverty, hunger, disease and under-education in developing countries. It has taken a step in the right direction, but more steps are now needed to achieve the necessary rights-based focus and approach.

Bissio

This detailed paper assesses the different indicators for each of the five PD principles and shows that they do not have a clear focus on achieving the progressive realization of social and economic rights. Human rights and the right to development in particular are not mentioned. Rather, they only refer to how aid is managed and delivered.

The paper claims that rather than creating a partnership of equals, the PD

contains several preconditions that developing countries have to meet, without calling for reciprocal efforts from donors. Recipient countries are penalized if they do not implement the conditionality framework, but they have no way of penalizing their donors/creditors.

The effectiveness of aid delivery and management, as measured by the PD, does not assess the impact of aid on poverty reduction or realization of human rights. While it might be expected that more efficient aid will contribute positively to both objectives, the 12 indicators could in fact be reviewed positively without any measurable impact on either. Worse, the implementation and assessment of the PD implies risks to the right to development against which no insurance, complaint mechanisms or exceptions are provided.

The reality of the PD is that it creates a new level of supranational economic governance above the World Bank and the regional development banks. By aligning bilateral and multilateral donors around certain governance requirements, it might even serve to undermine local democratic processes and the “policy space” that developing country governments need to make their own plans.

Afrodad

This article from the African Debt and Development Network looks at the importance of the Paris principles of harmonization and alignment to aid effectiveness. It argues that the principles themselves will not lead to greater development effectiveness unless accompanied by progress in democratic ownership. Harmonization and alignment must be seen as necessary, but not sufficient conditions for development effectiveness.

The article recognizes that there have been positive efforts towards harmonization in Africa around joint missions, common analyses of situations and performance, and

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the development of Sector Wide Approaches (SWAs). Also, the Poverty Reduction Strategy Papers (PRSPs) have opened doors to various levels of national ownership of the strategies, which have improved with the second generation of PRSPs. Several examples are presented from African countries.

However, if democratic processes do not inform the development of policy in the first place, then alignment is undermined - there needs to be a true domestic political agenda for donors to align to. Similarly, harmonization under these conditions presents as many dangers as it does potential benefits, since donors are not harmonizing around a strong domestic agenda, but may be using their harmonization to exert even greater influence over national policy priorities.

To truly implement the principles of harmonization and alignment, the national development strategies must be fully national and legitimate. The major barriers to the achievement of this legitimacy are set out as: (1) lack of aid predictability; (2) continued use of aid conditionalities and tied aid; (3) poor governance; (4) lack of accountability; (5) weak local capacity; (6) and lack of involvement of CSOs.

The crucial issue is that the principles of harmonization, alignment and democratic ownership are actually interdependent - only if all of them are followed will aid policies become effective at promoting optimum development.

Conclusions

The Paris Declaration may appear to be a major step towards better aid and better development, however in reality it flatters to deceive. Whilst making some good noises around key principles and ideas such as participation, it totally fails to deliver an approach focused on the achievement of people's rights or the right to development.

The Declaration does nothing to redress the imbalance between donors and recipients, and therefore its principles become distorted. Harmonization tends to strengthen the power of donors over recipients by reducing choice, and alignment is seen to be achieved through the use of national development strategies that have themselves been strongly influenced by donors. Mutual accountability is impossible given the current imbalance in power and the PD does not change this.

The Declaration is more about technical and procedural efficiency in aid than a redirection of the philosophy of aid based on democratic participation in development policy-making. The PD will therefore not be enough to deliver the required development effectiveness to alleviate severe problems such as poverty, hunger, disease and under-education in developing countries.

Aid and the Rights-Based Approach in the Philippines

Sonny Africa
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There is still much to be done in terms of applying the rights-based approach (RBA) to official development assistance (ODA) in the Philippines. The barriers have to do both with the unduly donor-defined character of aid as well as with current limitations in the country's internal aid processes.

On paper and in terms of first principles, there appears to be a solid basis for a comprehensive rights-based approach in the Philippines. The right to development is enshrined and elaborated at length in the country's Constitution. The government is also a signatory to most United Nations (UN) Covenants and human rights instruments. These presumably establish the legal premises for ensuring that aid policies in the Philippines are consistent with international human rights standards and actually use them as their framework for implementation. Unfortunately, however, the government - as with governments in many other countries - still has a tendency to compartmentalize its human rights obligations. Combined with the pressure exerted by donors, human rights are neglected and overlooked in aid policies.

Within this context, the Paris Declaration (PD) on aid effectiveness, as it stands, unfortunately serves to reinforce or even aggravate some of the more undesirable aspects of aid to the country. This has serious implications for the progressive realization of human rights in

the Philippines and may even prevent this from taking place.

Undermining Socio-Economic Rights

Social and economic rights are always fully acknowledged and well-articulated whenever they are brought up in UN and UN-related forums. Many commitments are made. Yet these same obligations are conspicuously absent, or given only lip service, in the vital forums relating to international trade and finance or to domestic macroeconomic policies. This greatly undermines human rights efforts elsewhere, given the far-reaching impact on people's lives, livelihoods and welfare of these policies.

The Philippine state, being the only institution with the official mandate and authority, is of course ultimately responsible for domestic policy. Nevertheless, understanding where the direction of these policies comes from is crucial. In current political conditions, this direction unfortunately comes disproportionately from local elites, foreign corporate interests and the international financial institutions (IFIs) rather than from the broad majority.

For several decades now, multilateral and bilateral aid has come with invariably "free market" policy conditionalities

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designed to benefit the narrow interests of the dominant domestic and international political groups. These conditionalities have been explicit and formally contained in ODA agreements as well as leveraged through the extended ideological remodeling of domestic policy-making elites. Sadly, they have compromised the incomes, livelihoods and strategic well-being of millions of Filipinos.

The economy has certainly been opened up and is now amongst the most open in East Asia. The share of trade in gross domestic product (GDP) has doubled and the share of foreign investment quadrupled between 1980, when such conditionalities started to be imposed in earnest, and 2007.¹ The manufacturing sector is a smaller share of the economy than in the 1960s as well as the most foreign-dominated it has ever been. Agriculture's share in the economy is at its lowest point in history; agricultural trade deficits have been rising since the mid-1990s and the country is more dependent than it has ever been on imported food.

This distortion of the economy has impacted negatively on the population. The country's productive sectors are more backward than ever, which undermines incomes, job creation and prospects for broad-based development. Economic growth in 2007 was the fastest in three decades and among the most rapid in the region. Yet, tellingly, the period 2001-2007 was also the worst seven-year stretch of recorded joblessness in the country's history with an average annual unemployment rate of 11.3 percent.² Some 11 million Filipinos out of a labor force of 38 million were jobless or underemployed in 2007.³ This job crisis has forced some 3,000 Filipinos a day to look for work abroad; there are now 9-10 million overseas Filipino workers (OFWs), around 10 percent of the population, scattered in over 190 countries.⁴

Unsurprisingly, poverty has continued to worsen. Using a poverty threshold of US\$1 a day (at market exchange rates),

there were 27.6 million poor Filipinos, or an increase of 2.1 million between 2003 and 2006. If a less extreme poverty threshold figure of US\$2 per day is used the number of people living in poverty more than doubles. In any case, official poverty incidence has increased from 30 percent to 33 percent over the same period.⁵ All told, Filipinos' right to development has been severely compromised by conditionalities and their attendant economic outcomes.

Undermining Socio-Economic Rights Through Donor Preferences

The Philippines, like hundreds of other under-developed countries, faces resource gaps in virtually all areas of social and economic policy. In this context, aid is presumed to go towards helping reach ambitious development goals such as cutting poverty in half, reducing child mortality by two-thirds and ensuring universal primary education. However, the country's overall aid profile reveals collective donor preferences that prevent aid from going to where it is most needed socially.

The need for greater public investment in health and education is unambiguous. State health expenditure has been steeply declining and was down to 0.28 percent of GDP in 2007 from 0.44 percent in 2000 and from a peak of 0.74 percent in 1991; education spending in turn went down to 2.5 percent of GDP from 3.5 percent in 2000 and a peak of 4.0 percent in 1998.⁶

Yet rather than targeting these urgent areas, the largest part of on-going ODA loans still goes to infrastructure development. Infrastructure accounted for US\$5.5 billion in 2006, or 57.5 percent of the total (down from its recent peak of 69 percent in 2001).⁷ On the other hand, only US\$1.2 billion or just 13.0 percent of total loans went to social reform and development. Although this is double the share of five percent in 2000, the proportion is still too low. Furthermore,

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most of this was even accounted for by US\$723 million in various program loan commitments geared towards further health and education sector privatization and correspondingly reduced national government outlays in the future.⁸ Another US\$100 million was for a local community-focused program - the KALAHI-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) - which has been criticized for being implemented on the ground in the context of counter-insurgency.

The overall aid profile indicates the tendency of aid to reinforce rather than remedy basic distributive problems in the country's official development strategies. Most aid goes to infrastructure in areas of the country with relatively high-value economic activity or to projects with direct economic returns rather than to social services and to remote areas where outcomes are less visible or not immediately measurable. Infrastructure projects tend to be located where transnational firms can most benefit from their use. A scan of the list of ODA loan commitments in 2006 shows that at least a third of these projects are identifiably implemented in and around the country's National Capital Region (NCR), where over half of the country's economic activity is found.

More aid could usefully go to social services and to remote areas where the Philippine government is weakest and devotes insufficient resources. Instead, and particularly in the context of economic policy conditionalities, aid currently tends to buttress the inequitable status quo and deliver benefits to a narrow cross-section of the domestic population and for foreign corporations in the country. Limitations in the current aid system need to be addressed to remedy this.

No Rights-Focused Monitoring of Aid

The country's aid system is limited by its excessive focus on mainly financial and

procedural matters at the expense of developmental processes and outcomes. The narrow parameters of the country's aid system are starkly evident in the information generated for the management of aid. The basic ODA legislation specifies three major official bodies to oversee the aid system: the economic planning agency National Economic and Development Authority (NEDA); the Commission on Audit (COA); and a Congressional Oversight Committee on ODA (COCODA). There are two major annual reports by the country's main official aid-related bodies: the annual COA audit report and NEDA's annual ODA review. These two reports are essentially concerned with expediting aid flows and do not concern themselves with the developmental outcomes (or otherwise) of ODA programs or projects.

The NEDA review provides a basic profile of the aid portfolio covering distribution by donor, sector, recipient agency and the extension or cancellation of loans. There is an assessment of "performance," but only according to financial indicators of "disbursement", "availment" and "project costs". There is a section on implementation issues and measures but, again, these are largely related to budgeting, financing and absorptive capacity matters. The NEDA apparently even ceases monitoring projects once they are completed.⁹

The COA report is an even more straightforward and detailed financial accounting of aid. The COCODA potentially creates an opening for more developmental considerations and involvement of citizens and civil society. However, this was only convened in 2005, almost a decade after being created by law, and even so still remains basically dormant.

The absence of indicators on poverty reduction, human rights or development is a clear sign that these are not among the guiding principles of ODA in the country. What is missing, but which should be one of the most important factors to be closely monitored, is the extent to which aid

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allocations are actually going to the geographic regions, income classes and marginalized sectors that are most in need and to what extent it protects and promotes rights.

Civil society groups have tried to make headway at the project level and, to a more limited degree, in national policy-making. Yet these efforts are severely limited by the overall absence of detailed information and the lack of CSO familiarity with project complexities, aggravated by a general lack of transparency. Perhaps a few dozen aid projects out of many hundreds have been scrutinized in the last decade. The overwhelming bulk of the value of ODA has, in short, escaped more detailed study.

The lack of a rights-based approach in the country's aid system reflects the lack of a rights-based approach in the country's development policy-making in general. This in turn reflects the need for more democratic governance better able to take measures that respect, promote, protect and fulfill the right to development. The Philippines, however, remains saddled by structural political and economic inequities which the aid system does little to address.

Unfortunate Consequences of the Paris Declaration

The Paris Declaration declares that it is about greatly improving the quality and effectiveness of aid. However, it tends to reinforce the lack of a rights-based approach. The PD - like the COA and NEDA reports - is mainly about technical and procedural efficiency in the management of aid. It is fundamentally limited by its narrow analytical framework which is not designed with human rights in mind. This is what makes the PD as it stands so dangerous in the Philippine context.

From the point of view of the realization of human rights, the PD's most serious flaw is that it still regards ODA as an instrument for donors to advance their interests rather than to foster democratic

governance. ODA is a major source of public finance; where it is directed and how it is used has a strong influence on the domestic policy-making landscape. At the same time, the Philippine state is still weakly democratic and correspondingly unable to more strongly embrace a human rights framework or assert this vis-à-vis aid. Thus, ODA donors wield tremendous influence over the country's social and economic policies. Unfortunately, the PD as it stands noticeably sidesteps the need to reduce this influence which has far-reaching implications.

Conditionalities and their associated "free market" policies have resulted in such adverse human development outcomes in the country that they must be a central concern. Yet in the context of the Philippines, the PD not only avoids this issue but actually aggravates the situation in a way that cuts across the PD's declared principles. For instance, the PD indicator on ownership - "partners having operational development strategies" - ignores how these strategies are themselves already strongly influenced by donors. The decades of sustained political, ideological and economic pressure from donors pushing neoliberal policies has actively undermined the Philippine government's capacity to even conceive of more democratic notions of fair and development-oriented trade and investment based on human rights.

Amongst others, the World Bank (WB), Asian Development Bank (ADB), United States Agency for International Development (USAID) and the Japanese government have all invested heavily in national policy-making processes. Aside from various "multi-stakeholder" development forums, they have also directly funded government line agencies, private think-tanks, academic and media bodies, and even CSOs.

This sustained technical assistance, sponsorship of research and conferences, funding of joint projects and other funding relationships have had a strong influence. The overall effect has been alignment along neoliberal economic lines and a narrowing

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of the discourse about alternative policy options. It is highly likely that there is prior 'self-censorship' and 'adaptation' from the Philippines to meet donor preferences. These are among the factors that have contributed to the development of consecutive five-year official Medium-Term Philippine Development Plans (MTPDP) since the 1980s that chart out the rapid opening up of the economy.

Moreover, the PD's promotion of harmonization also seems to be more about enabling donors to more efficiently achieve their individual and collective ends rather than about fostering a human-rights-based approach in the recipient countries. The many recent harmonization efforts¹⁰ have included policy coordination through the donor-dominated Philippine Development Forum (PDF) and common arrangements among external partners. The WB and European Union (EU) have agreed to use common appraisal, reporting, auditing and review procedures and to undertake some pooling of funds. Other partners, including the ADB and the German government, are undertaking joint planning and review arrangements for their health-related programs. Unfortunately, this harmonization serves to strengthen donor domination of the aid system vis-à-vis the Philippines, rather than enabling a human-rights-based approach focused on genuine national, regional and local needs, particularly of the poorest and most marginalized.

Conclusion

A new approach to aid effectiveness that more genuinely advances socio-economic rights is required in the Philippines and other developing countries. There are key elements that should be part of such an approach. These include consideration of larger issues such as the imbalance of power between donors and recipients and of structural inequities in income and wealth. There should be greater attention to participatory and democratic processes as well as giving priority to developmental outcomes. Greater efforts on the government side to institutionalize such an approach are vital.

At the same time, greater CSO involvement and engagement would provide additional momentum as well as being important for sustaining such an approach. Philippine CSOs have by no means collectively and fully internalized and implemented the rights-based approach themselves. Yet generally they nonetheless have a track record of adhering to human rights principles and developmental practices. Many were indeed consciously formed as a counterpoint to acknowledged government bureaucratic inertia and disconnectedness from the grassroots level. These are relative advantages that would be most productive in helping build a democratic aid system that more decisively addresses the long-standing problems of Philippine poverty, inequity and underdevelopment and promotes human rights.

Notes

¹ IBON computations on data from the Bangko Sentral ng Pilipinas (BSP) and the United Nations Conference on Trade and Development (UNCTAD) online database.

² IBON computations on data from the National Statistics Office (NSO) Quarterly Labor Force Surveys (LFS).

³ Ibid.

⁴ IBON estimates based on data from the Philippine Overseas Employment Administration (POEA) and the Department of Foreign Affairs (DFA).

⁵ National Statistical Coordination Board (NSCB), 2006 Official Poverty Statistics, March 5, 2008.

⁶ IBON computations on national government expenditure data from the DBM.

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- ⁷ Unless otherwise noted, all ODA donor loan data from the National Economic and Development Authority's (NEDA) 15th Official Development Assistance Portfolio Review (2006).
- ⁸ Covering the WB's Second Social Expenditure Management Program (US\$100 million), Social Expenditure Management Program (US\$100 million), National Program Support for Basic Education (US\$200 million), and National Sector Support for Health Reform (US\$110 million) and the ADB's Health Sector Development Program (US\$213 million). COA ODA Audit Report 2006.
- ⁹ NEDA reply to a query from a member of the Congressional ODA Oversight Committee (COCODA), noted in the minutes of a meeting of the COCODA at the House of Representatives (HOR) on November 14, 2006.
- ¹⁰ NEDA, Report On The Baseline Study And Survey Of The Government Of The Philippines' Compliance With The Paris Declaration Commitments, February 2008.

Democratic Ownership and the Paris Declaration

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Introduction

This article reflects on the strengths and weaknesses of the Paris Declaration to promote effective development policies. Particularly, it examines who owns and drives the development process, looking at the role of citizens, parliaments, CSOs and donors. When looking at the overall integration of aid resources into development objectives at country level, the article takes into account governmental leadership of partners including democratic processes of relevant institutions as well as the political will and capacity to promote development objectives.

The Paris Declaration

The Paris Declaration on Aid Effectiveness is a voluntary agreement of governments and multilateral institutions who realised there were flaws and insufficiencies in their aid delivery systems. It focuses on the effectiveness of aid, as a necessary, though not sufficient, element in achieving sustainable socioeconomic development within the briefest terms and at the lowest possible transaction costs. Since this initiative on aid effectiveness has been donor-led under the umbrella of the OECD's Development Assistance Committee, we would like to examine how, according to the Paris Declaration, a people-centred

development process can be ensured by southern civil society and their parliaments and governments, and supported by the donor community.

Civil Society Organisations have long asked that ownership of development decisions be given to Southern countries, enabling them to direct their own development with reinforced capacities and by means of participatory and transparent procedures. The Paris Declaration, in contrast, neither talks about *democratic* ownership nor about the poorest and most vulnerable populations as priority target groups of development efforts.

There are some positive aspects of the Paris Declaration:

- countries commit to "*Exercise leadership in developing and implementing their national development strategies through broad consultative processes.*" (Partnership Commitment 14)
- furthermore, there is a specific reference to Civil Society at the country level: "*Partner countries commit to take the lead in co-ordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society...*" (Partnership Commitment 14).

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- it agrees that governments and donors should “...reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.” (Partnership Commitment 48).
- it also recognises that both parliaments and citizens should be enabled to monitor official development expenditure. Donors are asked to provide better “...information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislators and citizens” (Partnership Commitment 49).
- with regard to failing states, the Paris Declaration says in Partnership Commitment 39: “Donors should make maximum use of country, regional, sector or non-government systems”.

Failings of the Paris Declaration

From the point of view of CSOs like CBM - an international organisation concerned with disability and development and lobbying for a more transparent and effective aid system - the initiative of the Paris Declaration is long overdue and welcome but definitely too small a step in that numerous aspects of development effectiveness are not considered to their full extent, or worse, not at all.

The commitments made are quite weak and do not set out a clear agenda for promoting democratic participation in development policy-making. They certainly do not acknowledge the necessity of advocacy work in countries where participation of all groups of civil society in

resource allocation needs to be initiated or strengthened.

The Declaration’s effort needs to be better geared toward poverty reduction, democracy-building, human rights, equity between southern and northern countries and within countries, and social, economic and environmental sustainability.

Also, the Paris Declaration does not really promote the principle of subsidiarity which says that a central authority should perform only those tasks which cannot be performed effectively at a more immediate or local level.

The Paris Declaration’s principle of ‘ownership’ refers first of all to the authority that ODA-receiving partner governments exercise over the formulation and management of their policies and strategies, and over the coordination of their own development actions; the Declaration does not say much about the CSOs’ role in that process.

Similarly, encouraging information on aid flows does not by itself ensure that the public and parliaments will be well informed by their governments. Definitely more needs to be done and it has to be asked whether donors could not inform the public on agreements with partner governments proactively, providing civil society with the means to enquire with their national, intermediate level and local governments how development funds are being spent. Democratic ownership only exists in combination with transparent information policies and practice of both governments and donors.

The Crucial Role of CSOs

Sustainable development cannot be achieved if citizens are not involved in a real and effective manner in the process. The political will and institutional capacities of receiving governments and donor entities are important, but they are not sufficient to ensure the sustainability of development. The desired results will only be obtained if

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CSOs actively participate in all relevant processes.¹

Civil society could and should play a role in national aid allocation. True democratic ownership exists only when all groups in society can have a say in the formulation of development strategies and plans. CSOs, with their grassroots approach, possess comparative advantages that can help bridge the gap between those in power and those in need of services.

CSOs help build up social and institutional infrastructures on the ground, especially in the poorest and failing states. CSOs are a source of independent information and analysis, being independent of either governmental or business interests. Although not always directly grassroots, they often come the closest to engaging directly with those citizens most affected by, but least heard in, policy-making.

One of CSOs' main tasks is to monitor government actions and support the information flow. Transparent information availability is a prerequisite for achieving better accountability of governments toward their citizens. Thus, independent CSOs in their role as "watch dogs" help the public better understand how governments allocate resources. Through that service to society they also create incentives for governments to become more transparent.

If donors are serious about democratic ownership and civil society involvement, they cannot continue to just negotiate with a select group of functionaries, behind closed doors, and according to rules and conditions imposed by the donors themselves. Consultations with Southern CSOs should not be held at the last minute in order to present positions that have already been formulated, agreed upon and established by donors. Even where CSOs in the North are lucky enough to be consulted by donors, this is not a substitute for consulting with the groups on the ground most affected by development realities.

Challenges to the Effective Role of CSOs

- **Accountability**

The increasing power of NGOs has prompted many groups to question the roles and responsibilities of these new global, 'non-state actors'. It has been argued that CSOs often "lack the transparency and accountability in terms of finances, agenda, and governance necessary to effectively perform their crucial role in democratic civil society."² Ironically, this is exactly what CSOs often attack governments and donors for.

Nevertheless, this potential lack of transparency in the CSO sector is perhaps their greatest vulnerability, and must be addressed internationally to ensure the integrity and continuity of the work of CSOs. If they aim to be considered more accountable to those they work for, CSOs need to report more clearly about the size and origin of their funds and about the objectives and impact of their work.

A dependency on official funds can weaken the role of CSOs as watchdogs. Even where the government does not actually impinge upon their ability to operate, the dependency can damage the public perception of the CSO's voice. This is an extremely difficult issue.

CSOs often work towards an immediate effect on the well-being of poor target groups. However, they are also increasingly aware of the necessity to engage with policy-making and to work to support the evidence base for effective policy making. This can be seen in their involvement in initiatives like "NGO Impact on Development, Empowerment and Actions" (NGO IDEAs) or the International Initiative for Impact Evaluation (3ie).

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Another complex issue is CSO accountability in repressive states where governments can easily use information on target groups, objectives and impact to prevent CSOs from working effectively for poor and marginalised parts of the population. Full accountability in such cases may be counter-productive to the legitimate aims of CSOs and the groups they are working with.

Some donors and politicians would like CSOs to become subject to the Paris Declaration themselves. Others fear for the consequences on the diversity of CSOs' work as a laboratory for new approaches in development. One thing, however, is clear: Given the power imbalance between those disbursing funds and implementing projects on the one side and the general public on the other, the priority must be on improving donors' and CSOs' accountability towards democratic forces.

- **Harmonization and alignment**

In the Paris Declaration, donors agreed to build systems in a co-ordinated approach aligning their procedures and reporting systems with national governments and harmonising and co-ordinating their work with other donors. The quest for alignment and better horizontal harmonization also applies to CSOs to avoid duplication and increase effectiveness.

There is, however, a delicate balance to strike on the side of alignment and harmonization with the official sphere. There are dangers of CSOs' being fully co-opted by their governments or donors. Particularly in countries where certain groups of civil society are left out of government plans (e.g. minorities and indigenous peoples, certain religious groups, persons with disabilities, etc.), CSOs

need to play a vital role to compensate for that. It is essential that they are able to contrast their position with the governments' policies.

Although being, from one point of view, a reasonable request, harmonisation bears further dangers from various perspectives:

- 'Extra-CSO' perspective: CSOs could be (mis-)used by donors as 'cheap consultancies' to pursue donors' or, in the best case, partner governments' objectives.
- 'Inter-CSO' perspective: CSOs in 'over-harmonising' their work would need to use increasingly more time and money to co-ordinate with other CSOs instead of delivering services or carrying out advocacy work.
- 'Intra-CSO' perspective: CSOs might lose their position as independent grassroots development actors in their own right, becoming somewhat 'institutionalised' and losing sight of the organisation's target group and thus, the right of initiative.

The Paris Declaration and Parliaments

In Partnership Commitment 48, the signatories of the Paris Declaration agreed to "strengthen as appropriate the parliamentary role in national development strategies and/or budgets" to strengthen mutual accountability.

This commitment reads very well and, indeed, it could be a useful first step towards genuine parliamentary involvement, thus strengthening democratic ownership of aid and therefore development policies. However, the commitment is in fact far too weak and fails to imply any serious practical

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commitment to increase the role of parliaments in aid policies.

They also commit to “reinforce participatory approaches by systematically involving a broad range of development partners when formulating and assessing progress in implementing national development strategies.” This could include both parliaments and CSOs, but is clearly unspecific in terms of genuine commitment in this regard.

In order to improve the alignment of aid to national priorities, the Declaration states that, by 2010, 85% of aid flows to the government sector should be reported on the partners’ national budgets. In countries where parliaments exercise real budgetary powers, that could be a reasonable way of strengthening representative democracy. However, that is not always the case.

Conclusions

The Paris Declaration gives some attention to the complementarity of official and non-governmental development efforts. Nevertheless, it focuses too strongly on an aid effectiveness agenda dominated by governmental national development strategies and not enough on developing democratic ownership of development policies including the range of relevant stakeholders.

Notes

¹ Regional Workshop on “Civil Society Challenges with respect to Official Development Aid Effectiveness”, October 29-31, 2007, Managua.

² McGann, J. & Johnstone, M. (2006, January). *International Journal of Not-for-Profit Law*.

CSOs usually work with the most marginalised parts of societies, including the poorest of the poor and people with disabilities, and focus on their crucial role in successful development policy-making. However, the Paris Declaration’s commitments in this field are weak.

There are some references to the role of CSOs and other development stakeholders, including the need for participatory approaches and the flow of information. However, the Paris Declaration falls short of calling for specific measures and commitments to really support the involvement of CSOs and the development of their capacity.

All in all, the Paris Declaration lacks a focus on human rights and the organisations that can help deliver such a focus. For example, gender equality is just mentioned in the context of “other cross-cutting issues” which need further harmonisation efforts.

Given these limitations, it is unlikely that the Paris Declaration by itself will be able to bring about the required development effectiveness to alleviate severe problems such as poverty, hunger, disease and under-education in developing countries. It has taken a step in the right direction, but more steps are now needed to achieve the necessary rights-based focus and approach.

Paris Declaration on Aid Effectiveness

Application of the Criteria for Periodic Evaluation of Global Development Partnerships - as Defined in Millennium Development Goal 8 -
From the Right to Development Perspective:
The Paris Declaration on Aid Effectiveness.

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This is the abridged version of the original study commissioned by the OHCHR to provide input into the fourth session of the High-Level task force on the implementation of the right to development, held from 7-15 January 2008. The opinions, findings, interpretations or conclusions expressed in this unedited paper are those of the expert and do not necessarily represent the views of the United Nations and do not commit the United Nations.

Introduction

The Millennium Declaration¹ (MD) states that "in addition to our separate responsibilities to our individual societies, we have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level."² It further adds that "we are committed to making the right to development (RtD) a reality for everyone and to freeing the entire human race from want."³ Those commitments are reflected in MDG8, entitled "Develop a Global Partnership for Development."

The Paris Declaration on Aid Effectiveness⁴ (PD) - adopted in March 2005 by an intergovernmental High Level Forum convened by the Organization for Economic

Co-operation and Development (OECD) - aims at taking "far-reaching and monitorable actions to reform the ways we deliver and manage aid"⁵. Human rights and the right to development in particular are not mentioned. The PD does not even reaffirm the MD, which emphasizes human rights and RtD in its "values and principles" and only refers to the signatories "looking ahead" to the 2005 UN five-year review of the MD and the MDGs.

Nor can the PD be considered as fitting within the rubric of "global partnerships" envisaged under MDG8, because a) it is not a partnership and b) it does not deal with any of the targets of MDG8. Donors and recipients are not treated as peers; nor do they share rights and responsibilities. Recipient countries are penalized if they do not implement the conditionality framework, but have no way of penalizing their donors/creditors. For recipient countries, the PD creates a new level of supranational economic governance above the World Bank and the regional development banks, which increases the asymmetry between the aid recipient country and their 'harmonized' donors and creditors.

A Workshop on "Development Effectiveness in Practice - Applying the Paris Declaration to Advancing Gender Equality, Environmental Sustainability and Human

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Rights”, was held in Dublin in April, 2007.⁶ A key message of the workshop, which brought together 120 participants representing Development Assistance Committee (DAC) Members, partner countries, civil society and United Nations agencies, was that “human rights, gender equality and environmental sustainability are key goals of development. They are functionally essential to achieving the ultimate goal of the Paris Declaration – increasing the impact of aid on reducing poverty and inequality, increasing growth, building capacity and accelerating achievement of the MDGs.”

However the questions of how the human rights framework, gender equality (which is also a human right) and environmental sustainability apply to the Paris Declaration and whether the human rights legal obligations of all states (be they donors or “partners”) help evolve the principles of the PD into contractual commitments that could make it qualify as a real partnership for MDG8 remain unanswered.

Nor does there seem to be much scope for explicit redirection of the PD towards a rights-based approach at the High Level Forum on aid effectiveness to be held in Accra, Ghana (HLF 3) in 2008. According to the OECD, “the primary intention of the HLF 3 is to take stock and review the progress made in implementing the Paris Declaration.” It has been stated several times that HLF 3 is not intended to “rewrite” the PD, and therefore there would not be an opportunity to explicitly include human rights language in it. Yet, the Forum “is expected to conclude the HLF 3 with an endorsement of a ministerial statement based on high-level discussions and negotiation around key issues”. That statement clearly provides an opportunity to explicitly reaffirm human rights and the right to development.

Operational Analysis of the Paris Declaration and Human Rights

From an RtD point of view, the five principles of the PD have different implications. While “ownership” and “mutual accountability” can easily be understood as a reformulation of the concepts already included in the RtD declaration (even if downgraded from “rights” to “principles”), “alignment, harmonization and managing for results” can be supportive, neutral or detrimental of RtD, depending on how they are understood and implemented.

From a conceptual point of view, the positive linkage of the PD with human rights has been made by pointing out that the intended result of the PD is to make aid more effective for the achievement of the MDGs and that this is equivalent to the progressive realization of social and economic rights. Yet, none of the targets refer to those desired results; instead they only refer to how aid is managed and delivered and to several preconditions that developing countries have to meet.

Thus, whether the implementation of the PD actually produces the intended positive human rights and development results is out of the scope of the official review, monitoring and evaluation. This is a major flaw that needs to be corrected.

Actually, many of the targets set in the Paris Declaration, if achieved as currently defined, could result in substantial erosion of the right to development of “partner” countries, as the following analysis of the PD indicators shows:

Ownership

Indicator 1, defined as “partners have operational development strategies,” including poverty reduction strategies (PRSs) is the only indicator on ownership. The target for 2010 is that “at least 75% of partner countries” have them.

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However, “Operational Development Strategies”, as defined by the PD, do not include government plans, national legislation or any other nationally-generated “policy, legislative and other measures” as required by the RtD declaration in its article 10, but are internationally negotiated documents between the recipient countries and its donors and creditors.

Furthermore, bilateral and multilateral donors have a decisive say in the formulation of those strategies and frequently “steer the government from within.”⁷ Civil society and trade unions have often opposed the PRS precisely because external actors influence the content of the strategy through their financing arrangements for DBS, SWAps, etc and/or through their rating systems such as the World Bank’s Country Policy and Institutional Assessment (CPIA) that the indicators of the PD intensively use. There is little or no civil society or legislative input to the macroeconomic dimension of PRSs and data support the conclusion that the IMF and World Bank define their own means (e.g. privatization, liberalization) to PRS goals, undermining national capacity to design its own development strategy.

If the PD really promoted partnership, then recipient countries would need to contribute to and sign off on assistance strategies for their countries and analysis of their development challenges; however the Joint Assistance Strategies are owned by donors/creditors. Indeed, the review of the Paris Declaration draws upon World Bank data⁸ when they state that no government scores an “A” on its PRS and only 5 score a “B”.⁹ Due to the low grades assigned to PRSs, the OECD-DAC and World Bank do not consider PRSs to be very operationally useful.

The tautological definition of ownership used can amount to a violation of the RtD and other civil and political rights. According to a recent study from the Dutch government¹⁰ “...the international financial institutions are limiting the scope for

devolving more control and accountability for policy and aid to the government by “interfering intensively with the PRSP and with macro and sector policies”.

Additionally, the accountability of the donor country aid agencies to their own citizens and taxpayers is also undermined, since a “pool” of money formed by a variety of donor contributions is much more difficult to follow and assess than specific projects.

Alignment

Indicator 2, the first to assess the “alignment” principle, requires “Reliable country systems” and is measured by the “Number of partner countries that have procurement and public financial management systems that either (a) adhere to broadly accepted good practices or (b) have a reform programme in place to achieve these.” This target is clearly not about aligning ODA with the recipient country strategies, but about aligning country governance with the requirements of donors/creditors.

The PD “Indicators of Progress” track and score the performance of public financial management systems (i.e., financial management, budget execution, auditing). The performance of each government’s PFM system is rated by the World Bank’s Country Policy and Institutional Assessment (CPIA) as well as the Public Expenditure and Financial Assistance (PEFA) partnership. According to the World Bank, the purpose of the CPIA is to measure a country’s policy and institutional development framework for poverty reduction, sustainable growth and effective use of development assistance. These ratings are used to allocate aid and credit, design policy conditionality and establish debt ceilings.

The view of many critics is that “the CPIA rates the extent to which a government has: a) adopted neoliberal economic policies (i.e., liberalization and privatization in the context of strict budget

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discipline) and b) developed institutions, particularly those that protect property rights and promote a business-friendly environment".¹¹ There is no participation whatsoever of developing countries in the definition of the criteria that result in better grading by CPIA or in the designation of the experts in charge of assigning the grades.

The PD Indicators also track and score the procurement systems of each recipient country. Except for the explicit goal of eliminating corruption, no other human right values are attached to the use of country systems and none of the criteria explicitly require suppliers to adhere to core labour standards.

Furthermore, the use of government procurement as a tool of affirmative action in favour of local producers or of vulnerable sectors of the population (small business, cooperatives, women or minority-run firms) to contribute to the progressive realization of economic, social and cultural rights is explicitly forbidden as "discriminatory" against foreign firms by the OECD "Methodology for Assessment of National Procurement Systems."¹² Industrialized countries gained economic strength by using procurement to strengthen local economic development, but the PD inappropriately curbs this practice. Furthermore, the opening up of procurement to foreign firms "applies to all procurement undertaken using public funds" and "to all public bodies and sub-national governments and entities" including "the army, defence or similar expenditures, autonomous or specialized state owned enterprises". This is a standard that OECD countries do not meet themselves; to impose these conditions on developing countries is a serious violation of their sovereignty.

The procurement standards attached to the PD go beyond the requests about transparency in procurement that developed countries demanded from developing countries in the WTO as part of the so-called "Singapore issues". Those

requests were widely rejected during the Cancun Ministerial in 2003 as contrary to their right to development, because of the fear of forceful opening to foreign bidders. The PD does precisely that in the small print of the obligations that partner countries have to undertake as a condition to receive aid.

Indicator 3 is the only one in the "alignment" section of the PD that specifically requires that "aid flows are aligned on national priorities". Yet, this is to be measured by the "percent of aid flows to the government sector that is reported on partners' national budgets." While reporting ODA inflows in national budgets can be helpful to simplify monitoring, both by donor/creditors and by national parliaments or citizens, it does not guarantee by itself that those flows, or the budget itself, are consistent with national priorities.

Indicator 4 aims to "strengthen capacity by coordinated support" and is measured by the percentage of donor capacity-development support provided through coordinated programmes consistent with partners' national development strategies, with a target of 50% of technical co-operation flows doing so by 2010. This indicator has proven particularly difficult to assess, due to the lack of a common definition among donors of what constitutes "technical cooperation". It is important that the concept be defined properly to curb the practice of substituting local expertise for much more expensive foreign services that are not attuned to local realities.

Indicators 5a and 5b call for the measurement of the actual use by donors of the recipient country's financial management and procurement systems, which should increase according to the "score" of those systems, as defined in the discussion of **Indicator 2**. It is worthwhile noting that even when a country

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procurement system achieves an “A” score, a substantial part of the donors’ aid to the public system may still be disbursed outside the recipient country system. All the comments made for Indicator 2 apply here.

Indicator 6 is intended to “strengthen capacity by avoiding parallel implementation structures” and the target is to reduce by two-thirds the stocks of parallel project implementation units. This is consistent with the pressure of the PD on donors and creditors to shift from projectized aid to program aid.

Indicator 7 calls for ODA to be “more predictable”, which should be measured by the percentage of aid disbursements released according to agreed schedules in annual or multi-year frameworks. Yet the target for 2010 is only to “halve the proportion of aid not disbursed within the fiscal year for which it was scheduled” (an unambitious target!), with no mention of longer term commitments.

Donors and creditors have such unpredictable aid that, in some circumstances, its late arrival constitutes a major external shock to the economy of the “partner.” The unpredictability of ODA is one of the major problems limiting the use of aid to achieve the MDGs. Promoting the realization of Economic, Social and Cultural Rights (ESCR) and achieving the MDGs implies essentially more and better delivery of public services (in particular health, education and water) to the poor, which in turn requires hiring teachers, doctors and nurses. However, there is ample evidence from the IMF’s Independent Evaluation Office (IEO) that the IMF imposes inflation targets and fiscal limits on government spending that often result in suppressing governments’ ability to hire key personnel.¹³ Moreover, because aid is so unpredictable, governments are not able to commence hiring or spending on additional wages.

These findings are supported by a study published by Social Watch¹⁴, which goes on to point out that: “In practice, even longer-

term commitments [than three-year budget support cycles] would be necessary to assure partner governments that they have a stable source of financing for MDG-related recurrent costs of social and other public services. Social security types of expenditure need to be predictable, continuous, and not subject to the ‘stop-go’ features of aid politics.”

Donors can also stop the flow of aid when a government fails to meet the conditions contained in the Performance Assessment Framework (PAF) attached to budget support agreements. It is ironic that the goal to make aid less volatile and more predictable does not in any way limit or discipline the power of donors to pull the plug from recipient government budgets, just as the IMF currently does.¹⁵

Indicator 8 has as its goal the untying of aid - which depends only on donors - and the measure is the percentage of aid that is untied. Yet the target for 2010 only promises “continued progress over time” without specific figures. Its non-inclusion with binding targets in the PD does not help to build the credibility in the process among “partner” countries. Together with unpredictability, the tying of ODA is one of the major factors in reducing aid efficiency. The percentage of tied aid over total aid can be as high as 69% for Italy and 57% for the United States. The Washington-based Center for Global Development estimates that “tying raises the cost of aid projects a typical 15-30%.”¹⁶

Harmonisation

Indicator 9 calls upon donors to use common arrangements or procedures, as measured by the percentage of aid provided via programme-based approaches, e.g., Direct Budget Support (DBS) and Sector-Wide Approaches (SWAs) or Poverty Reduction Support Credits (PRSCs). DBS and SWAs are believed to reduce transaction costs, increase efficiency in public

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spending, lead to greater predictability in aid flows and ensure greater convergence of ODA with public funds.

The target for 2010 is that 66% of aid flows should be provided in the context of programme-based approaches from a baseline of 43% in 2005. Already, the Netherlands channels approximately 70% of its development assistance through sectoral and general budget support. DFID (UK) disburses approximately 50% of its development assistance through budget support and approximately 25% through SWAPs.

As of June 2006, the World Bank provided approximately 40% of its new lending through budget support. In FY04-06, the Bank committed funding to 46 operations using these approaches in 28 countries; and in Bangladesh, Brazil, Malawi, Morocco, Nepal, Nicaragua, Philippines, Poland and Tanzania, the Bank has supported more than one sector-wide approach.

The sectors that move quickly toward a SWAP are health, education and water and sanitation. But, SWAPs are increasingly being used not only for single sectors, but also for multiple sectors and cross-cutting institutional areas such as private sector development, justice, and law and order.¹⁷

The Netherlands, which has undertaken an extensive assessment of its engagement in DBS and SWAPs, found that in “the education sector in Zambia, (...) the number of donor support accounts managed by the Ministry declined from about 800 in 1999 to 10 in 2004. The number of donor missions in the sector per annum also declined: from about 120 to about ten.” However, a case study on Zambia¹⁸ challenges the notion that transaction costs necessarily decline when shifting from projectized to sector-wide approaches.

The critique of SWAPs¹⁹ centers on the fact that they focus predominantly on the “supply-side” dimensions of service delivery rather than the “demand side.” If donors create a “basket fund” for a sector that

“ring-fences” a minimum percentage of total resources for delivery of a particular local service, then it is essential that the specified service be a priority of the local government that receives the ear-marked resources. Policy dialogue is needed to bridge the ‘vertical’ macro-meso-micro (or national-state-local) divide, as well as embracing ‘horizontal’ tripartite social dialogue and an external-domestic dialogue between donors/creditors and domestic constituencies.

In practice, SWAPs have come to be perceived by many donors and partner governments not as a multi-stakeholder process, but as a specific public expenditure programme funded by (a select group of) donors. The focus is on the national government’s policy and budgetary framework rather than on the diverse set of actors engaged in the sector. Sector strategies are “highly influenced by donor priorities. They tend to be technical, uniform documents, which lack an in-depth insight into local (political) dynamics. Proposed solutions are often based on experiences elsewhere, including the donor countries’ own systems, which usually do not reflect the local dynamics at hand.”²⁰

In Nicaragua, donors and the government have not been able to agree on overall strategies in the agricultural sector. Some European donors and the UNDP favor the development of smallholder agriculture, whereas the government and other donors (including USAID) prefer to assist large-scale producers with more commercial and export potential. Perhaps due to conflicts such as this, some responsibilities have shifted from line ministries to the Ministry of Finance.

A case study of Ghana by the Oxford University Global Economic Governance Program found that donors and consultants were aggressive in forging a Private Sector Development (PSD) strategy to which the government would agree. Donors rejected the government’s initial procurement plans meaning that “Ministry staff went in circles trying to get a prioritisation that the donors

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would approve. Furthermore, transaction costs were very high." Ultimately, the government had to use a World Bank template for procurement that was utterly unsuited to the small-scale purchasing required by the projects. Donors are rhetorically in favor of government ownership, but in practice, they openly disagreed with the Government of Ghana's priorities for funding. Also, attempts to form a PSD "pooled fund" floundered since the majority of donors were funding the private sector directly and bypassing government.

Indicator 10 calls upon donors to collaborate in (a) field missions and/or (b) country analytic work, including diagnostic reviews. The 2010 targets are: (a) 40% of donor missions to the field are joint (up from the 2005 baseline of 18%); and (b) 66% of country analytic work is joint (up from a baseline of 42%).

Historically, the World Bank prepares a Country Assistance Strategy (CAS) for each recipient country that outlines the institution's investment plan over the medium-term— e.g., 3 years. Increasingly, however, the Bank participates in formulating Joint Assistance Strategies (JAS) with other donors and creditors. Thirteen countries have JASs in Africa. In the case of Tanzania, 35 countries and multilateral organizations of the Development Partners Group endorsed and/or adopted the JAS for the country.

One danger of such harmonisation is that, once a JAS has been approved by such a large number of donors, after lengthy negotiations, it becomes "written in stone" making it impossible for any democratic country-driven process to change it, undermining the power of parliament (and even the executive branch of government) to introduce changes if practice demonstrates they are needed. This erodes local democracy and human rights.

Another danger is further empowerment of the World Bank relative to other donors. A concern expressed by diplomats participating in a retreat on

Financing for Development organized by the Friedrich Ebert Stiftung in NY, October 4-5, 2007, "is that the donor coordination process may impede innovation by donors and reduce the range of choice of programs by aid recipients. There is value in competition among donors, especially with the entry of new donors, who have not signed on to the Paris Declaration".²¹

Managing for Results

Indicator 11 aims at having "result-oriented frameworks" by "reducing the proportion of countries without transparent and monitorable performance assessment frameworks by one-third". All DBS programmes and SWAps have a corresponding Performance Assessment Framework (PAF) with policy conditions. Parliaments and citizens groups are not meaningfully involved in the construction of the PAF, whose conditions are a requirement for the release of successive budget tranches.

In 18 budget support operations already in place by the World Bank (the number is rising fast), the policy conditions attached are derived from the PAF. Since those conditions involve lengthy negotiations with a variety of bilateral and multilateral donors, civil society advocacy and even parliamentary participation in decision-making becomes virtually impossible. The elimination or modification of conditionality would need to be pursued not only with the recipient government, but also with multiple donors and creditors.

Contrary to what the title of "managing for results" might indicate, the "results" upon which disbursements are tied are not measured in terms of poverty reduction or MDG achievement, but usually refer to governance and macroeconomic policies. "Result management" will be deemed successful if those policies are in place, even if poverty actually increases, which has frequently been the case in the past when similar structural adjustment

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programmes have been implemented without proper social impact assessments and “safety nets”.

Mutual accountability

Indicator 12 is the only one on “Mutual accountability” and is to be measured by the “number of partner countries that undertake mutual assessments of progress in implementing agreed commitments on aid effectiveness including those in this Declaration.” The target for 2010 is that all partner countries have “mutual assessment reviews” in place.

Since no such reviews have taken place so far, to the author’s knowledge, it is difficult to assess their scope and format. Yet, it is surprising that one of the key principles of the PD is reduced in its implementation to separate exercises to be conducted at country level in the recipient countries.

Considering the experience of the OECD DAC in conducting “peer reviews” of donor’s aid practices, one would expect a mutual accountability exercise to be undertaken at the international level, with opportunities for developing countries to be advised by international NGOs and other experts and to share experiences among themselves about the performance of donors individually or collectively.

A country-level exercise where the aid recipient country sits in front of the whole of its donor community implies an enormous imbalance of power and resources, where the developing country can be easily made accountable for its part in the “partnership” under threat of seeing its aid cut or reduced but where the donors can hardly be made accountable for any eventual shortcomings. The sum of those reviews cannot be expected to add up to a fair “mutual accountability” exercise.

Further, there is neither developing country representation, nor that of any international institution where the interests of developing countries are

predominant, in the standard-setting and scorekeeping bodies of the PD, which are essentially the OECD and the World Bank, even when it is recipient country governments, not donors, which are penalized if those standards are not met.

Conclusions

Many of the PD’s key indicators are related to governance, particularly in the fields of government procurement and financial management. Yet, while major changes in recipient country governance are required, donors are not calling for symmetrical efforts among themselves by, for example, untying aid or making it more predictable.

Rather than promoting the RtD, the new aid modalities, by aligning bilateral and multilateral donors around certain governance requirements might even undermine local democratic processes and the “policy space” that developing country governments need to make their own plans. Opportunities to promote human rights by, for example, making basic labor standards or equal opportunity employment for women a condition for participation in government procurement are not only missed but even viewed as contrary to the rules promoted by the PD.

The effectiveness of aid delivery and management, as measured by the PD, does not assess the impact of aid on poverty reduction or realization of human rights. While it might be expected that more efficient aid will contribute positively to both objectives (even if not explicitly mentioned as such by the PD), the 12 indicators could in fact be reviewed positively without any measurable impact on either.

While there is congruence and synergy between the principles of country ownership and mutual accountability and the RtD, the implementation and assessment of the PD implies risks to the RtD against which no insurance, complaint mechanisms or exceptions are provided.

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Recommendations

The RtD and human rights in general should be explicitly included as goals in the PD and the ministerial declarations of HLF 3.

An additional review and evaluation framework with corresponding targets and indicators need to be included, where the results of the PD should be assessed in terms of its impact on the RtD, HR and the MDGs.

Mutual accountability reviews should be conducted at international level (not at country level) with the participation of international civil society organizations with development and human rights expertise.

The Development Cooperation Forum (DCF) of ECOSOC, which was created by the 2005 World Summit²² and will meet for the first time in 2008, is an adequate, existing mechanism for mutual accountability and should be identified as such by the PD.

Developing countries, civil society organizations and international organizations such as UNCTAD should be included in the groups and consultations that define the implementation criteria, targets and review of the PD. Suggested additions to the criteria for implementation of the right to development can be found in the full article by Bissio.

Notes

¹ UN General Assembly *A/55/L.2*

² *Id.*, para. 2.

³ *Id.*, para. 11.

⁴ Retrieved from <http://www.oecd.org/dataoecd/11/41/34428351.pdf>

⁵ *Id.*, para 1.

⁶ See the documentation at <http://www.oecd.org/dac/effectiveness/inpractice>.

⁷ Interview with Nancy Alexander, Director of the Citizen's Network on Essential Services (CNES), a project of the Tides Center, Silver Spring, MD, USA.

⁸ World Bank Comprehensive Development Strategies (CDFs) and Aid Effectiveness Reviews (AERs).

⁹ OECD. (2007). 2006 Survey on Monitoring the Paris Declaration: Overview of the Results. p. 17.

¹⁰ The Netherlands Ministry of Foreign Affairs, "From Project Aid towards Sector Support - An evaluation of the sector-wide approach in Dutch bilateral aid 1998-2005" (IOB Evaluations, No. 301, November 2006 - Policy and Operations Evaluation Department).

¹¹ Alexander, N. (2004). Judge and jury: The World Bank's scorecard for borrowing governments. In Social Watch report 2004. Retrieved from http://www.socialwatch.org/en/informelmpreso/pdfs/judgeand_jury2004_eng.pdf

¹² Based on indicators derived from an OECD-DAC/World Bank round table. Retrieved from <http://www.oecd.org/dataoecd/1/36/37130136.pdf>

¹³ IEO, IMF. (2007, March). The IMF and aid to Sub-Saharan Africa.

¹⁴ Carter, R. & Lister, S. (2007). Budget support: As good as the strategy it finances. In Social Watch 2007, ITeM, 2007. Retrieved from http://www.socialwatch.org/en/informelmpreso/pdfs/budgetsupport2007_eng.pdf

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¹⁶ Roodman, D. (). An index of donor performance. Center for Global Development. Retrieved from <http://www.cgdev.org/content/publications/detail/3646>

¹⁷ OECD DAC. (2007, May). 2006 survey monitoring the Paris Declaration. Retrieved from <http://www.oecd.org/dataoecd/0/45/38597363.pdf>

¹⁸ Patrick, W. (2005). Transaction costs in aid: Case studies of sector wide approaches in Zambia and Senegal. Human Development Report 2005. Occasional Paper.

¹⁹ Van Reesch, E. (2007). Bridging the macro-micro gap: Micro-meso-macro linkages in the context of sector-wide approaches.

²⁰ *Id.*, p.87

²¹ Herman, B., Schroeder, F. & Hanfstaengl. (). Challenges in financing for development: Policy issues for the Doha Conference. A report prepared for the FES.

²² A/RES/60/1.

Barriers to Harmonization and Alignment: An African Perspective

African Forum and Network on Debt and Development (AFRODAD)

The Paris Declaration on Aid Effectiveness for development (2005) was an international agreement by which donors and recipients committed themselves to support greater aid effectiveness. The declaration is based on three main pillars: ownership of policies by partner countries, which must set their own priorities; alignment of donors with these priorities; and harmonization between donors, in order to set up common mechanisms, simplify their procedures, and share information.

This article looks at the importance of the Paris principles of harmonization and alignment to aid effectiveness, but also argues that the principles themselves will not lead to greater development effectiveness unless accompanied by progress in democratic ownership. Harmonization and alignment must be seen as necessary, but not sufficient conditions for development effectiveness.

If democratic processes are not able to inform the development of policy in the first place, then alignment is undermined; there is no true domestic political agenda for donors to align to. Similarly, harmonization under these conditions presents as many dangers as it does potential benefits, since donors are not harmonizing around a strong domestic agenda, but may be using their harmonization to exert even greater influence over national policy priorities.

This dependency of the worth or alignment and harmonization on the principle of ownership can be seen visually in the aid effectiveness pyramid (see Figure 2).

A top-to-bottom reading of the pyramid shows that development effectiveness firstly needs partner countries to decide on the action to undertake to achieve the desired results in terms of development. Donors can then align their assistance with the strategies decided on by the recipient countries and use the latter's systems. At the base of the pyramid, donors start complementary actions to plan common modalities to simplify their procedures and to ensure the optimum sharing of information.

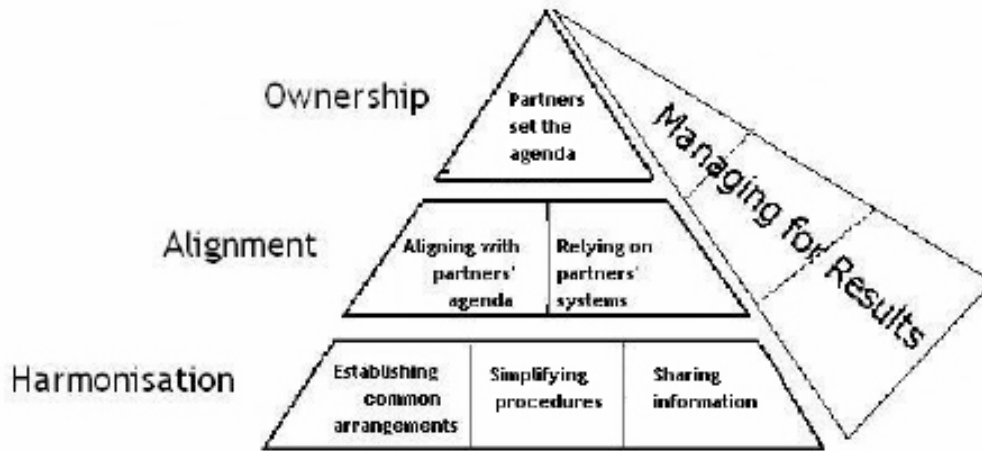
In most cases, including in fragile States where there is usually a lack of leadership in the country, the pyramid needs to develop, in practice, from the bottom up. Donors may begin by improving harmonization between themselves with the objective of increasing their utilization of a country's systems, aligning themselves with its preferences, and working that way to obtain effective leadership for that country.

Harmonization and its implementation

The proliferation of development aid programming and provision systems

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Figure 2. Aid Effectiveness Pyramid



Source: OECD and World Bank (2005): *Harmonisation, Alignment, Results: Progress Report on Aid Effectiveness*, p. 18

generates unproductive transaction costs and hinders the enhancement of the capacities of recipient countries. The Paris Declaration principle of harmonization means donors' working together to achieve greater aid effectiveness.

Key aspects of delivering harmonization are:

- common mechanisms for the planning, financing and disbursement of aid funds
- greater recourse to aid delivery based on programs
- making best possible use of the respective comparative advantages of donors on the sectoral or national levels
- common mechanisms for the monitoring, assessment, and notification to public authorities of their activities and other aid contributions
- reducing the number of field missions and diagnostic studies

- sharing the lessons drawn from experience, and creating a pool of best practices

One of the principal methodologies for improving aid harmonization in African countries has been the development of Sector-Wide approaches (SWAs). These adopt common operating principles and more coordinated procedures for funding in specific areas such as health and education, without prescribing specific policies.

There have also been efforts by donors to undertake joint missions to reduce the administrative burden on recipient countries and avoid duplication of efforts between donors. For example, in Senegal, the KfW and the AfDB jointly conducted the pre-evaluation mission for a project financed by the WB to provide electric power in rural areas. The FDA and the KfW have also conducted a pre-evaluation, evaluation, and monitoring joint mission for an irrigation project in the regions of St-Louis and Matam.

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The Example of SWAps in Mozambique

External partners support SWAps in the area of health through three “basket funds”, including a general fund and two funds covering two provincial programs, as well as for the provision of medicine. Each fund is governed by a distinct Memorandum of Understanding.

The Netherlands, Denmark, Finland, Ireland, Sweden, the Canadian International Development Agency (CIDA), and the WB provide assistance to the SWAps of the education sector through a specific support fund. This assistance is based on common reporting and monitoring.

To support a SWAp in agriculture, external partners also practice joint financial management, make common reporting, and put monitoring systems in place. Joint implementation arrangements are formalized in a Note of Understanding which was renewed in 2005.

In the same vein, the Department for International Development UK (DFID), the European Commission (EC), Denmark, Sweden, Norway, and Belgium provide support to strengthen public finance management through a common fund, known as the Integrated State Financial Administration System (SISTAFE).

Nevertheless, there is still much work to do towards the Paris target of 66% of total aid being delivered in the form of program-based approaches. Despite the SWAp initiatives in Mozambique, only 27% of aid was provided through direct budget support in 2005 and the total of program-based aid only accounted for 46% of aid to the country.

Once more, however, despite the evidence of progress, there is still a long way to go to meet the targets set in the area of harmonization for 2010. Whilst the target is for 40% of missions to be carried out in a joined way, the reality is that only 15% of missions in Senegal were jointly conducted in 2005.

Common analyses of situations and performance in developing countries is another area where progress is being made towards the Paris target of 66% of jointly led analytical works. Typical areas of work here include assessments of public expenditure management, fiduciary risk and country procurement.

Overview of Performance in Several African Countries

- **Kenya** - the shift towards the use of SWAps and the establishment of a Joint Assistance Strategy may lead to substantial progress toward the attainment of the 2010 targets. 45% of aid was disbursed through program-based approaches in 2005. However, only 9% of missions and 32% of analytic works were coordinated, shared or jointly conducted.
- **Mozambique** - the increased use of budget support and the development of

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sector-wide approaches have been the key drivers of improved harmonization between donors in Mozambique, through the "G18" group, but harmonization outside these instruments remains limited.

- **Zambia** - the Wider Harmonization in Practice (WHIP) agreement between donors and the government is an excellent starting point for working towards the 2010 targets. But there is no room for complacency. In particular, donors need to work harder at coordinating their missions to the country: only 15% of a total of 155 missions were coordinated in 2005.
- **Uganda** - donors need to work hard to coordinate their activities and to make use of common arrangements to reduce aid fragmentation and to reduce the aid-related transaction costs incurred by the government. In 2005, only 17% of missions were jointly conducted, 40% of analytic works were coordinated, shared or jointly conducted and 50% of aid was program based.
- **Senegal** - there has been a growing adoption of Program-Based Approaches (57% in 2005) and efforts towards coordinating donor missions and analytical work. The ongoing development of Senegal's Action Plan for Harmonization and Aid Effectiveness should provide a platform for donors and the government to identify actions to support further improvements in harmonization.
- **Ghana** - Harmonization is uneven across sectors and donors, with some major areas of weakness. Only 20% of missions and 40% analytic works were coordinated, shared or jointly conducted, with 53% of aid program based in 2005.

The aid harmonization aspects vary in accordance with the particular context of each country. The extent of harmonization initiatives and their forms originate from donor representatives in the country in response to the particular challenges and opportunities they face at a given time. This is, in fact, the very nature of the harmonization process, which is pragmatic and dependent on opportunities. However, in all the case studies dealt with in this paper, the benefits derived from harmonization in the provision of a more effective assistance are evident.

Alignment and Ownership

Harmonization must be perceived as a progression of steps toward the alignment of aid with national priorities and as a means to make the country's leadership more effective. Signing up to the Alignment principle in the Paris Declaration commits donors to support national ownership of the development process by basing their support on the countries' development strategies and systems.

As part of the debt relief process involving the heavily indebted poor countries, the Poverty Reduction Strategy Papers (PRSPs) opened doors to various levels of national ownership of the strategies. The second generation of the PRSPs has assumed increased national character through minimal intervention of external players and can be more easily recognized as National Plans.

As examples of these strategies, there is Zambia's Fifth National Development Plan (FNDP 2006-2010), the Malawi Growth and Development Strategy (MGDS), the Kenyan 1999-2015 National Poverty Eradication Program, and Ghana's Growth and Poverty Reduction Strategy (GPRS II).

In developing these strategies there was increased civil society participation providing some level of legitimacy within the Paris Declaration framework. However, there are also cases in Africa, such as Mali, where

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the second generation PRSP has been designed by external northern experts with little or no local civil society participation¹.

Beyond development policies, developing countries should also develop aid policies and strategies to provide a framework for a systematic and well coordinated approach in soliciting, acquiring, utilizing, managing, monitoring and evaluating development assistance from donors. When well articulated, an aid policy could provide an appropriate aid architecture which would include different project implementation and financing modalities and direction during dialogue between Government and donors and improve aid effectiveness in the country. The aid policy should also define the process of reducing aid dependency and an aid exit strategy.

In Malawi, the Ministry of Finance has spearheaded the formulation of an Aid Policy in the form of its Development Assistance Strategy (DAS), which sets out the policies and strategies for increasing efficiency and effectiveness in the mobilizations and utilization of aid so as to achieve the development objectives contained in the Malawi Growth and Development Strategy (MGDS). The drafting of the DAS was completed in October 2006. DAS has a more comprehensive set of indicators. These are:

- Harmonization of development partners project annual work plans, including monitoring and evaluation systems and their alignment to the MGDS monitoring requirements.
- Holding of a Joint Country Programmed Review (JCPR) every year, and linking annual sectoral reporting to the JCPR.
- Holding of annual sectoral reviews to feed into the JCPR process.
- Percentage of missions that is joint between four or more development partners.

- Formulation of an annual development calendar to which development partners stick.

Furthermore, it is not enough to have national development and aid strategies, these strategies must be truly national and have the required legitimacy to which donors must align in accordance with the principle. Recent experiences point to the need for a framework within which alignment to national development and aid strategies could meaningfully be controlled. A number of countries in Africa have now developed Joint Assistance Strategies (JAS) with donors. Jams are crucial for donor harmonization towards alignment and for the Government and their various sectors to understand better the thinking of donors.

However, in some cases, the Joint Assistance Strategies are undermined through being non-binding. This lack of commitments from the donors allows them to continue using their own Country Assistance Strategies or Bilateral Agreements. This has implications for both alignment and harmonization.

The non-committal attitude to the development goals of the recipient country, as seen in the Zambian JAS is an indicator of the uncertainty around the destination of the Paris Declaration agenda. Some donors like Japan and USAID are not really yet on board the Paris Declaration platform despite having signed up to it.

Other Jams suffer from an intrinsic tendency to suppress important differences of opinion and approaches between Government and donors in the absence of mechanisms for settling and harmonizing such differences, for example in Tanzania. There remains a need to strengthen dialogue mechanisms in support of alignment.

The Development of National Strategies

For the principles of alignment and harmonization to be effectively implemented

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and to achieve the desired goals, it is essential that there is effective setting of priorities, policies and strategies at national level. Progress at harmonization has started and needs to continue, but it will only be relevant if it is harmonization around nationally led development policies. Similarly, alignment risks being a box ticking exercise unless national strategies to which donors align themselves are genuinely national.

So far, national systems are only just starting to be developed. The Financial Accountability (PEFA) program, a partnership established in December 2001 involving the World Bank, IMF, European Commission, Strategic Partnership with Africa, and several bilateral donors (France, Norway, Switzerland, and the United Kingdom) is a good programme in its own right. Pea's mandate is to support integrated, harmonized approaches to the assessment and reform of public expenditure, procurement, and financial accountability, focusing on the use of diagnostic instruments. The programme should move the dialogue of national systems forward.

Although there is some difference between public expenditure management and financial accountability, the totality of the concept embraces all the components of a country's budget process: preparation and programming; execution, accounting, control, reporting, monitoring and valuation. It also includes the legal and organizational framework and arrangements for forecasting revenues and expenditures, formulating medium-term expenditure frameworks; preparing the budget; managing cash and monitoring expenditures; performing internal control and audits; accounting and reporting (including Integrated Financial Management Information System (IFMIS).; conducting external audits and ensuring oversight by the legislature and other bodies.

Some countries in Africa are beginning to internalize these systems. The government of Tanzania, for example, owns and leads the country's diagnostic program

for public expenditure management. This process has led to providing donor confidence for supporting the development of a multi-year expenditure framework. Tanzania's new approach has also improved donor coordination by ensuring that aid is consistent with budget objectives and priorities and increasingly integrated with the budget.

Several other countries that depend on aid and have limited capacity—such as Ethiopia and Uganda—have also been developing similar participatory, collaborative approaches to work on public expenditure management. In Uganda, the government and DFID have reached an understanding on how fiduciary risk will be monitored over time based on four information sets: one annual expenditure tracking survey per sector, an annual review of the government's audited accounts, the outcomes of PER updates, and technical assistance and dialogue built around the government's public expenditure reform program.

Major Barriers to Effective Implementation of the Principles

1. Aid Predictability

Being highly dependent on development aid, to the extent of some 40% of the Government budget as is the case with Mozambique and Zambia, makes developing countries hugely reliant on aid predictability to allow them to plan effective national policies for development.

Delays or even complete non-disbursement of committed funds undermines the integrity of budget planning and implementation schedules, reducing the effectiveness of entire projects and programmes. The risks of non-disbursement or untimely disbursement are particularly acute for direct budget support where Government may have committed funds

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in good faith, based on agreed expectations of disbursements.

Ongoing research has revealed that despite of the rhetoric of partnership and commitment to the development agenda by most donors, aid predictability has been a major problem for many African countries. A study of aid volatility and predictability² found that aid flows are volatile and largely unpredictable especially for countries with high aid dependency: aid is more volatile than fiscal revenue. A 2005 update concluded that volatility and lack of predictability have become worse in recent years despite aid harmonization efforts.

A survey conducted among donors and governments in 15 African countries in 2003 and 2004 by the Budget Support Working Group (BSWG) of the Strategic Partnership for Africa (SPA) offered some explanations for the delay in disbursements.

- 40 percent were due to unmet policy conditions,
- 29 percent due to administrative problems on the donor side
- 25 percent due to government delay in meeting processing conditions
- 4 percent due to political problems on the donor side (4 percent).

For the IFIs, unmet policy conditions accounted for more than 60% of the difficulties to disburse and delays in governments meeting processing conditions another 25%. For the European Commission and bilateral donors, 40 percent was due to administrative and political problems on the donor side and 35 percent due to unmet conditionality. All poverty reduction support credits (PRSC) from the World Bank were disbursed on time.

2. Aid Conditionalities and Tied Aid

Aid conditionalities impede the ability of developing governments to plan their development strategies effectively, through negatively impacting on the reliability of aid pledges (see above). However, more fundamentally, they impact on developing countries' freedom to determine their own national policies and strategies in the first place.

Quite simply, if donors are enforcing policies on developing countries through conditionalities then alignment becomes meaningless and harmonization will do more harm than good. There will be no truly independent national policy agenda for donors to align to and donors would be harmonizing around an enforced strategy, further limiting the options of developing countries.

Similarly, tied aid is an on-going issue limiting development. A recent United Nations Study³ notes that donor money that comes with strings attached cuts the value of aid to recipient countries by 25-40%, because it obliges them to purchase uncompetitively priced imports from the richer nations.

Technical assistance in the form of personnel from donor countries is another form of tied aid which has proved rather problematic and many African states would like to see a change in this. African Governments are now seriously considering extending the SWAp idea to Technical assistance. This could start as a Basket of funds for each sector from which governments could fund technical assistance drawn from a global competitive pool including Africa itself and particularly from other Southern countries such as Asia.

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3. Good Governance

It is also clear that good governance in developing countries themselves is essential to enable the development of successful national development strategies and to encourage donor alignment to these.

In 2005/6, Norway dropped aid to Uganda's national budget by US \$4 million and Sweden by US \$8 million due to governance issues. The lesson here, as in the case of Kenya, is that extent to which African governments are able to adhere to the promotion of good governance and prudent utilization of public resources will remain key in contributing to the level of donor predictability, alignment and reliability in the delivery of aid for development.

In Tanzania however, GBS disbursements have improved considerably, which can partly be explained by the effective and diligent manner in which the Performance Assessment Framework is operationalized. Similarly predictability of aid flows to Mozambique has improved in the context of the three-year MTEF. Mozambique has developed database systems and been more conforming to donors to secure such predictability.

4. Accountability

Part of the agenda of improving recipient country governance and reducing donor conditionalities is the implementation of effective accountability mechanisms.

Most African countries have not had adequate public financial accountability systems. Measures are needed to improve the legal and organizational framework for public expenditure management, systems and processes for expenditure programming

and budget preparation and execution, accounting and reporting.

African countries have shown weak legal systems and these have to be strengthened not on the basis of the neo-liberal model which restricts capacity definition but based on the need to eliminate the constraints, not risks, that lie in the way of development aid. Priority should be given to developing a robust, internationally accepted framework for benchmarking and measuring the performance of public expenditure management

Accountability as an important concept to the systems has two key elements: being answerable and having institutions and systems that can met sanctions for violation of rules and regulations. Common assessment rather than donor assessments should be introduced.

Accountability of donors is also essential, especially given the power imbalances that enable them to exert undue influence of developing countries' policies and strategies. Unless donors can be held to account, they are likely to continue to pursue their own interests through their aid policies.

5. Local Capacity

A major restriction on recipient countries' abilities to define their own development agendas effectively is their lack of administrative and financial management capacity, principally through the sheer lack of human resources. There is also a lack of capacity on the implementation side of development policies, for example in professionals in the fields of health and education.

This lack of capacity requires capacity development, rather than capacity building. This second concept was the basis of much technical

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assistance; for example, if the accountants were not doing their job properly, a workshop was organized for them. However, rather than more training for existing workers, more resources are needed to employ more workers.

The Ministry of Health in Zambia needs in excess of 20,000 frontline health workers, paid reasonable salaries to stop them moving to Europe for better paid work. Donor support is needed to employ the necessary people, but donors too often claim that it is government responsibility to pay its staff. This thinking does not address the need for health workers, but is essentially a neo-liberal model on which so much of the development machinery depends.

This lack of capacity may also be responsible for the apparent lack of interest in line Ministries in issues related to the Paris Declaration because there is not adequate critical mass against the old project approach where the Line Ministries are the ones that receive the money directly. The Ministry of Finance has taken on an important coordination and resource distribution role which it does not always fulfill well, causing more apathy in the Line Ministries rather than fighting for broader resource allocation.

It is crucial here to note that the position of donors is largely influenced by the IMF defined MTEF which restricts the Government wage bill to 8% of GDP and therefore does not allow for the employment of new staff in the civil service to develop capacity. It was the lack of capacity argument that was used as one of the reasons for establishment of Parallel Implementations Units (PIUs).

6. Participation of CSOs

The participation of CSOs in formulating national aid and development policies is highly significant because they are a key stakeholders both as recipients and as part of the aid architecture. They have knowledge and expertise, particularly around the realities on the ground of the people living in precarious situations, which it is essential to take into account when developing policies.

They have a crucial role in the above-mentioned field of holding governments and donors to account for the policies they implement. Furthermore, there is an important role in carrying out civic education among the public to demand better economic governance from the government to ensure better use of public resources.

CSOs, labor unions, and other social movements are the expression of an active democratic citizenship without which little progress can be achieved in governance or development. CSOs therefore are fully fledged development actors rooted in the organization of citizens to claim their rights and to call governments and donors to account.

While many governments recognize the important role civil society organizations and the private sector can play, there lingers the observation that CSOs have generally adopted a hostile approach to government initiatives and this has tended to discourage consultations. There is still some way to go before autonomy and 'watchdog' functions of NGOs are embraced by all Governments and donors. The challenge for increased dialogue therefore still remains.

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Conclusions

It has been seen that the principles of harmonization, alignment and democratic ownership are actually interdependent. Only if all of them are followed will aid policies become effective at promoting optimum development.

However, the Paris Declaration lacks clarity and strength in defining terms and setting concrete commitments. For example, it fails to exclude the use of policy conditionalities as 'results' to be monitored and fails to envisage an institutionalised mechanism for inclusive aid management, requiring the involvement of critical development partners such as CSOs, the private sector and the parliament.

It seems that the Paris Declaration, although very important and with

foreseeable positive impact, could be one more process that will keep everyone busy without focusing on the true reasons why aid is ineffective. The Declaration deals with the symptoms of aid ineffectiveness, not its causes. Therefore, apart from advocating for the implementation of the Paris Declaration, CSOs call for the aid effectiveness agenda to go beyond the Paris commitments. This must address the root causes of aid ineffectiveness and devise new development strategies to break the cycle of poverty, aid dependency and under-development. These issues will require attention for the realization of the aspirations of the alignment and harmonization principles of the Paris Declaration.

Notes

¹ See the "Paris Agenda and Efficiency in Mali: ownership and aid modalities" by Isaline Bergamaschi, presented for Informal Experts Meeting on Ownership in Practice Paris 27-28 September, 2007 as part of the OECD Global Forum on Development. In fact Isaline observes that the second Generation PRSP (December 2006) in Mali was seen by the Government officials as a "Black Box" not knowing what was inside it; especially given that the Unit responsible for drawing up the Plan did not have a single Macro-economist!

² Bulio & Hamann. (2003).

³ Deen, T. (, July 6). Development: Tied aid strangling nations. Inter Press Services.



Chapter 4
What is Needed for Aid Policies
to Facilitate Development Outcomes
for the Poorest Communities



Introduction

The previous three sections of this publication have shown that aid relationships are still based on the power of the donors, with the IFIs leading the way in exerting unacceptable influence over the policies of developing countries. The Paris Declaration is a small step in the right direction, but falls well short of effectively ensuring an adequate focus on the key objectives of combating poverty, alleviating hunger and preventing disease.

This chapter therefore looks at what is needed for aid policies to be successful at achieving these rights-focused aims. It highlights principles that need to be applied, based on the solid foundation of democratic ownership of development policies.

UK

The article from the UK NGO ActionAid sets out why accountability is so important in providing for a balanced aid agenda leading to better development outcomes. It acts as a vital check on the abuse of power or the violation of human rights, ensuring that donors are a help and not a hindrance to citizens' struggles.

It asserts that accountability means power holders' having to justify their actions (answerability) and others' having the ability to rectify or sanction poor performance by donors (enforceability). Accountability requires transparency and openness to work. The article also explains the negative consequences of not having this accountability on the practical delivery

of policies and projects affecting the lives of some of the poorest people on earth.

Accountability is essential to ensure that democratic ownership becomes a reality. The article ends by making a series of recommendations around the themes of: (1) respecting real ownership of the development process; (2) improving transparency to southern governments and citizens; (3) creating and improving answerability and enforcement mechanisms; (4) and creating effective international mechanisms for standard setting and oversight of aid.

Cambodia

A paper by the NGO Forum on Cambodia argues that whilst accountability is an important concept, it is essential to ask the question 'accountability to whom?' This is a question, however, that the Paris Declaration fails to address and thus fails as well to provide a mechanism to make accountability work in practice. Recipient governments are clearly held accountable by donors, but they should be accountable to their own citizens, either directly or through CSOs and parliaments.

At the moment donors are not really accountable to anyone. However, their role should be to act as facilitators and architects of partner countries' democratic governance systems.

The piece asserts that four elements are needed to make accountability work: (1) commitment to account for development results; (2) measurement of development

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results; (3) accountability enforcement; (4) and an enabling environment, including transparency and access to information. It is important that input and output indicators are chosen to give accurate information on the intermediate results of aid, so that weaknesses can be revealed and policy improvements made.

Africa

An article from the African Debt and Development Network (Afrodad) focuses on the need for managing for results, which is the process of assessing the development results of aid policies to inform improvements in these policies. It highlights the efforts needed from recipients and donors to ensure that aid delivery provides the maximum positive impact on the everyday lives of the world's poorest and most marginalized people.

It argues that recipient countries need to improve the links between national development strategies, which should set out the results to be achieved and annual and multi-annual budgets. They also need results-oriented reporting and assessment frameworks. These provisions would enable policies to be led by the assessment of previous efforts.

Donors, on the other hand, must align their support with national development strategies and rely as much as possible on partner country performance assessment frameworks. They should work with partner countries to strengthen developing country capacities and harmonize their efforts in line with national frameworks.

Key challenges include making participation a reality, allocating budgets according to priorities, developing capacity, fighting corruption and successfully coordinating inclusive monitoring based on coherent indicators. For resources to be adequately linked to results, policy conditionalities need to be stopped and project funding replaced. The role of CSOs

as development actors needs to be fully recognized and funded.

Nicaragua

The article of *Lacayo* strongly asserts that the role of the general population and the CSOs in ownership of the development policy process is essential and should be articulated with the government and state institutions, and coordinated with local authorities and participation spaces.

The experiences of the different processes in the Latin America and Caribbean region (LAC) and in preparing for the High Level Fora on aid effectiveness have left great richness that can serve as examples for other regions. However much work is needed to achieve national democratic ownership where CSOs can have enough influence to change the way that development cooperation is run.

Firstly, there should be a critical evaluation of all of the content and aims of development policies with the promotion of rights and tackling of poverty placed at the center of actions. Bottom-up processes with a grassroots perspective are fundamental in this context.

International partners should promote a representative and participative approach to democratic national ownership, with CSOs effectively recognized and brought into the policy-making processes. This must be supported by capacity-building efforts, fully open and transparent processes and the full engagement of legislative assemblies.

Mexico

An article from ALOP calls for international development co-operation as a new global public good in an increasingly globalised world. It should be used to resolve global problems and preserve other global public goods, including personal freedom, biological diversity, cultural diversity,

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democracy and peace. It argues that current forms of development assistance were thought up in a different world where today's rules and today's reality did not apply; change is therefore essential.

Whereas public goods were usually protected at the local level, there are increasing demands on each other's resources in the modern world. Issues are growing around the relationship between the places that enjoy an abundance of resources and the poorest, disregarded masses of the globe.

The United Nations is not currently capable of protecting the allocation of resources and there are dangers all over the world from the privatisation of public goods such as drinking water for short-term private gain. The new stewards of global public goods must be a combination of states, international organizations with governing capacity, global social CSOs, movements and local agents.

International development cooperation must become an increasingly useful tool, privileging support for the Right to Development of all of the world's people. This needs to be based on: (1) broad-based participation in the construction of international guidelines; (2) strengthening of global social organizational networks; (3) participation of local groups affected by policies; and (4) a positive environment of openness and information production with clearly defined roles.

Ultimately, the paper argues that a change in philosophy is needed away from seeing aid as a relationship between a donor (with resources) that makes decisions and holds others accountable, and a receiver (with needs) that carries out the decisions made by the donor and is held accountable. Rather, development aid should be a cooperation between two sides that both have needs and resources, that hold each other accountable and are aware of the need to join forces to resolve common problems.

AWID

The Association for Women's Rights in Development (AWID) emphasises that the majority of people living in poverty are women and girls. It therefore argues that, beyond the highly technical Paris Declaration, governments should be held accountable for their implementation of other commitments on development, human rights and gender equality through agreements such as the International Covenant on Economic, Social and Cultural Rights.

The international community needs to take steps at HLF 3 in Accra and Doha to broaden the development agenda to respond to people's needs and to seriously advance towards the achievement of development goals for the poorest. Achieving gender equality objectives requires both a reallocation of existing resources and an important injection of additional ones. This can only be accomplished if there is strong political commitment from all governments and multilateral institutions.

Donors and governments must deliver on their gender equality commitments, with specific policies developed and resources allocated for their advancement. Gender equality needs to be integrated into the monitoring and evaluation of the Paris Declaration and a strong and clear commitment to gender equality made at HLF3. This must be part of a more inclusive development paradigm, which also strengthens transparency, mutual accountability, democratic ownership, capacity and women's participation. Guidelines and tools are needed for the contribution of new aid modalities to national obligations to gender equality.

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Conclusions

It is clear that for the Reality of Aid Network a lot needs to change to achieve better aid policies that contribute to and facilitate effective development in the poorest communities. Most profoundly, a total change of philosophy is required, moving away from the traditional 'donor-recipient', power-based model to one in which all countries are partners in the effort to promote the right to development and protect related global public goods.

Perhaps the key issue here is around democratic ownership of development policies and participation at all stages of the policy process - through policy-making, implementation and assessment - by citizens and their representative bodies. Overall the important role of both parliaments and CSOs as development actors and the contribution they can make to more successful policy-making should be better recognized and funded to support the development of capacity.

Only when true democratic ownership is in place can alignment of aid policies with recipient countries policies' and harmonization of efforts by donors be of any real contribution to better development policies. There is also a mutual dependence between democratic ownership and true accountability - which means effective systems of enforcement by which citizens groups can hold development actors to account. Transparency and openness are essential for both.

Aid policies should be managed according to their effectiveness at achieving respect for human rights - this requires effective monitoring and assessment systems, again with the participation of grassroots organisations. Part of this process must be a renewed commitment to achieving gender equality objectives through adequate attention and resources.

Pulling the Strings – How Donors' Control of Aid Undermines Democratic Ownership and Accountability

Elvira Groll
ActionAid UK

Why Accountability is Important

"All governments must be accountable for fulfilling their part of this bargain, both to their people and to each other."

- Kofi Annan on international development commitments at the UN General Assembly, 21 March 2005

Improving accountability is fundamental to development. Accountability leads to better development outcomes when governments improve their services and behaviour in response to citizens' demands. It provides a vital check on the abuse of power or the violation of human rights. It involves citizens' organising and mobilising themselves to protect their rights and to demand that powerful actors answer for their actions. Therefore, it is an important part of a democratic development process, both in regard to the freedoms and rights inherent in this concept and to the processes necessary to protect and enhance those freedoms and rights.

Donor governments often disrupt this relationship by making recipient governments concentrate on being accountable 'upwards' to donors instead of

'downwards' to citizens. Conversely, donors are only weakly accountable to southern governments and citizens. This imbalance in accountability is caused by power relations within the aid system, which is dominated by donors. Donors very often have the power to alter or stop aid flows as and when they wish, and often do. They also seek to have influence through the use of advice or provision of expertise, often in the form of technical assistance. Donor influence is not limited to aid, of course, but is bound up with security, trade, investment, and other agendas they bring to the table.

Rectifying this imbalance and making donors and the aid system more accountable to the people aid is supposed to help is critical in improving the effectiveness of aid. It will help ensure that aid priorities are truly owned by recipient countries and not imposed by donors. Improving the accountability of donors offers one of the surest routes to tackling persistent aid problems such as aid volatility and unpredictability, as well as ending damaging practices such as tying aid to donor goods and services. Finally, making aid more accountable also means that donors can become a help rather than a hindrance to citizens' ongoing struggles to make their states accountable and responsive to them.

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What is Accountability?

Accountability is about power relations. It describes the ways in which those who have power - organisations, institutions and individuals - can be held to account by the people affected. It is an inherently political concept because defining accountability relations is in itself an attempt to change power relations.

The two key aspects are **answerability** - power-holders having to justify their actions - and **enforceability** - how poor performance of transgression by the power holders is rectified or sanctions enforced. Accountability relationships also involve **standard-setting** (defining norms of behaviour against which those with power should be judged) and **investigation**, which depends on **transparency and openness** (to find out if those norms have been met).

The key questions to ask when thinking about accountability are:

- Who is accountable? (Who holds power?)
- For what are they accountable?
- To whom are they accountable?

Accountability is a major pillar of democratic processes as it allows citizens to control the actions of their governments and other actors. It involves many actors, including parliaments and civil society organisations.

Undermining Democratic Ownership

Ownership is widely seen as the cornerstone of development and is one of the five partnership commitments of the Paris Declaration. Effective poverty

reduction requires that countries are able to decide and direct their own paths. Yet truly democratic ownership does not only mean ownership by the southern government. It must also engage parliaments, civil society including women's rights groups, and other stakeholders in the development process.

Donors have often undermined democratic ownership in a number of ways:

- **Imposing harmful policy 'conditionalities'**

International aid is often tied to recipients' implementing particular policy changes, effectively denying southern citizens and governments the right to freely choose the policies best suited to their economic and social situation. There has been growing consensus in recent years that the impact of policy conditions on poor countries has often been negative as they distort democratic processes, impose inappropriate policies and generate high transaction costs.¹ Very often conditions are set by donors in a one-size-fits-all manner and without considering the specific political and economic situation of countries. In spite of both demands and commitments to decrease conditionalities and the negative experiences with structural adjustment programmes, bilateral donors still tend to harmonize around IMF and World Bank conditions as they have done in the past.² It seems to be handy for donors to align to economic frameworks set out by the Bretton Woods Institutions as these still have a reputation of macroeconomic expertise, and in case of failure can divert the attention from bilateral donors. However, this tactic further increases the power and influence of donors on policy decisions; undermining national ownership.

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- **Bypassing government systems**

Although the Paris Declaration calls for an alignment of aid flows to national priorities and budget procedures and commits donors to report at least 85% of their aid on budget until 2010, many donors spend external assistance directly without reporting to the recipient government. This is due to lack of trust in national institutions as well as the attempt to keep as much control as possible over the way aid is spent. As the "2006 OECD Survey on Monitoring the Paris Declaration" emphasises, only four out of 22 donors have so far reached this target while six donors report less than 50% of their aid to the recipients' government.⁴ This makes it extremely difficult for recipient countries to track the use of aid and hold donors accountable. In Afghanistan, a heavily aid dependent country with almost three-quarters of total public expenditure provided by donors, over 75% of external assistance is spent directly by donors, mostly without being reported to the government. Therefore, the Afghan government has very limited control

over aligning aid money to its development priorities.⁵

- **Refusing to be transparent and accountable for their action**

Aid negotiations often happen behind closed doors between donors and governments without engaging parliament and civil society in decision-making or monitoring processes. While policy dialogue between government officials has intensified due to the Poverty Reduction Strategy Papers (PRSP) process, parliamentarians and civil society representatives tend to be excluded from those discussions. Recent case studies have shown that southern government officials are also very reluctant to get engaged with civil society or other stakeholders on political issues.⁶ Proper accountability mechanisms for the use of aid on a national level are missing in most southern countries. To respond to this problem, civil society organisations, including ActionAid, in countries such as Ghana, Cambodia and Kenya have begun to organise forums to examine aid issues and hold donors and governments to account.

Box 2: The Impact of Economic Policy Conditionalities

In Malawi the situation of the poor actually deteriorated because of World Bank economic policy conditions. In 2003 the World Bank proposed a \$62 million loan to the Malawian government to fight a major drought and its effects. However, this loan was linked to progress on past loans' conditions on the privatization of public service sectors in the areas of agriculture, telecommunications and energy even though these conditions had evidently further impoverished Malawians. Despite strong opposition by the Malawian parliament, the commercialisation of the public Agricultural Development and Marketing Corporation (ADMARC) was pushed through by the government. This led to the closing of 400 rural markets, resulting in job losses for thousands of people and more hunger and starvation for the Malawian people. An internal World Bank report before the commercialization of ADMARC had shown that this project would have negative impacts on the lives of the poor. However, the World Bank did not make the results of this assessment available to the Malawian parliament or the government.³

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Weakening the Effectiveness of Aid

Donors have very strong mechanisms to ensure that their demands are met by recipient countries. However, they are not so strong at meeting their own commitments to improve aid along the principles of the Paris Declaration. The effectiveness of aid has been seriously limited by donors' demands and practices in a number of ways:

- **Imposing high transaction and administrative costs**

Multiple donor missions and reporting requirements imply huge transaction costs for recipient governments. They often have to focus energy and resources on reporting to donors rather than using that capacity to pursue their own priorities and report to their own citizens. In spite of commitments by donors to decrease the amount of donor missions, joint donor missions are still the exception as developing countries still received an average of over 300 missions from donors in 2005.⁸ Donors often demand the completion of their own reporting forms, typically resulting in the recipient government's having to write many different reports each year.

- **Aid flows are often unpredictable and volatile**

Donors fail to disburse committed money on time, making it difficult for recipients to plan their national budgets. In 11 countries covered in the 2006 OECD Survey, the predictability of aid was less than 50%.⁹ Problems with recipients' systems contribute to this problem, but donors must bear the lions' share of responsibility. The amount of aid often varies each year, sometimes with large fluctuations. Aid for countries in conflict has been particularly volatile, often falling in times of emergency when support is needed most.¹⁰ Although donors have committed to improving the predictability of aid, the amount of aid flows into the health sector in countries such as Mali and Liberia, for example, differs so sharply each year that it seriously limits recipients' abilities to plan their budgets.¹¹

- **Donors drive technical assistance programmes**

Recipients' lead on aid priorities is further undermined by the continued use of donor-driven technical

Box 3: First Steps into the Right Direction

In May 2007, Cambodian civil society organised for the first time a "CSO Forum on aid" where they invited several donors to scrutinize their aid programmes. The results of this Forum were fed into a newly formed "Cambodia Development Cooperation Forum", a government-led body for consultations with donors replacing the traditional Consultative Groups chaired by the World Bank. However, besides this unique opportunity, citizens, parliaments and civil society do not have much political space to hold donors to account as a recent ActionAid case study shows. Cambodian NGOs also raised concerns about criticising donors too openly as they heavily depend on their funding. In Cambodia, there are NGO representatives in the donor-government joint working groups present, however their impact on holding donors accountable has been questionable particularly due to the lack of clarity about the role of those representatives as development actors or watchdogs.⁷

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assistance programmes where projects are often established independently of recipients' needs and aid money is spent on foreign consultants, training and research. Although it has been shown that the effectiveness of this type of aid has been very low¹², the OECD DAC estimates that technical assistance still accounts for up to 50% of all aid.¹³ In the OECD Survey, it emerged as one of "six major priority areas that need the attention of policy makers right now".¹⁴ Southern countries highlighted its supply-driven nature and several countries refused to agree that any donor-provided technical assistance was aligned to their national priorities.¹⁵

- **Aid is still tied to donors' interests**

The allocation and disbursement of aid is often linked to donors' foreign policy or commercial interests, and tied to products or consultancy services from the donor country. The tying of aid is estimated to increase costs by up to 30%.¹⁶ The main beneficiaries of this practice are firms and consultants in donor countries. Already in 2001, the OECD DAC issued the recommendation to untie aid. Although many donors committed to untying in general, they still fall short in implementation, excluding key areas such as food aid and technical assistance from agreements and still relying heavily on their own firms. Germany and Spain, for instance, still tie one third of their aid to their own goods and services.¹⁷

Key Steps Donors Can Take to Improve Accountability and the Effectiveness of Aid

There is a clear need for reform to improve the accountability of donors and transfer the control of aid from donors to

recipients. ActionAid has set out a comprehensive agenda for achieving the necessary reforms at the Accra High Level Forum on aid effectiveness taking place in September 2008 in the report: *"Making aid accountable and effective. An ActionAid Ten Point Plan for real aid reform"*.¹⁸ The report argues that significant progress is needed if aid is to play an effective role in reducing poverty. Donors must meet existing commitments but also go much further; particularly by making aid accountable to the people it is meant to help.

We recommend the following steps to make aid more accountable and effective:

A. **Respect real ownership of the development process and end harmful donor practices**

End economic policy conditions.

The ownership agenda needs to be refocused on true respect for democratic ownership on the part of both donors and southern governments. Donors need to agree to end all economic policy conditions and reduce the overall burden of conditionality.

Ensure donors report all aid disbursements in full and in the format required by recipient governments.

Donors need to ensure they take the actions required to tackle the administrative, technical and political constraints of reporting their aid to recipients in full and in the format they require to integrate this information into budgets.

Allocate aid in a fair and transparent way according to need and improve aid predictability.

Governments should agree on effective and transparent international mechanisms to improve aid allocation, ensuring that it goes to those most in

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need and is not misdirected by donor foreign policy objectives.

Ensure technical assistance is truly demand driven and country led.

Donors need to align their technical assistance to recipients' priorities and needs. Recipients need to be given the choice about how technical assistance funds are used. Donors should ensure that all TA is properly co-ordinated among donors. Technical assistance should not be used as a form of conditionality.

End the scandal of tied aid.

Donors need to commit to expanding the agreement on untying aid to all countries and all modalities including technical assistance and food aid. Independently-monitored targets should be set up for translating this commitment into practice.

B. Improve transparency to southern governments and citizens

Ensure donors adhere to the highest standards of openness and transparency.¹⁹

Donors rarely make sufficient information available in a format that is accessible to southern governments and citizens. There is a presumption of non-disclosure of information. Even when information is made available, it is often found in complex technical documents on donor websites and only in English, making it extremely difficult for southern citizens to access. The conditions attached to aid and the findings from evaluation reports are rarely made public. Greater transparency would not only promote aid effectiveness, it could also help citizens to monitor their own governments and provide a standard by

which government transparency can be judged. These standards would include:

- **Adopting a policy of automatic disclosure of all documents, with a strictly limited regime of exceptions.**

This is consistent with international best practice in transparency and recognises that access to information about the practices of bodies engaged in public service is a fundamental human right.

- **Pro-actively disseminating information in a timely manner, to government and citizens on key aspects of aid, including aid strategies, plans, commitments, disbursements, and conditions.**

Donors need to recognise that genuine transparency involves making a pro-active effort to put information about aid in the public domain so that it becomes accessible to all, including those most marginalised and distant from aid processes.

- **Inviting recipient parliament scrutiny.**

If donors were to maintain close contact with parliaments and keep them informed of ongoing processes, then this would encourage parliaments to scrutinise these processes where they see necessary. Donors could produce regular bulletins and organise regular briefings for parliaments, as requested. They should also write to parliaments and their committees, outlining annual plans and offering to make themselves available for parliamentary scrutiny,

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should parliamentarians request this.

Make impact monitoring, evaluation and assessment of aid spent by each donor truly independent and participatory.

Southern voices need to be heard in every assessment of aid and therefore governments and citizens must be included in evaluations. The majority of donors currently monitor and evaluate their programmes internally, without the involvement of independent experts, and are guided by weak procedures for ensuring that findings are acted upon. However, Denmark, the Netherlands and Sweden have established independent evaluation bodies: these good practice examples need to be built upon.

C. Create and improve answerability and enforcement mechanisms

Develop open, transparent mechanisms that allow citizens to hold their governments and donors to account for the use of aid.

The concept of mutual accountability should be broadened so that 'country-level mechanisms' for assessing progress become multi stakeholder, including civil society particularly women's rights organisations, parliaments, trade unions and other stakeholders. These multi-stakeholder forums should be open, transparent and regular with real room for citizens of southern countries to hold their governments and donors to account.

Base aid relationships on legally binding aid contracts between donors and recipients.

Although recipient governments commonly make a raft of commitments

to donors in relation to aid, and donors make sure they are enforced through the threat of withholding or reducing aid, donors make few (if any) legal commitments to recipients in the way they deliver aid. Donors need to sign legally binding contracts with recipients outlining their commitments in these areas including guarantees on aid volumes and aid effectiveness. These aid contracts should be consistent with the aid management plans and other development strategies developed by recipient governments.

D. Create effective international mechanisms for standard setting and oversight of aid

Move the aid reform process to more representative institutions (such as the UN) than the OECD.

For an effective agenda of aid reform to be realised, the limitations of housing the major international aid effectiveness process in a donor institution - the OECD - must also be addressed. The OECD is in no meaningful way accountable to the southern citizens and countries that aid is supposed to help. The political nature of much of the results of the "2006 OECD Survey on Monitoring the Paris Declaration" - where donors exerted pressure throughout the survey process to bend the figures to improve their performance - highlights this weakness.

Handing over control of the process to a more representative institution such as the UN would signal a clear intent to take accountability seriously. If done in a coordinated manner, such as through the establishment of a UN aid commissioner (see below) it could also help reduce some of the complexity of the international aid system.

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In 2007, the UN launched the Development Cooperation Forum (DCF), whose mandate is to monitor international development cooperation initiatives such as the Paris Declaration and promote dialogue and action to achieve progress. This forum has the potential to develop into a representative and open body in which aid effectiveness standards can be discussed between donors and recipients and standards agreed upon.

Improve international enforcement and accountability through establishing a UN Aid Commissioner.

Donors and southern governments should commit to improve international




accountability mechanisms. To support the enforcement of international aid commitments, a UN Aid Commissioner and an aid ombudsman should be established. These would be responsible for reviewing progress in implementing international aid commitments, resolve disputes between donors and recipients and take action to ensure that donors and recipients live up to the commitments they have made.

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Accountability and Managing for Results: Accountability to Whom? Who Holds Whom Accountable?

Ngo Sothath
NGO Forum on Cambodia

Introduction

Each principle of the Paris Declaration is separately and mutually important to achieving the effective use of aid to produce actual results on the ground. Mutual accountability is a significant mechanism through which donors and partner governments commit to being responsible for development results.

However, 'accountability' can mean many things in different contexts and it is important to define it; a key question is always 'accountability to whom?' For example, the donors themselves are accountable to their own parliaments and citizens on the use of their money. On the other hand, the recipient governments are required to be accountable to the donors for the fund and project or program implementation¹.

What can be our understanding of the 'mutual accountability' in aid referred to in the Paris Declaration? The focus here is not so much on who is accountable to whom. The Declaration calls for both the "donors and partner governments to mutually account for development results."² Therefore, rather than being accountable *to* someone, it is understood that the donors and partners are meant to hold each other accountable *for* something - in this case, the delivery of aid.

Applicability and Limitation of Mutual Accountability

Whether the mutual accountability of the Paris Declaration is a well-defined principle remains questionable and there is certainly no provision for a mechanism to make the accountability principle work in the Declaration itself. We would suggest, however, that four basic elements are necessary to make accountability work: *commitment; measurement; enforcement; and an enabling environment*. This article will consider mutual accountability in the framework of these four elements (see Figure 3).

1. Commitment to Account for Development Results

A positive element of the Paris Declaration was the recognition from donors and developing country governments of the need to count the actual results on the ground for measuring whether aid achieves its intended goals.

However, it does not go far enough in identifying specific roles for parliaments and CSOs. This has meant that while it highlights the need to strengthen the participation of a broad range of development partners in

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Figure 3. Key Elements To Make Accountability Work



formulating, implementing and assessing national plans/strategies, the parliaments and CSOs have been largely disregarded, allowing the government and donors to avoid public oversight. In Cambodia, despite the clear commitment made in the Paris Declaration to strengthen the parliamentary role in national development strategies and/or budgets, the Declaration of the Royal Government of Cambodia made only more general commitments to strengthen the roles of all stakeholders in the planning and implementation of development cooperation programs - not quite the national plan and/or the budget³.

Similarly, while the PD commits to the provision of timely, transparent and comprehensive information on aid flow so that partner governments can present comprehensive budget reports to their legislatures and citizens, the Cambodia Declaration is all about transparency and accountability of official development assistance only, not the national budget as a whole⁴. This does not quite amount to mutual accountability on development results,

since ODA comprises only half of Cambodia's national budget.

2. Measurement of Development Results

The principle of 'managing for results' suggests the need for measurements to inform result-oriented reporting and assessment of the national plan implementation. Due to the commonly low capacity of partner governments, a manageable number of impact indicators are chosen. However, recipient governments generally fail to develop sufficient input and output (intermediate) indicators to keep track of the progress over time which would allow them to better manage the likely outcomes and impacts. As stated by David Booth and Henry Lucas⁵ (odi: 2002, p23) "final outcome data are largely useless for providing the sort of quick feedback on PRSP performance that is most needed for learning and accountability purposes."

There are 43 indicators to guide the monitoring and evaluation of Cambodia's national plan, around 30 of which are final outcome and impact indicators mainly derived from

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Cambodia's MDGs.⁶ These outcomes and impacts are hard to observe or measure in the short-term and do not adequately reveal the effects of specific policies or implementation.

Many annual measurements are too macro in level. For example, the indicator measuring total annual expenditure as a percentage of GDP does not paint the picture of whether the budget is spent correctly and most appropriately. The indicators, therefore, leave the government with insufficient information over the intermediate results of its national plan, to be able to adjust the program and plan effectively.

Moreover, of the 43 NSDP monitoring and evaluation indicators, only sixteen are measured by the data collected through the annual tracking surveys of the National Institute of Statistics. The other 27 indicators are largely dependent on administrative data from relevant line ministries⁷. However, due to weak governance in most least developed countries, the administrative data systems are poor. In Cambodia, the public expenditure tracking survey in education demonstrated that the poor administrative data record⁸ remains a major challenge.

Despite the adoption of the NSDP monitoring and evaluation framework, the NSDP claims itself not to preclude the need to undertake participatory approaches for more focused monitoring and evaluation purposes. New and innovative tools, such as citizens' scorecards rating the perception of change and satisfaction with the quantity and quality of different public services, are supposed to be employed to enhance participatory elements and feed voices from the grassroots level into the NSDP monitoring and evaluation⁹. However, this has practically never been

observed and Royal Government acceptance of CSO inputs into the Annual Progress Report has been minimal¹⁰.

How participatory the national development plan process is and to what extent the plan takes the voice of civil society into account and responds to the needs of the poor and vulnerable is a level of consideration that the Paris Declaration indicators are not able to track and answer.

3. Enforcement of Accountability

The principle of mutual accountability implies that the donors and partner countries are accountable for development results. However, the key to the accountability mechanism rests on the issue of who holds who accountable, and the declaration shows the limitations of enforceability when two parties of development monitor each other. While governments tend to blame donors for their poor coordination and using aid to serve their own interests, the donor groups accuse the governments of corruption and bad governance.

For accountability to work and for aid to have more of an impact on poverty reduction, the presence and acceptance of an independent third party or parties with a monitoring role is crucial. To complement mutual accountability and enforce the commitments made by the donors and partner governments, they should be monitored and held accountable by the recipient citizens and/or their representatives.

Two complementary principles are essential for this accountability to work: (1) country ownership and (2) democratic ownership.

Country ownership implies that partner countries exercise the leadership role in developing and implementing their national

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development strategies. This is essential in ensuring that the governments' primary responsibility is to its own citizens and not to the donors. Furthermore, if the recipient governments are permanently accountable to the donors, then the donors will never exit the country, but leave it forever aid-dependent.

Democratic ownership then means not only that the government is not beholden to the donor, but that it is genuinely accountable to the people. In principle, the government (elected by the citizens) is supposed to serve the interest of the country as well as the people. The citizens are then assumed to receive development services necessary to them and voice their concerns back to the government and demand improved services. The people can hold the government accountable for their policy choices and performance either directly, through civil society organizations representing their constituency, or through the parliament they elected.

Figure 4 represents the framework of ownership that sets out the required relationships of accountability among the development stakeholders both locally and internationally.

Genuine accountability requires transparent processes, access to the necessary information, and citizens empowered to freely exercise their rights and freedom in society. The balance of power between the key development actors (citizens, CSOs, parliament, and government) at country level is important. An effective system and robust mechanism must be in place and institutionalized, owned and exercised by those key actors with donors as facilitators or catalysts on a temporary basis.

Parliaments

The UNDP report (2003a) suggested that the monitoring report of the PRS or national plan should principally be considered as the report to the national audiences, and secondarily to the donors and lenders¹¹. Evidenced by a study of the 28 sub-Saharan Africa countries involved in the PRS process, GTZ (2003) found that monitoring and controlling the actions of the executive was one of the fundamental functions of the parliament and was embedded in the constitution of the studied countries¹².

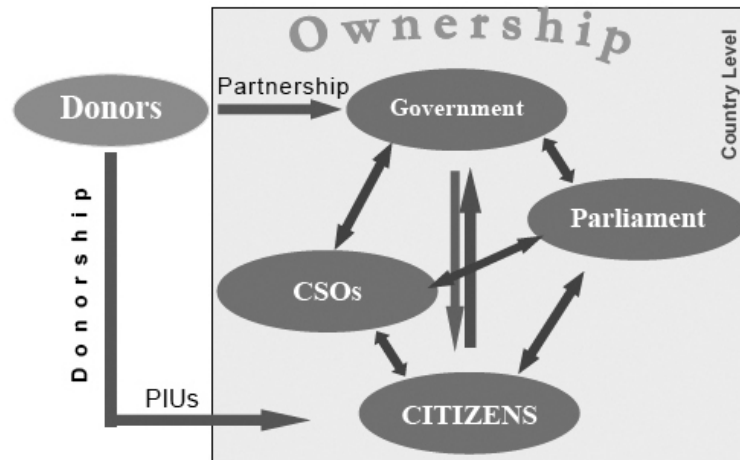
Pain (2003) suggests that "in a truly democratic environment, parliament should be overall responsible for the monitoring of the PRS."¹³ It is particularly important to pay attention to countries such as Vietnam, Cambodia, and Yemen where the national plans are expected to be debated and approved by the parliament. Unfortunately, the study by GTZ (2003) also found that despite their legitimate role recognized in the constitution of the studied countries, parliaments rarely exercise effective oversight.

Article 121 of Cambodia's constitution states that: "Members of the Royal Government shall be collectively responsible to the National Assembly for the overall policy of the Royal Government."¹⁴ However, the monitoring and evaluation report framework of the National Strategic Development Plan (Cambodia's PRS) does not identify for whom the report is prepared and accountable to; rather, the document serves as the government's report to the annual aid mobilization meeting between the government and donor community¹⁵.

Confirmed by the government's annual progress report of the NSDP in

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Figure 4. Development Framework Towards Democratic Country Ownership



2006, the report is even considered as a 'State of the Nation' annual record and the government's position paper for the Cambodia Development Cooperation Forum¹⁶, which is the Government-Donor High Level Forum for development review and aid mobilization.

This implies that the parliament - which enacted the national plan - either does not formally receive the report from the government or is not authorized to hold the government accountable for it. The donors are supposed to facilitate improvements in governance and overcome any lack of political will for reform. However, despite their commitment to working toward country ownership, the donor community tends to overlook the strengthening of local governance systems. Furthermore, it even disables the country's existing structure by demanding accountability directly from the partner government rather than using existing domestic governance mechanisms.

Civil Society Organizations

While suggesting the important role of the parliament as a key user of the PRSP monitoring information, the World Bank's Beyond the Numbers report (2006)¹⁷ observed that the parliaments in many PRS countries are generally unable to effectively exercise their roles over the executive due to their low capacity and lack of support from analytical and research staff. Therefore, civil society groups are seen as sources of expertise to assist them.

Independent CSOs such as NGOs, media, academia, and research institutes, should be entitled and able to monitor the national plan at the country level. It is observed that in some types of monitoring, CSOs can often do better and be more effective than the government, especially in qualitative approaches such as participatory poverty assessment, service-delivery satisfaction surveys, and citizen report cards¹⁸.

Together with the commitment to work towards participatory and

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In early 1990s, UNTAC and donors sought to promote the emergence of Cambodian civil society, usually viewed as a set of formal organizations that could mobilize and represent the population and hold the government to account. to an extent, such NGOs have been secured a place in the policy process, although their rights to be consulted on legislation and policy are still to a great extent dependent upon their international backing.

NGOs have been reluctant to campaign on political issues, such as extrajudicial execution of political opponents, often leaving these to international counterparts. Where NGOs have become involved in grassroots protest, they have been threatened and their activists arrested. Thus, while government appears content to receive technical advice from NGOs, they have resisted allowing NGOs to take a role as mobilizers of public opinion.

Source: Caroline Hughes and Tim Conway (odi: Jan 2004). Understanding pro-poor political change: the policy process in Cambodia.

transparent processes, strengthening the monitoring and evaluation capacities of CSOs is essential for successful independent monitoring of the government's performance against the desired goals of the national plan¹⁹. This must include the diversity of civil society voices, as recognized in the WB's Beyond the Numbers report (2006, p88).

CSOs intervene to provide space for citizens to participate and hold their government accountable either directly by themselves or through their representatives - CSOs or the parliament. The question of representativeness and legitimacy of

CSOs is often raised. However, by definition, CSOs are "all non-market and non-state organizations and structures in which people organize to pursue shared objectives and ideals."²⁰

Therefore, CSOs are representing their membership and constituency and they are legitimate because it is the people's rights to mobilize and associate among themselves²¹.

Citizens/Communities

From a human rights perspective, citizens are the right stakeholders to be protected under the provision of law so that their basic needs are met while the government is the right bearer that must realize this compulsory obligation. In a democratic society, citizens hold their government to account by voting for their political representatives in periodic elections.

In Cambodia, citizens vote for the Commune Council members and representatives to the National Assembly. Once elected, it is expected that the government leaders will formulate policies, design programs and make decisions in accordance with broad public opinion, or at least based on the expressed needs of the people. However, political participation through voting in elections provides citizens with minimal feedback to and influence over decision-makers²².

Trasmonte Jr (presentation paper, 2004) asserts "people whose lives are affected by a decision must be part of the process of arriving at that decision."²³ The actual and potential service users who are most directly concerned with the availability and quality of a service should be both authorized and encouraged to play a larger role in monitoring the delivery of those services²⁴.

Unfortunately, the World Bank Development Report 2001 concludes that "from perspectives of the poor

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people worldwide, there is crisis in governance. State intuitions...are often neither responsive nor accountable to the poor, rather the report details the arrogance and disdain with which poor people are treated."²⁵

Concerns are often raised around challenges to involving communities in the monitoring of service delivery or the national plan, such as processes and community capacity. However, simple instruments have already been developed to facilitate this communication, for example participatory poverty assessments, service-delivery satisfaction surveys, and citizen report cards. These simple tools help provide a picture of reality on the ground.

In Cambodia, Citizen Rating Report (CRR) uses systematic collective feedback from citizens to assess people's satisfaction with social services and other governance matters and demand greater public accountability²⁶. Unlike other international experiences with parallel initiatives (such as the report cards of India and the Philippines), the Cambodian model CRR is a localized version, where citizens themselves generate, package and act on the CRR results.

Cambodia's constitution also provides for an annual public forum called the 'National Congress'. This should allow and enable the people to be directly informed on various matters of national interest and to raise issues and requests for the State authority to solve.²⁷ It is supposed to adopt and submit recommendations to the Senate, the National Assembly and the government for reflection. The Congress should be held annually under the chairmanship of the King and at the convocation of the prime minister. However, this mechanism is not working due to governance issues and the poor functioning of genuine democracy, and

the donor community has never made any effort to activate it.

4. Enabling Environment

To enable commitments to be monitored and enforced, the Paris Declaration notes the significance of transparency in the use of the development resources. The donors commit to provide timely, transparent and comprehensive information on aid flow so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Access to information is key to monitoring and oversight and transparency is about making the necessary information available to and accessible to all stakeholders, including the general public. It is important to note that 'availability' does not guarantee 'accessibility'. Since the government's business is public business - utilizing public resources to produce public goods and services to serve public interests - citizens have the right to be informed. For example, the Cambodian constitution states that "the National Congress shall enable the people to be directly informed on various matters of national interest."²⁸

Furthermore, it is not enough for the authorities to make information available and accessible upon request. Information must be made available to citizens without having to be asked for. This also means that information should be made available in an accessible and understandable format.

Recommendations

Overall, the Paris Declaration's principles of mutual accountability and managing for results require the four components of commitment, measurement, enforcement

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and an enabling environment to make accountability really work. However, efforts are still needed to implement effective systems for assessing development results and reinforcing accountability.

1. Commitment and measurement need to be operational and realistic at the country level.

Various global initiatives usually create proposed indicators and targets for long-term impact measurement, which countries generally adopt for their own development purposes and efforts. However, final outcome data do not provide for quick feedback on PRSP performance that would enable effective monitoring and policy improvements. Therefore, the monitoring framework of the national plan (PRS) should be more focused on input and output indicators that allow the government to track the intermediate results necessary to achieve the desired outcomes and impacts.

Participatory approaches should also be used to better inform the monitoring, particularly to understand the impact of policies on people on the ground, including the most disadvantaged.

2. Citizens - either directly by themselves and/or through CSOs and Parliament - must be able to hold the government and donors to account for development results.

The sense of mutual accountability should not be limited to the principle that the government and donors account for development results, but the question of who they are accountable to must be addressed. The donors and partner government are policy designers, decision-makers, and program implementers and, as such, should both be held to account for the

results of their commitments, policy choices, and actions by the citizens and their representatives, the CSOs and the parliament.

3. The government should be primarily accountable to its citizens and parliament, rather than the donor community.

Donors are assumed to work in partnership with the government to bring the poor and vulnerable out of extreme poverty and to empower the country to be able to take the leadership role of their own development. In this sense, the donor community should not demand much upward accountability from partner government, but rather encourage the government to primarily respect and account to its voters.

The success of the donors' mission should be counted when partner countries can take leadership over their own development agenda in a genuine democratic way where citizens and their representatives are empowered.

4. Donors should be facilitators and architects of the partner countries' democratic governance systems

The donor community should not try to reinvent governance systems which disempower or even disable existing local governance structures and leave the country aid-dependent. Rather, they should use these mechanisms to strengthen accountability to the citizens. For example, donors should encourage the convocation of 'the National Congress' foreseen by Cambodia's constitution to provide a platform for citizens to hold the government to account.

Furthermore, donors are not just required to work in partnership with the government, but with the

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parliament and the CSOs. Donors should strengthen country governance through a strategy of building the capacity of all key stakeholders, including NGOs and parliaments.

5. CSOs should be recognized as the government's key partners in policy processes

To enable CSOs to play a fully effective role in monitoring policies and their implementation, they have to be recognized as key partners with clear roles in policy processes. Furthermore, all processes must be transparent and necessary information needs to be made publicly available and accessible to them.

6. The government should be open to participation and public oversight.

For them to take democratic leadership over the development process for the benefit of the people they represent, the government should listen to and take into consideration the people's voices. The government should be open to feedback and oversight from the people on their policy choices and action so that they can redirect their leadership towards the country's development and poverty reduction. The government should also respect voters through their representatives - the parliamentarians and CSOs.

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Managing for Results and Aid Effectiveness

African Forum and Network on Debt and Development (AFRODAD)

Despite aid's having become a major contributor to many countries' state budgets, and a relative increase in aid flow to Africa, countries remain poor and highly dependent. Even where countries register satisfactory levels of economic growth, this has not been yet able to secure sustainable development, reduce dependency and eradicate poverty. Income distribution presents a serious challenge as the gap between rich and poor both internationally and within African countries has been growing.

One of the key principles put forward to achieve more effective aid is managing for results. The Paris Declaration states that "managing for results means managing and implementing aid in a way that focuses on the desired results and uses information to improve decision-making." This is based on the recognition that it is not sufficient to allocate money to aid projects or programmes; the money must be effective in achieving the goals it is mandated to achieve.

A managing for results approach involves:

- a) defining the results to be achieved
- b) setting up indicators to measure results and outcomes
- c) defining result-oriented assessment frameworks
- d) using the outcomes of the assessment to improve aid delivery

In concrete terms, recipient countries need to improve links between national development strategies (which should set

out the results to be achieved) and annual and multi-annual national budget processes (which set out the means to achieve them). They also need to establish the results-oriented reporting and assessment frameworks and to use these to track a manageable number of indicators for which data are cost-effectively available.

Donors, meanwhile, need to align country programming and resources with national development strategies and to rely as much as possible on the partner country performance assessment frameworks. They should also harmonize their efforts in line with these national frameworks and work with partner countries in a participatory approach to strengthen country capacities and demand for results-based management

Within this perspective, the five principles of the Paris Declaration are complementary with each other for the achievement of the results in an effective manner. In other words, to achieve the goals and results that aid is set for, it is necessary to create a common vision about the mission, goals, results, indicators and assessment tools, promote ownership of national development processes, align resources to the countries' priorities and systems, harmonise donors' procedures and promote mutual accountability.

Links Between National Development Strategies and Budgetary Processes

Studies on African countries reveal that governments are taking actions to link

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national development strategies to annual and multi-annual budget processes. The national development strategies are presented in the form of medium or long term plans namely the long term Visions, the Poverty Reduction Strategies, the Government Five-Year Plans, the Sectoral Strategic Plans and the Annual Plans.

Through the PRSP processes, countries define objectives, activities, strategies and expected results/outcomes for the period under consideration. Pillars or clusters are defined to facilitate the grouping of actions to be undertaken for the achievement of certain objectives and results. The MDGs are included in the PRSP exercise through linking long term goals of the MDGs with medium term goals of PRSP which in turn are linked to annual targets. For monitoring purposes the PRSPs are linked to matrixes of indicators to facilitate the assessment and evaluation of the outcomes.

After the planning exercise, government officials engage in a budgeting process with the view to identifying sources of income and allocating resources for different activities as defined in the planning process. Two budgeting tools are used, namely: Medium Term Expenditure Frameworks (MTEF) and the State Budgets (SB).

The MTEF is a fundamental planning tool for the construction of plans and macroeconomic frameworks for the short- and long-term, in which expected resources and expenditure as well as their sources are indicated. Its main objective is to indicate the amount of financial resources needed to implement activities during a medium term (three years) to respond to the policies defined within the government five-year plan and PRSP. On the other hand, the MTEF ensures budgetary discipline so as to maintain budget equilibrium and make budget deficits sustainable.

All countries mentioned the MTEF as an important tool that they use in the budgeting process and for forecasting revenues and expenditure in the medium

term. Cameroon is the only country that is still in the process of finalizing its MTEF.

The State Budget indicates the source, amount of resources and their distribution for the implementation of development objectives within a year. The MTEF is the source of information in the formulation of the State Budget and it is updated every year to adjust to changes that may occur over time. All countries under review mentioned that there is an effort to link development priorities with the state budget.

- **Challenge of Participation**

The poverty reduction strategies have the common feature of calling for inclusive participation in their formulation. Nevertheless, participation, particularly at the community level, is still not very well organised. Furthermore, the budgeting exercise is not participatory at all. Only government officials from central, provincial and district levels are involved. Members of parliament do not generally participate in the processes.

Whilst the first generation of PRSPs had a particularly low degree of participation, the second generation is characterized by the relatively increased and wider participation of government officials, civil society organisations, the private sector, and the media. It is hoped that with the decentralisation process underway in different countries, PRSP processes will have greater participation and integration of priorities arising from the district level.

- **Challenge of Allocating Budgets According to Priorities**

The extent to which priorities defined in the national strategies are translated in appropriate resource allocation in terms of their weight in the overall

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budget remains a challenge. For example, in Mozambique agriculture is defined as a priority area because the majority of poor people live in rural areas and their survival depends on agriculture. However, the share of resources in the MTEF and SB do not correspond to such prioritization, with the bulk of resources channeled to education, health and infrastructure. This creates a dilemma, as these areas are also critical to poverty reduction. In this situation, the Mozambican government should seek to mobilize additional internal and external resources to enlarge the portion of funds to all agreed development priority areas.

Donors have a role to play in raising their contribution of aid to countries with similar dilemmas as Mozambique within the ODA commitments. The World Bank and the International Monetary Fund should revisit their conditionalities on macroeconomic targets to allow countries to make a choice on several alternatives for inflation targets, with the view of accelerating development outcomes. This would allow donors to provide more resources and enable African countries to increase the size of their budgets, and hence, enlarge the proportion of resources allocated to priority sectors.

Results-Oriented Reporting and Assessment Frameworks

In different countries the performance assessment is undertaken through the Performance Assessment Framework (PAF), a tool designed by development partners and governments to monitor progress in aid recipient countries, based on commitments of both donors and aid recipient countries. The results can be processes, outputs or outcomes.

Assessment indicators are generally defined to respond to the concerns of the

dominant parties: donors and governments. They both want to see good governance, macroeconomic stability and service delivery, as well as the timely disbursement of resources for their intended objectives.

During the formulation of PRSPs and annual plans, countries under review produced matrices of indicators and tools of assessment to monitor progress towards the achievement of the stated results. The studies indicate that these matrices were used to monitor the implementation of development strategies underway.

Countries under consideration also indicate the existence of Statistical Divisions, Bureau of Statistics or Statistic National Institutions charged with the responsibility of producing information needed for decision making.

- **Challenge of Lack of Capacity**

The success of any assessment and reporting frameworks resides in the capacity to plan, set results and indicators and define a reliable system for data collection, monitoring and evaluation. A key challenge is the simple lack of human and/or financial capacity to adequately undertake the necessary tasks. Particularly at district level, there is a lack of capacity to adequately identify appropriate results and their respective indicators or to define and use monitoring tools

There is also an urgent need to strengthen the capacity of national statistics bodies to collect, analyse and disseminate information for public use. Special attention should be given to financial management systems, monitoring systems, public sector reform and legislation. Some countries, including Mozambique, have put in place computerized systems at central and provincial levels for financial management. The challenge is to ensure that conditions (electricity, computers and skilled people) are

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created to expand coverage to the district level.

- **Challenge of Lack of Coordination**

Furthermore, monitoring and evaluation is not always understood in the same way by different government officials at the central, provincial and district levels. It was also indicated that there is lack of coordination amongst different ministries regarding planning and monitoring which leads to minimum or no creation of synergies and does not allow for an integrated approach in data handling and its use for decision-making purposes.

There is also a need to properly define results, goals and indicators to undertake a coherent assessment exercise.

- **Challenge of Evaluating Impact**

Whilst acknowledging that at initial stages the results can mean processes, in the medium and long run they should be products and impact. CSOs particularly think that there is generally a need to refine the indicators to better include the evaluation of the impact. This is essential since it cannot be enough for aid to be evaluated simply against whether it is spent in the way that was expected. Whilst it is important that aid planned for school building is used for school building, it is even more important that this school building leads to improved access to education.

- **Challenge of Fighting Corruption**

Good governance is also an important aspect to consider when looking at performance assessment. African countries have to show leadership in dealing with corruption because all countries under review have a problem

with corruption at varying degrees. This could be a deterrent factor for donors' willingness to use national performance evaluation frameworks. In this regard, corruption has to be tackled properly to ensure that donors place a high degree of trust in the national systems and that citizens feel that the management of public good is in reliable hands.

Cameroon has shown a leading role in fighting corruption by denouncing and applying corrective measures to the violators, even if they are high-level government officials.

- **Challenge of Inclusive Monitoring**

Furthermore, it is essential that the evaluations do not rely simply on the views of external consultants or policy-makers. In some countries governments and donors have established Independent Monitoring Groups to monitor and evaluate progress in aid relationships. Cameroon foresees the creation of a unit to fulfill this task. Nevertheless, CSOs and the people most affected by aid policies must be actively involved in assessment and monitoring exercises. In many countries, CSOs are building the capacity of their members and that of communities to monitor and evaluate some key areas of PRSP implementation. The Mozambican Debt Group and the G20 (a national civil society platform for poverty reduction) are both perfect examples of this effort.

CSOs are also calling for the inclusion of different stakeholders - based on professional competence - in the public resources management bodies. At the process level, to encourage better outcomes, numerous CSOs are calling for the level of participation, particularly by civil society, in monitoring and evaluation

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processes to be used as an indicator in itself.

For other stakeholders, including CSOs, to carry out their monitoring role, there must be full and open access to information from both governments and donors. This will enable them to make analyses and undertake evidence-based advocacy.

- **Challenge of Using Assessments to Inform Policy**

It is essential that there be a process of using results from the assessment exercise to introduce changes whenever necessary. Otherwise, it would just become an intellectual exercise with no impact on countries' development.

Linking Resources to Results

The Paris Declaration principles encourage donor countries to link their resources to results and use national assessment performance frameworks. In the countries under review, there was an effort from donor countries to link their resources to results. This was done by supporting the state budget that is aligned to the results defined by partner countries through their poverty reduction strategies. This can also be confirmed by donors' country assistance strategies which are shifting towards a result orientation.

However, sometimes their results differ slightly from that of partner countries because they push for their own interests.

- **Challenge of On-going Conditionalities**

Donors continue to use conditionalities as results to be achieved by partner countries. For example, when the World Bank imposes the privatization of certain companies within a time frame, this becomes a result to be achieved

by the government. However, this privatization may not be desirable for the partner country as it could lead to massive unemployment and poverty among the displaced workers due to lack of absorptive capacity in other areas.

This practice is clearly against the end result of reducing the number of people living in poverty and must be seen as contrary to the intended direction of the Paris Declaration.

- **Challenge of Using Coherent Indicators**

The Performance Assessment Framework is a joint assessment tool for both government and donors. The use of this tool is encouraged to all donors channeling their resources to the state budget. However, donors also use their own assessment frameworks for the evaluation of progress on stand alone programmes and projects either individual or collectively. For the evaluation of the World Bank Country Assistance Strategies specific projects, for example, the Bank includes other indicators that respond to its own interest.

In Mozambique, for example, there is a concern regarding lack of correlation between PRSP matrix indicators with those from the new Country Partnership Strategy (CPS).

- **Challenge of On-going Project Aid**

Efforts to develop effective results-based aid strategies are impeded by the continued proliferation of project-based funding, usually requiring the use of separate cycles and use of individual and/or collective performance assessment missions to evaluate progress regarding their interest. Parallel implementation units are often found across a range of sectors to implement stand-alone projects.

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It is difficult to measure the extent to which resources channelled from donors to specific projects respond to national priorities. Additionally, there are donors who do not declare their medium-term financial commitments. This leads to lack of accuracy in the formulation of countries' Medium-Term Expenditure Frameworks.

Conclusions and Recommendations

There has been progress in Africa at laying the foundations to shift from input- to result-oriented programming, putting in place matrix indicators and assessment performance tools to monitor the implementation of development plans, formulating medium-term expenditure frameworks, starting to align resources to national development priorities, and accepting the use of national assessment systems for resources channelled to the state budget.

However, despite this effort, there are some major challenges to the successful implementation of a managing for results agenda that would seriously contribute to achieving effective development. These challenges are addressed in the following recommendations

Donors should:

- Accelerate the process of aligning programmes and resources to countries' development priorities and strategies, which should also contain an aid exit strategy.
- Provide information on their financial contribution to allow countries to plan for MTEF and the annual budget
- Channel more resources to the state budget to allow governments to align resources to development strategies and priorities oriented to results

- Whenever possible, use countries' assessment frameworks for result-oriented monitoring and evaluation and avoid parallel evaluation systems
- Contribute to countries' efforts at strengthening their capacity to formulate result-oriented planning and the corresponding systems for monitoring and evaluation
- Accept and support the notions of South-South cooperation and provide resources for South-South technical assistance to meet the human resources capacity in African countries.
- Harmonise assessment indicators with those of the government PRSP vs CPS (Country Partnership Strategy)
- Support statistical bodies either financial or technically
- Pay salaries for African government employees as part of Budget support rather than fencing it out.
- Harmonise monitoring and reporting procedures and undertake joint evaluation missions, while strengthening government procedures and assessment frameworks
- Make information available to civil society organisations, the private sector and other interested parties
- Provide technical assistance and support government capacity-building efforts based on national priorities.

Partner country governments should:

- Ensure that the formulation of development strategic planning is undertaken in the best participatory way possible - within this stage, there should be ample dialogue regarding development objectives, strategies, indicators and evaluation tools and mechanisms.

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- Ensure that statistical bodies are operational and data is used for decision-making.
- Refine result-oriented indicators to include qualitative outcomes
- Improve the linkage between national development strategies and annual and multi-annual budget processes in terms of priority areas and weight in the overall budget
- Increase internal resources to reduce aid dependency and improve the ownership of development processes
- Create a dialogue platform for public resource allocation and management
- Formulate and implement reliable public resources management systems at all levels
- Improve and effectively use result-oriented assessment and reporting frameworks
- Strengthen the capacity of statistical bodies and use data for decision-making
- Promote the culture of monitoring and evaluation at all levels
- Engage in good governance as defined in this document
- Increase efforts at tackling corruption
- Go beyond the present development paradigm by defining policies and strategies that truly tackle the root causes of poverty.

Civil society should:

- Participate in the definition of result-oriented indicators and assessment frameworks
 - Strengthen their capacity and participate actively in assessment exercises within the context of joint reviews
- Advocate good governance from governments and donors and apply the principle of good governance in the sector
 - Advocate the establishment of an institutionalised and inclusive dialogue platform for public resources management
 - Build the capacity of communities to participate in planning, monitoring and evaluation exercises for result-oriented outcomes
 - Disseminate information on the Paris Declaration
 - Challenge governments to re-think the present development model and to discuss the real causes of why aid is not yet effective, thus failing to achieve its ultimate goal. Questions should include:
 - Why are countries trapped in the vicious cycle of aid dependency?
 - Are the present development strategies geared towards sustainable development, poverty eradication and aid independence?
 - Is it possible to eradicate poverty? If yes, why are countries limiting themselves to producing and implementing poverty-reduction strategies?

Donors and recipient countries should actively encourage, facilitate and fund the central role of CSOs in the development agenda. The main roles played by CSOs as development actors, as well as the conditions necessary for their effectiveness, must be recognized in the action plans for aid effectiveness.

National Democratic Appropriation in Latin America and the Caribbean

Mauricio Gómez Lacayo

Country Ownership - The LAC Perspective

Some of the richest processes of national and regional dialogue and negotiation in preparation for the 2nd High Level Forum (HLF) on aid effectiveness in Paris - where the Paris Declaration (PD) was agreed - were in the Latin America and Caribbean region (LAC).

LAC countries responded seriously to the 1st HLF in Rome in 2003 where it was clear that the recipient countries should appropriate their own development initiatives¹ to break old patterns of cooperation that were resistant to change. Since it would be necessary to strengthen the recipient countries' voices and manage to promote and diffuse their best practices, they started an interesting preparation and exchange process to better position themselves in the face of the Harmonization and Alignment (H&A) process.

Preparatory meetings offered spaces to find shared positions and reach consensus between recipient countries before facing joint forums on aid effectiveness with donor countries and international organisations. The LAC country governments emphatically supported the participation of Civil Society Organizations (CSOs) as necessary for the process towards the 2nd HLF.

Fourteen partner countries met in Managua, Nicaragua in October, 2004 and produced the Joint Declaration of Partner Countries of the OECD, which recognized

the need to "*continue strengthening and bettering our governability, plans and budgets, in order to make them transparent and results-oriented, now that we believe that proposed changes to development aid are the best way to advance better aid effectiveness, reduce poverty and promote sustainable development in our countries.*" At the same time they stressed the importance of ownership and national leadership of the development aid effectiveness process.

The forum and the document that came out of this event were an important step for the LAC countries present because they arrived at the 2nd HLF in Paris better prepared, united and determined to raise the voice of partner recipient countries and the topic of national democratic ownerships. They also launched a webpage for partner recipient countries² to facilitate virtual communication between recipient countries. In addition to putting the documents from the forum online, it included case studies and best practices.

In that same year, there was a LAC preparatory meeting in Tegucigalpa, Honduras under the auspices of the Inter-American Development Bank (IDB), with the goal of a wide and representative discussion for regional preparation for the 2nd HLF that would be held in Paris at the beginning of 2005.

Unfortunately, the OECD delegated regional banks as the hemispheric forum coordinators, without assuring that they

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had the necessary personnel, knowledge, capacity, trajectory or broad-based experience in H&A. Recipient countries did not have control or voice in the preparation of the event and the IDB chose who to invite, the agenda, the presenters, the times and forums for participation. They also controlled the themes of the work groups and assured the edition and conclusion of the reports and notes from the event.

The IDB invited government representatives to this meeting, but no CSOs or members of parliament, with the exception of regional countries that chose to invite national CSOs. This affected national and CSO initiatives in the promotion of democratic ownership and has inhibited, on occasion, truly consultative processes with a grassroots perspective and CSO participation within the recipient countries.

The Paris Declaration

Unfortunately, when the LAC countries arrived in Paris they realized that despite having filled important positions as members of the Working Party on Aid effectiveness of the OECD³, and the Joint Venture on Monitoring the Paris Declaration⁴ the documents for the discussion groups had already been significantly advanced and there was limited space for partner recipient countries to amend them.

Despite the concerns of the LAC partner countries with respect to the inclusion of the CSOs in the process towards the Paris Declaration, the OECD asserted that development aid effectiveness is based on an intergovernmental framework between donors and recipient countries.

The 2nd HLF was held within this vision and produced the PD, which is a declarative instrument with important central principles such as how to improve aid effectiveness, but does not sufficiently consider civilian voices individually or collectively and does not focus on poverty

reduction within the framework of the completion of the *Objetivos de Desarrollo del Milenio* (ODMs) (Millennium Development Objectives).⁵

In spite of having put on the table, insisted, and repeatedly expressed in documents from distinct recipient country preparatory processes, especially by LAC countries, the importance of CSO participation in aid effectiveness processes, the PD did not include this topic to the necessary extent.

The goals and indicators in the appendix III of the PD⁶ also do not take into account the measurement of ownership and leadership by residents or CSOs. Additionally, they do not discuss how to guarantee political, economic and social rights in connection with the social well being of the majority populations that have historically been excluded from development.

Although LAC CSOs participated in the assemblies and working groups of the II HLF, as did some members of parliament from different political parties in the region, their comments were not included in the final declaration, given that, as previously mentioned, the forum format and the prior methodological preparation of the declaration document did not allow enough space to discuss topics that were not previously agreed upon.

One could conclude that the CSOs were invited to provide the rubber stamp of approval but without a voice in the process. Consequently, in international forums they are called to exercise ownership without democratic participation, which is equally applicable at the country and regional levels where they work, given that at the national level the same donors reproduce the same practice and sometimes even recipient countries are complicit when they encourage consultations that are not participative and do not include a grassroots perspective, and later try to validate their work with a participation process that is neither real nor effective.

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Towards Accra

In spite of its deficiencies, the PD should be recognized as a welcome step as part of an on-going process. It represented a substantial advance from the 1st HLF held in Rome in 2003, where donors, recipient governments, and multilateral organisations met only to hear cooperation's best practices. The result of that forum was merely a declaration of best intentions⁷ that lacked teeth to ensure its applicability.

In the follow-up and monitoring of the PD, the LAC region held a preparatory forum in August 2007 of the seven⁸ partner recipient countries that signed the Declaration in Managua.⁹ This served as a regional preparation and consensus-building process for the regional follow-up and monitoring of the PD in Santa Cruz de la Sierra, Bolivia.

Out of the Managua meeting emerged the 'Common Position Document of the First Meeting of the Associated Latin American and Caribbean Countries of the DAC of the OECD, signers of the Paris Declaration: Taking the Initiative. As in previous declarations, the LAC countries again recognized the importance of CSOs in effective international cooperation development processes. They not only recognized the role of CSOs, but also made recommendations to strengthen their participation and insert them as partners in the development process.

Unfortunately, in the Regional Forum of Santa Cruz de la Sierra held in October 2006, the same inconveniences emerged as in the preparatory meeting for the 2nd HLF in Tegucigalpa. Again the IDB took the lead role and proceeded to elaborate and translate their own report, negating again the voices of the recipient countries. The partner recipient countries' desire to base it on the Managua Common Position Document was not taken on board and discussion in the work groups and open sessions of this Forum was notably sterile.

Representatives of bilateral and multilateral donors who did not have

knowledge or information about H&A in aid effectiveness participated, whilst neither CSOs nor members of parliament were invited. Some countries that had included members of CSOs and the parliament in their national H&A processes brought national CSO representatives as guests.

Also in Managua, in October 2007 there was a LAC regional forum about CSO participation in development aid effectiveness. The goal of this event was to sustain a meeting between recipient governments, international partners and CSOs to discuss how to better insert the latter into the harmonization and alignment processes of international cooperation. This was one of a series of sub-regional events held across the world to prepare clear positions for the 3rd HLF, in Accra, Ghana.

In turn, this regional meeting was preceded by national meetings in Bolivia and Nicaragua and later in Honduras, that served to raise consciousness about CSO participation in national H&A processes and to form national positions for the LAC regional forum. Preparation for participation was also facilitated by the circulation of a base document providing CSOs with the necessary information on harmonization, alignment and aid effectiveness.

There was some discussion space between the CSO and the governments and donors during this process and lots of time dedicated to an exclusive discussion between regional CSOs that facilitated the dialogue and negotiation of common positions on the PD. One of the most important achievements in the preparation process was the opening of an analysis, dialogue, and negotiation space starting from a redefinition of the PD concepts and how they are applicable to the CSOs.

- **Ownership:** From the CSO perspective, ownership is defined as organizations' contributing to the strengthening of local, sectoral and national development processes, achieving voice

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and developing capacity in the promotion of participative processes for sustainable, grassroots development and consensus policy implementation that benefits the majority.

- **Alignment:** In the case of CSOs, alignment could be translated as how to support policies, plans and strategies considering that in many cases this could mean promoting action lines that do not necessarily coincide with the government.
- **Harmonization:** Harmonization, for CSOs, means that they are willing to work together among themselves and with official donors in order to reduce the transaction costs and be able to implement their resources more efficiently, effectively, and with greater impact on the most needy.
- **Results-Based Management:** Similarly to governments, it is important that CSOs can work in a coordinated manner to be able to measure if the resources for development are effectively playing a role in the reduction of poverty and affecting economic growth.
- **Mutual accountability:** On this principle, which has been seen as a two-way process between governments and donors, there should be consideration of the participation and important role of CSOs in re-enforcing the democratic and national aid effectiveness processes, making sure that the donors fulfil their national-level commitments and that the government demonstrates results to the beneficiaries. This is one of the most fundamental points to consider in the insertion of civil society in all of the dimensions of the H&A process.

The CSOs concluded that: "We have participated in different Harmonization and Alignment forums and we see it as positive

that the government assumes the leadership of this process, but the participation of non-governmental and civil society organizations has been weak and fragmented because the proposed participation mechanisms have been neither systematic nor stable, with an unequal participation of [official bodies]... [and] a lack of information about the process.¹⁰"

On the positive side, the recent creation of the Advisory Group¹¹ in the OECD CAD opens space for dialogue around how to insert CSOs in the evaluation process of the Paris Declaration before the 3rd HLF. The Advisory Group (AG) has at least introduced a paragraph in the Accra Agreement for Action (AAA) that recognizes the consultative work done up until now, and sees civil society as a development actor with full rights and as a part of the architecture of development aid.

However, one of the principal objectives of this process, from the GA perspective, is to gather and systematize CSO best practices to be officially presented in Ottawa and later in Accra. This brings us to deduce that even though there are opportunities and good will from the GA, the space for the participation of the CSOs in the 3rd HLF is still limited.

There is therefore a strong risk that the participating organizations may feel that their objectives are not being met, which could create a sense of frustration. Accra will have to be evaluated on whether it allows both partner recipient country governments to raise their voices and true participation by recipient country civil society organizations for improved official development aid effectiveness.

Conclusions and Recommendations: Promoting the Participation of CSOs

It is clear that the role of the general population and the CSOs in the county ownership process is essential and should be articulated with the government and state institutions, and coordinated with

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local authorities and participation spaces. Forced, top-down processes that do not count on the ownership and approval of the population cannot have the necessary support to be effective and may run the risk of being modified with any changes in political leadership.

Although the experiences of the different LAC processes and in preparing for the High Level Fora on aid effectiveness have left great richness that can serve as examples for other regions, they also reveal that there are still great challenges to achieve national democratic ownership where CSOs can have enough influence to change the way that development cooperation is run.

Despite the creation of an Advisory Group for the Aid effectiveness Working Group of the OECD-CAD, and a presentation space in the III HLF in Accra for best practices, it is still not clear what more will be achieved apart from a parallel process that results in a paragraph of recognition in the Accra Forum; the 3rd HLF does not plan to produce a new declaration.

- all parties involved in international cooperation must start by recognizing that there are efficiency, effectiveness and impact problems with current aid policies and that they must positively promote changes and transformation. Analysis of the Paris Declaration should not be limited to issues of aid management. There should be a critical evaluation of all of the content and aims of development policies.
- recipient and donor governments should place the promotion of rights and tackling of poverty at the center of their actions if they really want to see democratic ownership in Latin America and the Caribbean countries
- bottom-up processes with a grassroots perspective are fundamental in relation to the respect and promotion of political, economic and social rights with the clear goal of poverty reduction through sustainable and equitable economic development.
- furthermore, democratic ownership improves the stability and sustainability of development efforts, since all the stakeholders, including CSOs, parliaments and governments jointly guarantee the process.
- international partners, as key actors in the process, should promote the representative and participative approach to democratic national ownership.
- CSOs must be effectively recognized as development actors by national governments, donors and multilateral institutions and brought into the policy-making processes
- revision of the Paris Consensus should include reference to the participation of CSOs and organized communities - as well as legislative assemblies - as a fundamental aspect of the implementation of the principles, objectives, goals and indicators.
- the presence of social organizations and CSOs in world summits and fora enriches discussions
- all methodologies and processes must be fully open and transparent so that CSOs can engage fully and raise their voices to promote clear and relevant ideas
- recipient governments should lead the process, however, this leadership must be supported by parliaments, congresses or legislative assemblies responding to existing participative processes both centrally and locally
- constituents must be strengthened in their right to organize and use their political, economic and social rights through participation, and, at the same time, be sovereign guardians over the use of power by the authorities
- there should be balance of power between the different authorities,

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- particularly between the legislative branch and the executive branch and between levels of government, so that local needs are effectively tackled
- democratic ownership should be free from the imposition of international prescriptions, hindrances or conditions bilaterally or by multilateral financial organizations, which ignore the realities and requirements of the local population
 - the agreements regarding policies and plans with state institutions and civil society must be a basis for dialogue and negotiation with the cooperation community and must prevail over any other agreement.
 - donors should align their policies with those agreed through democratic processes in the recipient country in accordance with their actors, institutions, culture and practice, without external pressure that may distort.
 - more training is needed amongst the development partners around harmonization and alignment
 - development partners must support capacity- building in recipient countries to relieve them of their dependence on aid and to strengthen their ability to set their own intellectual, technological and procedural direction free from distortion by donors
 - Working together with CSOs is essential, but without losing sight of the autonomy of the actors and the logic of their action. Organizational and civil society actions in development aid should not be governmentalized.

Notes

- ¹ As seen in paragraph 9: "We urge associated countries to design, in agreement with donors, national, balanced action plans that include clear proposals as a basis for follow-up in order to balance the development aid..."
- ² Retrieved from <http://www.partnercountries.net/2004/>
- ³ The Working Party on Aid effectiveness is under the Development Aid Committee of the OECD.
- ⁴ In the PD, this group became the monitor of the implementation of Appendix II of the declaration, in charge of the monitoring and advancement phases.
- ⁵ Retrieved from <http://www.un.org/spanish/millenniumgoals> and <http://www.un.org/millenniumgoals/>
- ⁶ The appendix III of the *Declaración de París* includes 12 indicators that measure the effectiveness of the development aid in three phases, the first in 2005 to establish a baseline, and the other two in 2007 and 2009. These polls are intended as sensors of the advances and challenges of the process started by the Paris Declaration and evaluate these advances in the middle term so that in the III *Foro de Alto Nivel* there can be another round of evaluation.
- ⁷ The Rome Declaration on Harmonization was adopted February 25th, 2003 with the support of the Monterrey Consensus. Retrieved from http://www1.worldbank.org/harmonization/romehlf/Documents/languages/ESRome_Declaration.pdf
- ⁸ Bolivia, Guatemala, Honduras, Nicaragua, Peru, Dominican Republic⁹ This meeting also included the participation of representatives from the General Secretary of the Central American Integration System (SICA) and the Caribbean States Association (AEC), who met in Managua August 30, 2006 to prepare a common position in relationship to the PD agreements.
- ¹⁰ A statement from civil society organizations at the 5th Cooperation Coordination Forum held in October, 2006.
- ¹¹ The *Grupo Asesor* (Advisory Group) is a multilateral group with 12 members: three representatives from partner countries, donors, CSOs from developed countries and CSOs from developing countries. The *Grupo de Trabajo sobre la Eficacia de la Ayuda* (Working Group on Aid Effectiveness) established this group and it will be functioning at least until the III HLF in Accra in 2008.

International Development Cooperation: A New Global Public Good

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Medellín, March, 2008

The increasingly globalized world has seen international borders broken down by new forms of communication and the flow of economic capital. However, cultures, populations, political ideas, and social movements are also involved in and affected by the construction of a new globalised map wherein lives and conflicts unfold. Debates around international relations and aid are affected by this globalization of ideas and cultures.

This article will accept a distinction made by the Brazilian Renato Ortiz. He says, "I prefer to use the term "globalization" when I refer to the economy and technology... I reserve the term "*mundialización*" [worldization] for the specific domain of culture."³ In this context, it is important to understand that "the '*mundialización*' of culture... corresponds to a real, transforming process in contemporary societies."⁴

A good part of, or even all, contemporary processes are marked by this characteristic of our present world, provoking different ethical or political positions in response. Many CSOs keep a distance from the dominant expressions of *mundialización* and globalization because we understand them as, in essence, unjust; but this does not mean that we accept the arguments of those who

struggle against globalization as a whole. As Amartya Sen puts it, "this is not about throwing out global economic relationships, but rather achieving a more just distribution of the immense benefits of globalization."⁵

International Development Cooperation is one of the global relationships that must be rethought with the lens of greater global justice. This cooperation, in its many expressions, is a dynamic that was hatched in "another world" that no longer exists. We come together from Latin America, as social movements, world citizens, governments and all kinds of actors touched by cooperation, to make International Development Cooperation compatible with a just *mundialización*.

This text looks at how Development Aid in the context of 'mundialización' has become a lever (and sometimes a club!) that nation states use to promote their foreign policies. It proposes that a reconstruction of the grounds and principles for action - such as redefining the roles of distinct actors - is not only a legitimate but also an indispensable task. Its thesis is that all Development Cooperation (official and private) should be considered a new "global public good" used to resolve global problems and preserve other global public goods.

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Public Goods

Among the resources available to humans for the development of their activities and realisation of their goals, there are many that have the special nature of not belonging to anyone in particular, but rather to all. Sometimes, these resources are as concrete and vital as air and sometimes they are equally important, but immaterial, goods such as the shared wisdom and knowledge of a society or culture.

According to the Italian philosopher Norberto Bobbio, "'public' means two things: it is the opposite of 'private'... or it is the counterpart of 'secret', where it gains the meaning of belonging, such as the 'public thing', the 'State'."⁶ The philosopher Nora Rabotnikof speaks of three meanings of public: "1) what is of common interest and utility ...vs. that which refers to individual interest and utility; 2) what is visible and happens during the light of day...vs that which is secret, reserved, hidden; and 3) what is of common use, accessible to everyone and therefore open...vs that which is closed, and unavailable to others."⁷

These goods have unfolded normally in local spheres and, in the best of cases, on the national level as well. But recently, a new kind of public good has been recognised that is considered as belonging to all of humanity or even as pertaining to the world-system, including all of the lifeforms therein. This notion has emerged thanks to a better understanding of the deep interrelationships between different parts of the world that bear no correlation to the arbitrary divisions and borders that separate countries. We now know that resources such as the Amazon Jungle, the polar glaciers, the River Ganges, the coral reefs, the Gulf Stream, the atmosphere and all the many ecosystems that regulate critical variables such as global temperature, rain seasons or the availability of fresh water must be guarded like treasure.

Furthermore, there are cultural constructions - immaterial goods - that also belong to all humans as a group and not just this generation. They range from the wisdom of indigenous peoples of the Mexican Lacandona Jungle to literature and cinema and from languages to the Universal Declaration of Human Rights. However, International Development Cooperation has an interest in, and has acted upon in diverse, sometimes contradictory ways, a group of public goods that should catch our eye.

Personal freedom is consecrated in the constitutions of almost all countries and gives a foundation to the Universal Declaration of Human Rights ("All human beings are born free and equal in dignity and rights.") It is not a stretch of the truth to say that when one human being's freedom, anywhere in the world, is threatened, everyone's freedom is at risk. We can value development itself as an instrument in the expansion of human freedoms: "The instrumental role of freedom is the form that it contributes to the spreading of different rights and opportunities in order to guarantee freedom for all, and, therefore, to promote development."⁸ Today, however, many cooperation funds go to projects or organizations that fail to promote forms of freedom or that even generate more dependence than autonomy. A classic example is a project that included the mandatory use of refrigerators produced in a European country that required an outlet with 220v; after their purchase, they were of no use in the developing region where outlets are all 100v.

Biological diversity is another good that, if not adequately cared for, will negatively affect the entire planet, giving humanity fewer options for survival. The ruthless, massive destruction of the biodiversity of the Amazon jungle is not just a problem solely of the lumber industry or Brazilian settlers. The enormous substitution of tropical jungles with coca plantations and the aggressive eradication methods that

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damage the environment are not problems for Andean governments alone. Each human being has an interest in the preservation of this diversity and International Development Cooperation has a clear responsibility here.

Cultural diversity is also a public good seriously threatened by the dominant expressions of globalization. In a recent text, Amartya Sen pointed out that, "The insistence, even implicitly, on a singular human identity, without choice, does not only diminish each of us, but also makes the whole world more explosive. ...the principal hope for harmony in our tormented world resides in the plurality of our intersecting identities."⁹

Democracy is another public good with enormous value to humanity. With all of its imaginable peculiarities and versions, imperfections and broken promises, democracy is still the political option that best allows us to surpass tyranny and establish a sovereign state where power is delegated. Democracy, as an institutional environment, is where human rights can best become a reality.¹⁰ Out of habit, this good has been delegated to political parties and states when the responsibility of caring for and deepening democracy should belong to each citizen (where it already exists) and to all of humanity (where it does not and there is some form of dictatorship). International Development Cooperation has been contradictory: historically they have given decisive support to NGOs in the Southern Cone for the struggle against dictatorships based on the doctrine of National Security, but are also present in Africa, Asia and Latin America, pressing governments to adopt policies to reduce the state, which undermines fragile third world democracies.

Of course, the absence of peace, that great public good, threatens the existence of all other goods. We can find experiences of genuine cooperation that encourage political agreements between armed groups at war, but there are also bitter experiences of cooperation that exacerbate conflicts.

As well as global public goods, there are also global public problems that need addressing. Old problems such as poverty and inequality,¹¹ discrimination against women and environmental irresponsibility are now developing new understandings. In many regions of the world, development models are inadequate and unjust both because they do not resolve the problems of poverty and because the production of goods and services damages the environment.

Responsibility for public goods

The above mentioned public goods are closely interconnected. To take care of one of them - if it is appropriately done - is to take care of all of them, and contrarily, carelessness with one is negligence of the whole. In this context, care for global public goods is clearly an issue of survival for the human species, nothing more than an intelligent attitude of self-preservation. This can even be a cooperative attitude, based on an understanding of co-responsibility for our common future. The Brazilian thinker Boff, says it well: "There is an urgency of a new civil *ethos* that permits us to make the qualitative jump to more cooperative forms of coexistence." (Boff, 2002. 26)

A new way of understanding the current globalised challenges facing humanity is provided by the "Right to Development" as set out in the United Nations declaration of 1986, which: "*Recognizing* that development is a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population... [and] *Considering* that under the provisions of the Universal Declaration of Human Rights everyone is entitled to a social and international order in which the rights and freedoms set forth in that Declaration can be fully realized... *Proclaims...*[that] the right to development is an inalienable human right by virtue of

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which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development, in which all human rights and fundamental freedoms can be fully realized.”

However, in terms of the practical development of this cooperative approach and who is ultimately responsible for the protection of global public goods, the international scene is ambiguous and there are as many reasons for skepticism as optimism. Today, international institutions have been severely weakened by unilateral policies that seem like something from the past. Furthermore, at nation-state level, their legitimacy and capacity to govern is being eroded on multiple fronts.¹²

Since a public good does not belong to anyone in particular, it can be taken care of by an individual or a state. There is no problem as long as responsibility is delegated carefully and transparently. The municipal budget of Latin American cities is a clear example. Local authorities administer these funds and make decisions about their destination in accordance with previously established rules; any citizen should be able to know how and where the money is spent. Another type of case is the owner who has a river flowing through his land. Society delegates this person to take care of this resource not only for his own benefit, but also for the benefit of the greater community; this person cannot do whatever he wants with this water.

In accordance with a new “*mundializada*” vision of reality, there is a risk that problems, which could previously be resolved with local efforts and external support, can rapidly become threats that transcend borders. Whilst in many cases national states may continue to take care of the most significant goods, there will almost certainly be more and more serious disputes.

There is therefore a difficult but indispensable tension to maintain: make clear the responsibilities of nation-states, and, at the same time, locate them in a

global understanding. There are also key issues around the relationships between the places that enjoy an abundance of resources and wealth and who have enormous responsibility in the production of solutions to global problems and the poorest, disregarded masses of the globe.

The United Nations (given its weakness and dependency on governments) is not capable of assuming the responsibility for these resources, and any one nation, as powerful as it may be, is even less so. Of course, there is also the opposite tendency to try to privatize any of the mentioned public goods. Some are already talking about buying the drinking water in Chile to sell in Japan and there have been several cases of laboratories from the North patenting medicinal plants that have been used by local indigenous communities for hundreds of years. This tendency must be recognized as an absurd suicide in the long-term for purely short-term economic gain.

We must all, including International Cooperation, if it wants to be genuine, focus energies on distancing ourselves from this tendency. The new “stewards”¹³ of global public goods must be a combination of states, international organizations with governing capacity, global social CSOs, movements and local agents.

We will continue to be subject to “international treaties” (that are basically between states). However, the most interesting trend is that civil society organizations, CSOs and social movements of all types and from all places are active participants in the construction, implementation, and evaluation of these agreements. The 2006 Reality of Aid report pointed out that “Civil Society Organizations (CSOs) have a crucial role to play in aid effectiveness especially in the area of advocacy and monitoring. In most recipient countries to date there has been little or no collaboration between governments and CSOs in trying to make aid effective under the *Paris Declaration*. At the same time, there is a general recognition that the *Paris Declaration* is a crucial component of a

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larger aid effectiveness agenda that could engage civil society actors in a more direct manner.”¹⁴

International Development Cooperation

It is clear that IDC can stubbornly continue to be tied to an anachronistic view of the world and be seen as a weapon for achieving foreign policy objectives, or it can become an increasingly useful tool, privileging support for the “Right to Development” of all of the world’s people.

Brian Tomlinson of the Council for International Co-operation (CCIC) argues that: “In a rights framework... human rights obligations of status should establish the principles and standards for monitoring donor progress in the aid system [Reality of Aid, 2004]. The 2000 UNDP Human Development Report affirmed this approach by calling for a “rights ethos for aid” as the basis for empowering people in the fight against poverty [UNDP, 2000, pp. 12, 119]. Understanding the effectiveness of aid in international cooperation cannot therefore be separated from this ‘rights ethos’.”¹⁵

The proposal of this paper is to understand IDC as a public good, dedicated to contributing to the resolution of global problems located in different parts of the planet and to strengthening the care of global public goods. Clearly the administrators of this public good will continue to be predominantly nation-states. The largest resources have tended to come from northern states that allocate a small portion of their budgets to “Official Development Aid.”

Nevertheless, there is a long history of private organizations with different religious, cultural and political standpoints that raise money in different ways and donate to groups in need. These resources are not comparable in quantity to those sent by states, but are key, especially in impoverished regions. There is an immense

experience of solidarity between small populations in the north and south (that have common ancestors or family members, for example), or between parishes that collect money and then send it directly to a priest in a forgotten town; this is Private Development Aid.

Furthermore, the importance of large private agents that work collectively (international CSOs, foundations, associations) will gradually increase. There has already been substantial strengthening of these private sector or individual funds dedicated to the solution of public problems. The most notable example is the Bill and Melinda Gates Foundations, which donate more to treat AIDS in Africa than any government. At the same time, many other foundations donate or finance cultural preservation or local development research projects in both the global North and South.

Clearly the administrators of this public good will continue to be nation-states for a while, but gradually, large private agents that work collectively (international NGOs, foundations, associations) will appear on the scene. This is not the problem. The criticism is that the programs and projects and their respective resources should be awarded while keeping in mind the following criteria:

- Broad-based participation in the construction of international guidelines
- Strengthening of global social organizational networks that participate in the different moments of these policies.
- Participation of local groups ‘affected by’ or ‘benefiting from’ policies.
- A positive environment of openness and information production, with clear roles for the carrying out and follow-up of programs and projects.

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Conclusions

Recently, at “The International Forum on Civil Society and Aid Effectiveness: A multi-stakeholder dialogue,”¹⁶ a group of Latin-American civil society organizations and particularly Alop proposed an understanding of Official Development Aid, and by extension, all development aid, as “International Development Cooperation”.

Rather than being a relationship between a donor (with resources) that makes decisions and holds others accountable, and a receiver (with needs) that carries out the decisions made by the donor and is held accountable, development aid should be a cooperation between two sides that both have needs and resources, that hold each other accountable and are aware of the need to join forces to resolve common problems.¹⁷

Reality of Aid in its 2006 report advanced the proposition that “aid should

be treated as money held in trust for people in poverty” and the promotion of donor short-term foreign policy interests so common over the past three decades in the allocation of aid resources must give way to a mandate for ODA that focuses exclusively on poverty reduction and the rights of poor and vulnerable people. In the UN global conferences of the 1990s and in aid reforms promoted by some donors, the international community was beginning to grasp the importance of aid as a catalytic resource for poverty reduction.

From this point of view, the Paris Declaration is the start of a conversation about the efficiency of aid and its mechanisms to make sure that resources are correctly directed and produce the best possible results. This conversation must go further to talk about the concept of “International Development Cooperation” as a public good and a means of protecting and reinforcing the Right to Development.

Notes

- ¹ Corporación Region is local NGO based at Medellín, focused on the promotion of human rights, the deepening of democracy and the achieving of peace. Retrieved from <http://www.region.org.co/>
- ² Asociación Latinoamericana de Organizaciones de Promoción al Desarrollo, Alop. (Latin American Association of Organizations of Development promotion. Retrieved from <http://www.alop.or.cr/>
- ³ Ortiz, R. (1998). *Otro territorio. Ensayos sobre el mundo contemporáneo*. Santa Fe de Bogotá: Convenio Andrés Bello. p.xxiv
- ⁴ Ibid, p.xx
- ⁵ Sen, A. (2007). *Identity and violence: The illusion of destiny*.
- ⁶ Bobbio, N. (2001). *El futuro de la democracia*; México: Fondo de Cultura Económica
- ⁷ Rabotnikof, N. (1993, Noviembre). *Lo público y sus problemas: notas para una reconsideración*; Revista Internacional de Filosofía Política. No. 2. Madrid. p.75 a 98.
- ⁸ Sen, A. (2000). *Development as freedom*.
- ⁹ Sen, A. (2007). *Identity and violence: The illusion of destiny*.
- ¹⁰ Remember the historical discovery, “It is not surprising that in the history of the world there has never been a famine in a democracy.” (Sen, A. 2000, *Development as freedom*.)
- ¹¹ Clearly “poverty and inequality are closely related, but still different and one does not subsume the other.” (Sen, 2005, *On concepts and measures of poverty*). In Latin America, for example, there are situations of extreme poverty, but our principle problem is inequality.
- ¹² “In discussions about social movements in Latin America we say the ‘nation is still not complete’. This phrase is directly related to another: citizenship does not yet exist.” (Ortiz. *Otro Territorio*, 1998, p. 121)
- ¹³ This concept was constructed in a workshop called “Care-giving policies and their implications in our work,” with partners from the *Fundación Avina*, Colombia, in the An apoima population, March 11-12, 2008.
- ¹⁴ Retrieved from http://realityofaid.org/downloads/primer_on_aid_effectiveness.pdf

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- ¹⁵ Tomlinson, B. (2006). Determinants of civil society and aid effectiveness: A CCIC discussion paper. Retrieved from <http://www.ccic.ca/e/docs/>
- ¹⁶ Organized by the Canadian Council for International Co-operation (CCIC) in Ottawa, February 2-6, 2008.
- ¹⁷ See the Draft Final Report. The International Forum on Civil Society and Aid Effectiveness: A multi-stakeholder dialogue. Hosted by the Advisory Group on Civil Society and Aid Effectiveness. Gatineau, Québec, Canada, February 3 - 6, 2008. Retrieved from <http://www.ccic.ca/e/002/aid.shtml>

Aid Effectiveness and Gender Equality

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Introduction

Today the majority of the people living in poverty are women and girls, so it is essential to analyse the implications of the Aid Effectiveness agenda for the advancement of gender equality and women's rights and to set out how future policy-making must take this into account. It is crucial to understand the political context of development policies and the challenges posed by the implementation of the Paris Declaration.

This article argues that the Aid Effectiveness agenda, with the adoption of the Paris Declaration as one of its key instruments, has contributed to the process of narrowing the development agenda, started by the Millennium Declaration in 2000. It has become highly technical, severely undermining the achievement of key development goals such as gender equality, human rights and environmental sustainability. Looking at the advancements for the attainment of MDGs, it is clear that there are serious shortfalls and that the strategies being used are not being effective.

While the Paris Declaration is not a binding agreement, agreements such as the International Covenant on Economic, Social and Cultural Rights and the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), create legal obligations for governments regarding issues of development, human rights and gender equality. It then becomes clear that international agreements endorsed by

Northern and Southern governments in the last decades should be the framework for the advancement of those issues. They have committed to it and they should be held accountable for that. It is unacceptable that these key development goals are presented as 'positive conditionalities' or be manipulated as 'impositions by donors' when they are commitments made by governments from North and South, as a result of strong mobilisation and pressure by diverse social movements.

Development and Aid Effectiveness: Political Context, Key Discussions and Main Challenges

The United Nations (UN) has been one of the main venues for discussions and international commitments on development cooperation. The UN Financing for Development Conference was held in Monterrey in 2002, and key deliberations on development have taken place on occasions such as the UN Conference on Trade and Development (UNCTAD). These processes have provided a common platform for commitments in different areas of financing for development. Consensus was built around the need for mobilizing domestic and international resources, the conception of trade as an engine for development, the relevance of financial and technical cooperation, and the importance of addressing external debt issues as well as other systemic matters.

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At Monterrey in 2002, donors and developing countries expressed their concern regarding the scarcity of resources available to achieve the internationally agreed development goals². Within this context, the international community committed to reach the target of 0.7% of their Gross National Income (GNI) allocated for Official Development Aid (ODA). There was a call for a holistic approach to the interconnected challenges of financing for development and the aid modalities were revised, concluding that there should be an improvement in aid quality as well as in aid quantity.

In 2005, the Paris Declaration on Aid Effectiveness was adopted, with the aim to reduce poverty and support the achievement of the Millennium Development Goals (MDGs) by reforming the delivery and management of aid. The Paris Declaration can be seen as the aid community's response to Monterrey, in an effort to improve aid quality. It is based on principles that strive to redefine the "recipient-donor" relationship and its implementation is monitored in the context of the Organization for Economic Development Cooperation (OECD). Unfortunately, however, in the aid effectiveness agenda, the key issues of human rights and gender equality have been defined as 'cross-cutting issues', resulting in a loss of their centrality to any effort towards development.

Furthermore, it has proven to be only a technical mechanism agreed upon in a space created by donors via the OECD. This contrasts with the Monterrey Consensus, which was agreed upon in a more inclusive and democratic space, signed at the highest level by Heads of State. This is why civil society organisations (CSOs) have been calling for the main cooperation deliberations and decision-making of international frameworks on development to take place back in the UN system. This would entail giving more centrality to a strengthened ECOSOC, the UN Development Cooperation Forum, the Financing for

Development Conference in Doha (December, 2008) and a reinforced UNCTAD.

Today there are strong concerns among CSOs and some Southern governments that the agreements coming from the 3rd High Level Forum (HLF3) in Accra (September, 2008), where the Paris Declaration implementation will be assessed, will determine the results emerging from the Doha conference on development cooperation deliberations (as several officials from the European Commission have expressed). This further enhances the power imbalance between donor and developing countries, as the agenda put forward by the donor community through the PD has become the core framework for discussion on international development cooperation.

Development and Aid Effectiveness: A Gender Equality Perspective

There is an urgent need for the revision of current aid trends. If the international community will not take steps in Accra and Doha to broaden the development agenda to respond to people's needs and to seriously advance towards the achievement of development goals, political leaders will lose another opportunity to tackle the current systemic crises that are increasing poverty and inequalities around the world, particularly for women and girls.

Subsequently there is a risk that MDGs will be redefined and further extended for five or even ten more years.³ According to the data currently available, the efforts to achieve the MDGs so far have not been enough. As stated in the Global Monitoring Report 2008, there are serious shortfalls particularly in the areas of nutrition, education, health and sanitation. According to this report "*on current trends, the human development MDGs are unlikely to be met*".⁴ Likewise, the Basic Capabilities Index from the 2007 Social Watch Report⁵ shows that if these trends continue, no region in

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the world (except Europe and North America) will achieve basic social development goals before 2035, and Sub-Saharan Africa will only reach that point in 2108.

The lack of financial resources *“is serious business and a critical hurdle for women’s rights and gender equality in the world, and therefore for achieving the MDG3⁶. It has been estimated that the financing gap for implementing MDG3 specific goals and gender mainstreaming activities in low-income countries ranges from \$8.6 billion (2006) to \$23.8 billion (2015). To realize MDG3 by 2015 would require external resources dedicated to financing gender equality-promoting interventions in the range of \$25-28 billion annually in the low-income countries”*.⁷ These figures reveal that achieving gender equality objectives requires both a reallocation of existing resources and an important injection of additional ones. This can only be accomplished if there is strong political commitment from all governments and multilateral institutions.

Furthermore, an AWID concept paper⁸ stated in 2006, *“the MDGs came to dominate the development agenda and a dollar-driven, technical approach to their implementation supplanted human-centered, rights-based approaches to development. Women’s rights and gender equality objectives have become marginalized and peripheral in the development sector generally”*. From the women’s rights perspective, the Millennium Declaration and the Paris Declaration are regressive frameworks for guiding development aid, compared to the achievements of the UN conferences of the nineties or existing human rights agreements such as CEDAW.

There is a clear risk that if gender equality and women’s rights are not explicit priorities at the HLF3 they will be excluded from the agenda. There is a need for their inclusion as key development cornerstones, developing specific policies for their advancement. Human rights are in a similar

situation, as pointed out by Roberto Bissio in his chapter, with the risk that the implementation of the principles of the PD can work against the right to development and other human rights, as well as erode national democratic processes.

Nevertheless, since developing governments often see the Aid Effectiveness agenda, including the road towards the HLF3, as a donor-driven process where strong asymmetries prevail, there is still a risk that any advancement on gender equality and human rights within this process will be seen as an agenda put forward by donors, consequently rejected by developing countries. This would undermine the campaigns and actions developed by CSOs, other development actors and particularly women’s rights organisations from developing countries that have been advocating for the defense of human rights and gender equality at the national level, and the full implementation by all governments, from both North and South, of international agreements on gender equality and human rights.

The Implementation of the Paris Declaration, Gender Equality and Women’s Rights

It is essential to understand the implications of the implementation of the PD, acknowledging that the HLF3 will have significant influence in other fora. It is time to push for the inclusion of a gender equality perspective, demanding that governments uphold more inclusive development paradigms, still maintaining a critical vision with regards to the serious implications of this process.

Women’s rights organisations share the critical views put forward by other civil society actors with regard implementation of the PD, but have also developed a particular analysis from a gender-equality perspective.

Regarding a general overview of the process, in addition to some of the

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concerns mentioned above, there is agreement among many civil society organisations on the following concerns:

- The Paris Declaration is a **highly technical agenda that focuses strongly on the procedures** for aid management and delivery and not on the impact aid is having on achieving development goals.
 - The **lack of significant participation of CSOs** in the process is a major concern, and it was particularly evident around donor-partner negotiations of the principles of the Paris Declaration.
 - **Inclusive and effective participation** requires clear processes, but also investments in institutional development and capacity-building for CSOs to be able to engage in all processes related to aid and development.
 - There are concerns around **governance issues** within the Aid Effectiveness agenda, as donors still impose policy conditionalities which undermine democratic ownership and the Right to Development.⁹
 - There is **insufficient transparency and sharing of information** related to allocation of resources at the country level.
 - The **International Financial Institutions (IFIs)** have a major role in these processes, particularly when looking at the **monitoring and evaluation systems** that rely heavily on World Bank evaluation mechanisms and data.
 - With regards to the specific concerns from a gender equality perspective, the **limited participation of women's rights organisations** is especially relevant, due to their understanding of the challenges women face, and because of their involvement in development processes on the ground.
- Gender Equality Concerns Related to the Paris Declaration Principles*
- **Ownership.** Through the implementation of this principle, significant relevance is given to national development plans designed by Southern countries. This is particularly problematic when gender equality and women's rights are not a major priority for governments and when national development plans are not built in a participative way, gathering proposals from a broad range of stakeholders, including women's organisations. In this sense, women's organizations strongly support the position that ownership should be understood as democratic ownership, ensuring that the process of developing planning includes a vast array of stakeholders (such as parliaments, civil society organizations, etc) and not only national governments.
 - **Alignment.** The main strategy used by donors to align with partner countries' national development plans is budget support. Major challenges arise from this practice, as gender equality is hardly ever present in national budgets. As a result of higher allocation of ODA resources in national budgets, there is the risk that less funding be directly available for women's rights organisations and other civil society groups, resulting in a significant cut of the resources they need to continue contributing and playing key development roles.¹⁰
 - **Harmonisation.** The harmonisation principle encourages donors to make their activities transparent and collectively effective, to reduce transactional costs and overlapping. The main concern regarding this is that the least progressive donor practices prevail, neglecting the prioritization and proper allocation of resources to key development goals such as gender

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equality. This would lead to an even more evident reduction of the development agenda.

- **Managing for Development Results.** When analysing this principle, there is a question on how development results get measured. It is necessary to move away from only looking at technical procedures or quick fixes to complex development problems. International Human Rights agreements that represent binding obligations for all governments should be used as frameworks to assess development results.¹¹ The lack of gender equality indicators and sex-disaggregated data - which are key components to assess the impact of development practices on the ground - in the evaluation of the implementation of the PD is also of particular concern.
- **Mutual Accountability.** Accountability must be truly demanded both from donors and partner countries. Northern and Southern governments should live up to the international commitments on gender equality and women's empowerment that they have endorsed, such as the CEDAW¹² and the Beijing Platform for Action. Civil society organisations have a key role to play in holding governments accountable to these agreements.

Gender Equality Concerns Related to the New Aid Modalities

Through its implementation, the PD is consolidating a new architecture of development financing which is supposed to achieve more effective international development assistance, together with a set of so called "new" aid modalities - most of which have been in place for years now. These include: Poverty Reduction Strategy Papers (PRSPs), General Budget Support (GBS), a Sector Wide Approach (SWAp), Basket Funding and Joint Assistance

Strategies. These aid modalities are not gender neutral or socially friendly, and they need to be given a clear gender dimension.¹³

There is a general concern about the 'new aid modalities' related to the missing recognition of the specific constraints and needs of women. The consultation processes used so far to develop PRSPs, a key tool within the Aid Effectiveness agenda, are problematic as the inputs given by different stakeholders are often not included in the final documents, with IFIs having a concluding say. Gender-specific analyses and impact assessments of PRSPs are of major importance and must be consistently integrated throughout the entire process.

Current budget allocations for gender equality and the empowerment of women are not sufficient. In addition, **general budget support** is still linked to donor conditionalities making the predictability of aid flows uncertain. This causes strong unease as long-term actions are needed, in particular when working on gender equality and the empowerment of women. Concerns have also been expressed regarding the incoherence between the principles of the PD and other policies and agreements related to aid for trade, free trade agreements and financial flows, among others.

It is of great concern that the underlying **social and power relations** that lead to unequal access of women and girls to services in sectors such as health and education still do not get addressed. So far **sector wide approaches** focus on investments in women and girls that are too narrow.¹⁴ Furthermore, gender implications of sectors such as urban infrastructure and water have not been considered through SWAps, as they focus generally on areas that are traditionally seen as being linked to "women's issues" (education, health and agriculture).¹⁵

Basket funding and joint assistance strategies require decision-making and the reaching of agreements on various issues

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and levels between several donors and partners. Here, it is still a challenge to have women participating at the highest level of decision making in governments and the multi-tiered management structure. Gender expertise is currently often lacking in these processes, including in the definition of monitoring and evaluation measures.

Recommendations on How to Integrate Gender Equality in the Aid Effectiveness Agenda

It can be seen from the above that the Paris Declaration formulation and implementation has not given the necessary relevance to women's rights issues and to the advancement of gender equality. As stated by women's rights advocates in different spaces, the progress in those arenas is determinant for the achievement of key development goals. Therefore, integrating those perspectives into the Aid Effectiveness agenda becomes particularly important.

In January 2008, a consultation with women's organisations and networks was held in Ottawa to discuss issues related to the Aid Effectiveness agenda. As a result, the participants agreed on a set of recommendations on how to integrate the gender equality perspective in the implementation of the Paris Declaration. The proposals presented hereby are based on those recommendations, as well as in other suggestions put forward by AWID and WIDE¹⁶.

1. Donors and governments should deliver on their gender equality commitments.

- Donors and developing countries' governments should deliver on their commitments to key agreements on women's rights and development, such as the Beijing Platform for Action (BPfA), the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), the MDGs and the Maputo

protocol on women's rights in Africa. Donors and developing countries' governments should provide support to local groups, movements and women's rights organizations that will hold their governments accountable to these commitments, acting as advocates and strengthening democratic governance on the ground.

- Donors and developing countries' governments should ensure adequate financial resources to accomplish those commitments. As recommended by the Expert Group on Financing for Gender Equality from the UN Commission on the Status of Women, the share of ODA for women's empowerment and gender equality should be scaled-up to reach 10% by 2010 and 20% by 2015 of all ODA.¹⁷
- Donors should reach the commitment of allocating 0.7% of their GNI for ODA, and include an indicator for this as part of the Paris Declaration monitoring system.

2. Strengthening transparency and mutual accountability efforts, democratic ownership and women's participation in the aid effectiveness agenda

- Donor and developing countries' governments must promote the presence of women's organizations in different decision-making processes, including the OECD Development Assistance Committee.
- Donor and developing countries' governments must prioritize and financially support the strengthening of national public awareness about the PD and the centrality of gender equality, recognizing the role women's rights organizations can play at local and national levels in reaching out and reflecting the voices of the public.

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- All relevant actors must commit to the highest standards of openness and transparency:
 - Donors and international financial institutions should deliver timely and meaningful information, adopt a policy of automatic and full disclosure of relevant information, and submit to the norms and direction-setting of the United Nations (UN).
 - Developing countries' governments must work with elected representatives, the public and CSOs to set out transparent policies on how aid is to be sourced, spent, monitored and accounted for.
 - Diverse CSOs must also exercise accountability and continuously draw their legitimacy from their constituencies.
 - Donor and developing countries' governments should strengthen national women's machineries to support and monitor line ministries, other government bodies and parliaments in influencing national development planning and budget allocations for gender equality and women's rights.
 - Instead of the current Country Policy and Institutional Assessment (CPIA) mechanism, a technical working group should be formed to produce a more appropriate set of measures integrating gender equality in assessing public finance management and procurement in developing countries. The group proposals must be discussed among all stakeholders, consistent with the principle of democratic ownership.
 - Donor and developing countries' governments must commit to supporting the conditions necessary for women's rights organizations to fulfil their roles in development processes (planning, implementing, monitoring and evaluation). The Accra Agenda for Action (AAA)¹⁸ must recognize CSOs in general and women's rights organizations in particular, as autonomous development actors in their own right¹⁹.
3. **Integrate gender equality in the monitoring and evaluation of the Paris Declaration and in capacity development efforts**
- The OECD-DAC Working Party on Aid Effectiveness must promote a multi-stakeholder review of the monitoring system for the PD that includes the engagement of CSOs and women's rights organizations.
 - The operational development strategies established by developing countries by 2010²⁰, related work plans and the monitoring system of the PD implementation must fully integrate gender equality targets and indicators. Existing and new ODA management assessment tools must reflect a results-based component, with a special focus on how gender equality and women's empowerment targets are being met in donor and developing countries.
 - The acquisition and improvement of sex-disaggregated data must become predictable, regular and consistent to support planning, negotiation, monitoring, and evaluation of development and aid policies.
 - The use of baselines, input and output performance indicators of gender impacts in budgetary reporting must be promoted; gender targets, inputs and outputs in national budgets and ODA must be specified.

What is Needed for Aid Policies

- The monitoring system of the PD implementation should integrate a strategic plan for financing gender equality and women's empowerment that is reflected in budget guidelines; as well as the amount of government funds spent for capacity building on integrating a gender perspective in public finances for (1) Finance Ministry officials; (2) whole of Government (including Parliamentarians), and (3) CSOs.
4. **Develop guidelines and tools for the contribution of new aid modalities to national obligations to gender equality.**
- Donors and developing countries' governments should support the development of guidelines, monitoring tools and indicators on the contributions of the new aid modalities to national obligations to gender equality:
 - The **joint assessment processes** could provide an opportunity for donors and governments to be held mutually accountable for gender equality goals. Such accountability would determine the extent and impact of gender planning, gender budgeting, gender indicators and monitoring support for gender equality.
- **Support gender sensitive indicators in SWAp results frameworks** and mechanisms to track expenditure, assess performance and show impact.²¹
 - Promote the integration of **Gender Responsive Budgeting** as a tool to combine with General Budget Support. Donors and CSOs should build capacity within Southern governments on gender-sensitive budgets and empower women's participation in the budgetary process. This must be central for Public Financial Management reforms and capacity development programmes.
 - Include gender equality explicitly as a principle in memoranda of understanding in **General Budget Support and MDG contracting** agreements between donors and developing governments.²²

Notes

¹ With contributions from Lydia Alpizar and the support of Anne Schoenstein and Michele Knab (AWID).

² Monterrey Consensus, Chapter 1, paragraph 2.

³ Alemany, C. (2008, April 14). Notes for remarks of Roundtable 3: Supporting the development efforts of the least developed countries, including through trade capacity-building, Special High Level Meeting between the Economic and Social Council with the BWI, the World Trade Organization and the United Nations Conference on Trade and Development. NY.

⁴ Global Monitoring Report 2008, MDGs and the Environment, The International Bank for Reconstruction and Development, The World Bank, p. XVII.

⁵ Social Watch, Report 2007, p. 81.

⁶ MDG3, "Promote gender equality and empower women", has as a target to eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015.

⁷ Grown, C., Bahadur, C. Handbury, J. & Elson, D. (2006, August). The financial requirements of achieving gender equality and women's empowerment. A paper prepared for the World Bank.

⁸ Symington, A. (2006, December). A concept paper: Influencing Development Actors and Practice for Women's Rights An AWID Strategic Initiative, 2007-2010.

⁹ Statement of the Women's Working Group on Financing for Development, Informal Review Session on Chapter IV, "Increasing international financial and technical cooperation for development", 15-16 April 2008.

What is Needed for Aid Policies

- ¹⁰ AWID's 2007 Second Fundher Report, *Financial Sustainability for Women's Movement's Worldwide*, shows that bilateral and multilateral agencies are a key source of funding for women's rights organisations. Retrieved from http://www.awid.org/go.php?pg=fundher_2
- ¹¹ AWID-DAWN-WIDE-FEMNET. (2008, May). Brief issue paper on managing for development results and gender equality.
- ¹² The Convention on the Elimination of All Forms of Discrimination against Women was adopted in 1979 by the UN General Assembly.
- ¹³ Williams, M. (2007, May). Financing development, democracy and gender equality. Commonwealth Foundation.
- ¹⁴ OECD DAC evaluation of gender equality and SWAps.
- ¹⁵ GADN. (2007).
- ¹⁶ AWID & WIDE. (2008, January). Implementing the Paris Declaration: implications for the promotion of women's rights and gender equality, Commissioned by the Canadian Council for International Cooperation (CCIC).
- ¹⁷ Participants at the Ottawa consultation call on donors and developing countries to follow the recommendation of the meeting of the UN Expert Group on Financing for Gender Equality asking governments to commit to reach 10% of ODA for gender equality and women's empowerment by 2010 and 20% by 2015, setting out in the action plan of donors, recipient countries and the DAC strategies for reaching the target, monitoring performance and evaluating impact (Expert Group on Financing for Gender Equality - the UN Commission on the Status of Women, Oslo, September 2007).
- ¹⁸ The Accra Agenda for Action will be the main output of the HLF3. Its purpose is to deepen the implementation of the Paris Declaration with a view to achieving the agreed targets, as well as to address issues emerging since 2005. For more information see <http://www.accralf.net>
- ¹⁹ Recommendations of the International Consultation of Women's Organizations and Networks and Aid Effectiveness.
- ²⁰ Paris Declaration, Section III: Indicators of Progress, Indicator 1, p. 9.
- ²¹ Gendernet, C. G. (2007).
- ²² Ibid.





Chapter 5
World Aid Trends
and OECD Reports



World Aid Trends: Donors Distorting the Reality of Aid in 2008

Brian Tomlinson
Canadian Council for International Cooperation
Reality of Aid Management Committee

TRENDS IN AID VOLUME

Overall aid spending from DAC donors has stagnated since 2005. DAC aid performance, as a percentage of Gross National Income (GNI), has declined to 0.28%, failing to make any sustained progress towards the UN target for aid spending of 0.7% of donors' GNI ...

The OECD Development Assistance Committee (DAC) reported that Official Development Assistance (ODA) dropped from a high of US\$107.1 billion in 2005 to US\$103.7 billion in 2007 (see Figure 5). As a result, the DAC measurement of overall performance (the ODA/Gross National Income ratio) fell from 0.33% in 2005 to 0.28% in 2007.

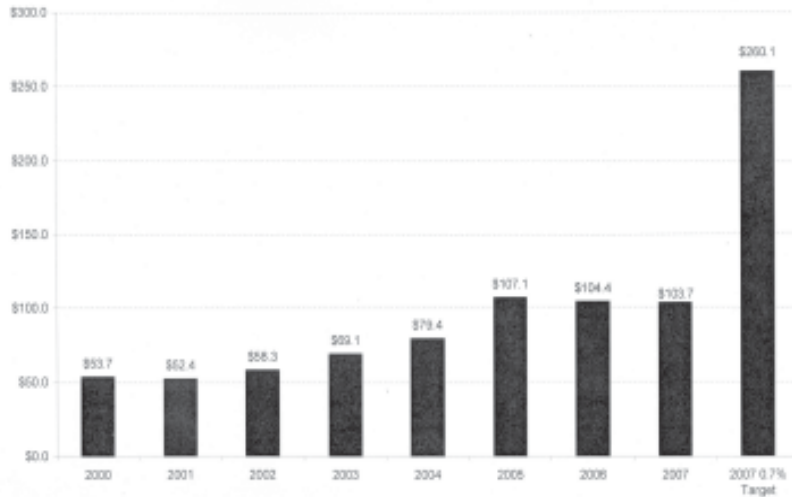
After discounting debt relief grants and support for students and refugees in donor countries, DAC donors increased aid very slightly in 2007, but fails to rise above 0.22% of GNI, the level achieved in 2005...

This stagnation in spending and performance is made all the more stark when, as NGOs have consistently argued, debt relief grants and support for students and refugees in donor countries is removed from aid calculations. The inclusion of debt relief and support for students and refugees highly distorts the reality of aid.

Excluding debt relief grants and support for students and refugees from the calculation of ODA reduces aid for 2007 from US\$103.7 billion to an estimated US\$81 billion (see Figure 6)¹. The US\$81 represents a modest 4.2% increase from a comparable 2005 figure of US\$77.7 billion. But despite the increase, ODA performance, excluding debt relief and support for students and refugees, was unchanged at 0.22% of GNI in 2005, 2006 and 2007 (see figure 7). Donors have failed to keep promises made at the 2005 Gleneagles G7 Summit, and they have clearly not met their commitment to "concentrated efforts towards the target of 0.7%" made at 2002 Monterrey Consensus on Financing for Development.

Richard Manning, the retiring DAC Chairperson, in his final "Overview" in the *2007 Development Cooperation Report*, points to "impressive" increases in aid since 2002 (and indeed in the six years since 2000).² These figures, however, are much less impressive when inflation and exchange rate changes are removed. Excluding debt and student and refugee figures, in constant 2006 dollars, ODA increased by only 14%, from US\$63.1 billion in 2000 to an estimated US\$72.9 billion in 2007. But the latest DAC figures also reveal that such aid (in constant dollars) was no greater in 2007 (US\$72.9 billion) than it was in 2004 (US\$71.9 billion). In constant dollars (i.e. the value of aid), donors have consistently failed to increase spending for the world's poor.

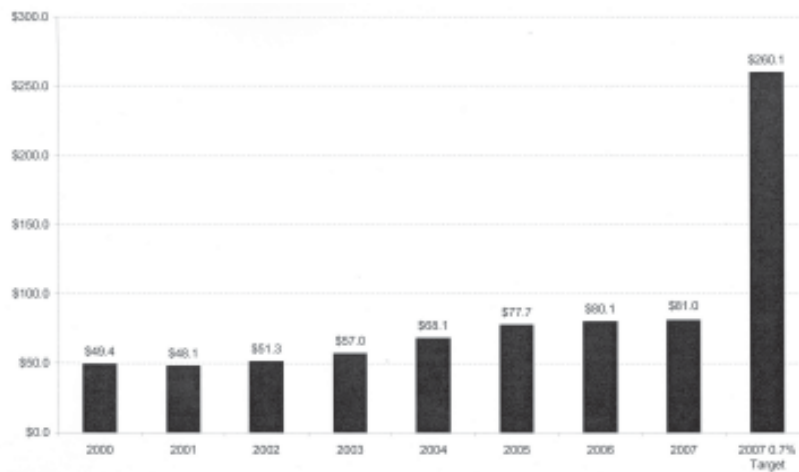
Figure 5. Total ODA at Current Prices, 2000 to 2007



OECD Stat Extract DAC 1

Figure 6. Total ODA, 2000-2007
Billions of USD, Current Prices

No Debt Relief Grants and Support for Students and Refugees in Donor Countries

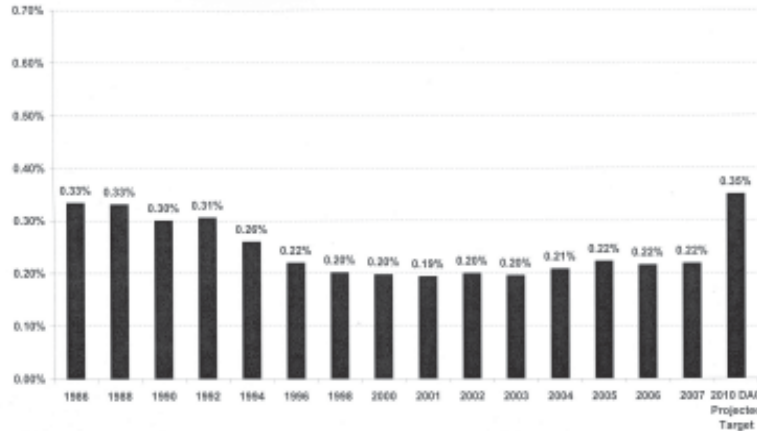


OECD Stat Extract DAC 1

Global Aid Trends

Figure 7. DAC Donor ODA Performance
Percentage of GNI, Long Term Trend

Net of Debt Relief Grants, Support for Students and Refugees in Donor Countries



OECD Stat Extract DAC 1

Looking at longer term trends for aid (not including debt relief and support for students and refugees in donor countries) (see Figure 7), it is clear that donors collectively have failed to make any sustained progress in overall ODA performance. Sadly, donors are a long way off from the peak of their generosity at 0.31% of GNI in 1992 - not even half way to the United Nations target of 0.7%.

Debt cancellation has no place in accounting for donor aid commitments...

CSOs, including various *Reality of Aid* reports, have long called for comprehensive, unconditional debt cancellation for more than 50 of the world's poorest countries. Creditor countries committed, in the 2002 Monterrey Consensus for Financing for Development, that the Enhanced Highly Indebted Poor Country Initiative (HIPC) should be "fully financed through additional resources" (paragraph 49). Donor countries were encouraged "to take steps to ensure that

resources provided for debt relief do not detract from ODA resources intended to be available for developing countries" (paragraph 51).

Almost all donors count as ODA the full value of any debt cancelled in the year that it is cancelled.³ The real value of debt cancellation to developing countries, however, is much smaller. When debt is cancelled, the developing country foregoes only the payment of principle and interest that would have been made to the creditor that year, while the creditor (donor country) gets to count as aid the full amount of the loan cancelled. This, again, distorts the reality of aid monies available. Donor countries appear to be spending more on aid, when the opposite is true.

Debt relief grants in ODA amounted to US\$25 billion in 2005, US\$18.6 billion in 2006 and US\$18.9 billion in 2007. Debt cancellation highly distorts the real value of donor ODA and should not be counted as ODA.

Global Aid Trends

The need for debt cancellation remains urgent. According to the World Bank's *Global Financial Report 2007* for the period of 2000 to 2006, the total cost to developing countries for servicing their debt (principal and interest) was US\$2,875 billion. Total transfers to developing countries (debt disbursements, ODA grants and technical assistance) from donors was US\$2,781.9 billion. This means that there was a net transfer *from the South to the North* of US\$93.1 billion.

In Sub-Saharan Africa, where debt relief was to be a priority, some progress on past debt cancellation has been made. Unfortunately future debt remains an issue as Sub-Saharan African countries received US\$36.8 billion in ODA grants and technical assistance in 2006, according to the World Bank, and these countries still made a total of US\$23.5 billion in service payments on their debt, showing a net benefit for ODA of only US\$13.3 billion.

ODA loans made up about 16% of bilateral aid in 2006. Significant amounts of new concessional loans continue to be extended to the poorest countries by the World Bank's International Development Association (IDA) window.

Most DAC donors provide bilateral ODA in the form of grants. Loans, as a percentage of non-debt gross bilateral ODA,⁴ declined from 33% in 1990 to 22% in 2000, and 16.5% in 2006. In 2006, Japan, France and Germany however continue to extend significant bilateral ODA in the form of loans, with Japan making up most of these loans (US\$6 billion or 54% of Japan's aid). According to the World Bank's *2006 Annual Report*, the World Bank's highly concessional International Development Association (IDA) window for the poorest countries disbursed US\$8.9 billion in gross loans in that year to the poorest countries.

Donors unlikely to meet their commitments in absence of strong political will to do so...

Following the 2002 UN Summit on Financing for Development and the 2005 Gleneagles G7 meeting, most donors committed to substantially increase their ODA. Many European donors committed to exceed 0.5% of GNI by 2010, with some donors committing to reach the United Nations target for aid spending of 0.7% of GNI before 2015. The DAC, in its *2007 Development Cooperation Report*, updated its projections for each donor country to meet their commitment for 2010. The news is not good.

A few donors seem to be on track to achieve the 0.7% target before 2015. Five donors have already met the target. Unfortunately, collectively donors are off-track to meet aid increase commitments for 2010. Significant increases to aid budgets, by several key G7 countries, are needed.

At the Gleneagles 2005 G7 Summit, G7 governments committed that "aid for all developing countries will increase ... by around US\$50bn per year by 2010, of which at least US\$25bn is for Africa" (Chair's Summary, July 8, 2005). In the OECD DAC's updated simulation of these 2010 aid commitments (see Table 6), the DAC estimates that, if all commitments are honoured, ODA in 2010 will be US\$132 billion or 0.35% of GNI (down slightly from the expected 0.36% in the DAC's 2006 Report). Donor aid increases in this DAC scenario would add US\$53 billion over and above the actual amount of US\$79 billion in aid in 2004, exceeding the US\$50 billion target. The average country effort (the average of ODA/GNI ratios for the 22 donors) would move from 0.44% in 2007 to 0.56% in 2010.

What are the prospects for achieving this goal? The Reality of Aid is pessimistic that donors will succeed. Several donors -

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Table 6: DAC Simulation of 2010 ODA Based on Donor Commitments to Reach 0.7%

Donors	2006 ODA/GNI Ratio, Actual	2006 ODA/GNI Ratio, No Debt Grants (£)	Commitments	2006 Net ODA (no debt)	Estimated 2010 net ODA (2006 millions USD) (£)	Average Annual Percentage Increase 2007 – 2010 (1)	Estimated 2010 ODA/GNI Ratio
Achieved 0.7%							
Denmark	0.80%	0.76%	Minimum of 0.8%	2,123	2,423	3.4%	0.80%
Luxembourg	0.89%	0.89%	1% in 2009	291	376	6.6%	1.00%
Netherlands	0.81%	0.76%	Minimum of 0.8%	5,140	5,962	3.6%	0.80%
Norway	0.89%	0.88%	1% over 2006-09	2,932	3,661	5.7%	1.00%
Sweden	1.02%	0.95%	1%	3,663	4,331	4.3%	1.00%
Set 0.7% Target							
Belgium	0.50%	0.40%	0.7% in 2010	1,581	3,025	17.7%	0.70%
France	0.47%	0.32%	0.7% in 2015	3,433	12,519	39.2%	0.51%
Ireland	0.54%	0.54%	0.6% in 2010 & 0.7% in 2012	1,022	1,294	6.1%	0.60%
Spain	0.32%	0.27%	0.5% in 2008 & 0.7% in 2015	3,310	7,920	24.6%	0.59%
United Kingdom	0.51%	0.37%	0.56% in 2010 & 0.7% in 2013	8,956	14,856	13.5%	0.56%
Set 0.51% Target							
Austria	0.47%	0.23%	0.51% in 2010	742	1,796	24.9%	0.51%
Finland	0.40%	0.40%	0.51% in 2010	834	1,183	9.1%	0.51%
Germany	0.36%	0.26%	0.51% in 2010	7,712	16,355	26.8%	0.51%
Greece	0.11%	0.17%	0.51% in 2010	424	1,402	35.9%	0.51%
Italy	0.20%	0.11%	0.51% in 2010	2,045	10,163	51.8%	0.51%
Portugal	0.21%	0.21%	0.51% in 2010	396	1,031	27.5%	0.51%
Other Targets							
Australia	0.30%	0.26%	0.36% in 2010 & 0.5% in 2015	1,846	2,913	12.1%	0.36%
New Zealand	0.27%	0.27%	0.33% in 2010	259	344	7.4%	0.33%
No Specific Target							
Canada	0.29%	0.27%	Aid at US\$4.2 billion in 2010	3,424	4,162	5.0%	0.30%
Japan	0.25%	0.18%	Aid at US\$10.1 billion in 2010	8,185	10,092	5.4%	0.21%
Switzerland	0.39%	0.37%	0.4% in 2010	1,548	1,828	4.2%	0.40%
United States	0.18%	0.17%	Aid at US\$24.7 billion in 2010	21,947	24,705	3.0%	0.17%
Total DAC Donors	0.51%	0.25%		85,547	132,341	11.1%	0.58%
Average Country Effort	0.46%	0.41%					0.56%

DAC Secretariat Calculations, Development Cooperation 2007 Report, page. 17.

(1) Note: Aid without Debt and Average Percentage Increases are Reality of Aid calculations. To calculate the percentage increase Reality of Aid took the difference between 2006 ODA (no debt) and divided it by the four year (2007 to 2010). A percentage increase was calculated for each year and then averaged over the four years. Percentage increases are larger in early years than 2010. The resulting percentage should therefore be treated as an indicator rather than an annual target.

the United Kingdom, Ireland, and Spain - are well positioned to achieve 0.7% before 2015, if they sustain existing aid budget increases (see Table 6). Others, the United States, Canada and Japan, will achieve their own targets but only because they initially set very low targets for themselves in 2005. Their lack of ambition means that they might meet their goals. Achieving the overall G7 goal will depend on political will to provide for very large annual aid increases on the part of several key G7 donors - France, Germany and Italy - who are currently very far from their 2010 targets, when debt relief grants are removed from 2005 and 2006 figures. As the DAC points out, the high levels of debt relief grants in 2005 and 2006 will not be available to be included in ODA by 2010. There is little evidence that these three countries, which represent close to

30% of the DAC target for aid in 2010, will make the required double digit annual percentage increases to their aid budgets between 2007 and 2010 (averaging 39% for France, 21% for Germany and 52% increase for Italy).

Given political will, aid increases are affordable...

Aid increases are affordable for rich countries. But they have failed to increase aid as their overall wealth increases.

As a proxy for the ability to pay, Reality of Aid examines the trend in both aid and GNI growth for the rich countries. There has been an expanding gap between per capita aid and per capita wealth in donor



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Figure 8. The Growing Gap Between Aid and Wealth in Donor Countries (1961-2006)

Aid per person in the donor countries has grown by only \$29 over 45 years;
 Gross National Income per person has grown by %25,400.
 (Aid excludes debt cancellation; 2005 constant \$)

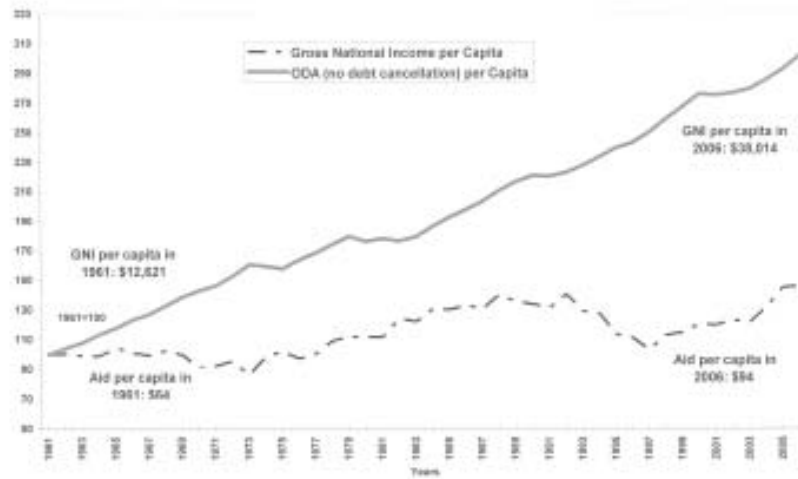
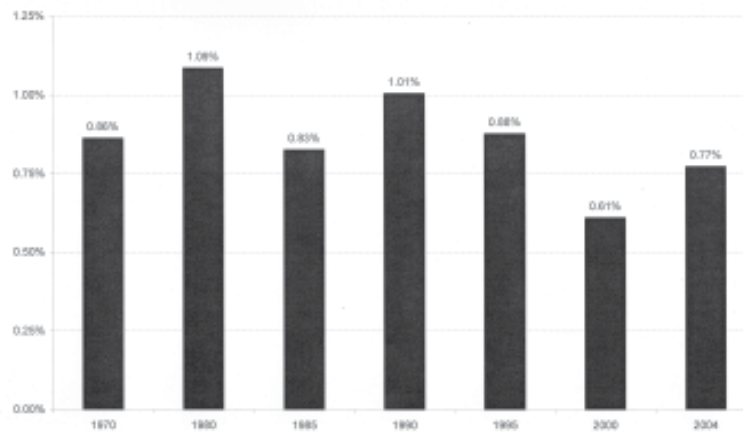


Figure 9. Aid as A Percentage of DAC Government Tax Revenue

Aid is Net of Debt Relief Grants and Support for Refugees in Donor Countries



OECD Stat Extract DAC 1 and OECD Factbook, Economic, Environmental and Social Statistics, 2007

Global Aid Trends

countries since the early 1960s (see Figure 8). Aid per capita was 0.5% of GNI per capita in 1961, but by 2006, aid per capita represented less than 0.25% of GNI. Since 1995 the gap between aid and wealth has almost doubled.

Since aid is allocated from donor government revenue, the level of aid spending as a percentage of tax revenue is also a measure of political will to help end global poverty. Total DAC aid at 0.77% of total government tax revenue in 2004⁵ is an increase from a low of 0.61% in 2000, but still well below the peak of more than 1% reached in 1990 and in the 1980s (see Figure 9).

Aid increases since 2000 have not been available for new investments in human development goals...

Have any increases in aid spending provided *new* resources for long-term development priorities?

Less than 30% of all new aid money, disbursed since 2000, was actually available to poverty reduction priorities. Almost two thirds of disbursed new aid resources since 2000 have gone to donor foreign policy interests in

Iraq, Afghanistan and Pakistan, and to increases for non-aid purposes in debt relief and support for students and refugees in donor countries.

In 2000, the international community vowed, in the historic Millennium Declaration, “to spare no effort” to realize human rights and reduce poverty and inequality. Aid was identified as a critical catalyst to meet this commitment and donors pledged to increase aid accordingly. But only a minimal part of new aid resources, over and above what was already available prior to 2000, have been available for poverty reduction and the achievement of Millennium Development Goals (MDGs). Any increased donor allocations to the MDGs, since 2000 (see below), have been largely the result of re-profiling existing pre-2000 aid dollars.

Between 2000 and 2006, donors added a total of US\$148.2 billion new dollars for ODA, over and above what existed at the time of the Millennium Declaration (see Table 7). But more than 40% of these new aid dollars were never budgeted as aid. Donors were able to count as new aid, amounts resulting from increases for debt relief, increases for imputed costs for students from developing countries studying in donor countries and for support for refugees for their first year

Table 7. Allocation of new donor aid resources, 2000 - 2006

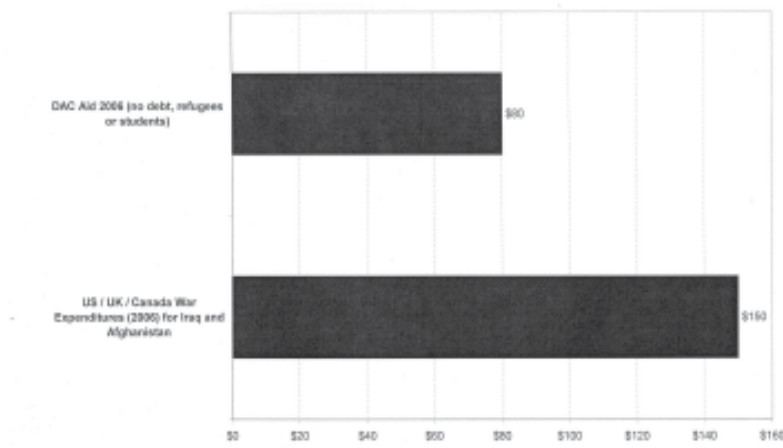
Indicator	Billion USD
Net New Aid Resources	\$148.2
Minus	
Additional Debt Cancellation	\$53.8
Additional Support for Refugees	\$ 2.2
Additional Imputed Student Costs	\$ 4.5
Sub-Total Non-Aid Items	\$60.5 (40.8%)
Additional aid to Iraq, Afghanistan & Pakistan	\$46.0 (31.0%)
New aid resources for potential use in poverty reduction / MDGs and other development programs over 6 years	\$41.7 (28.1%)

Source: Reality of Aid calculations based on OECD Stat Online DAC data, 2000 to 2006, current US dollars. New aid resources in each of these years is compared to aid levels in 2000. Similarly, the deductions made from total new aid resources are compared to levels in 2000.



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Figure 10. Total DAC ODA (2006) Compared to US, UK, and Canada War Expenditures for Iraq and Afghanistan (2006) (Billions of US dollars)



Reality of Aid calculations

in donor countries. All of these “ODA dollars” do not appear in any aid budget, but are permitted, by DAC rules, for calculating ODA. Massive increases in aid for Iraq and Afghanistan, following the events of 9/11 and largely in response to foreign policy interests in donor countries, further distorts the aid picture. Aid driven by “war-on-terror” foreign policy interests accounted for 31% of the disbursements of new aid dollars during this period. Only 28% of new aid money was left to honour donor pledges to increase aid spending for poverty reduction and the MDGs.⁶

The close to US\$50 billion in new aid resources for Iraq, Afghanistan and Pakistan since 2000, not including US\$18.4 billion in debt relief grants for these two countries, represent the largest ever donor country commitments for aid. But this aid spending seems miniscule compared to the massive cost of conducting the wars in these two countries. Joseph Stiglitz, former Chief Economist at the World Bank, estimates the current and future costs of the war in Iraq for the US at between US\$1.7 and US\$2

trillion up to 2017, when benefits to veterans and other future costs are considered. He further calculates that the cost of these wars in 2008 to be \$12 billion *each month*. Recent UK estimates add US\$500 million to this monthly bill and Canada has reported spending more than US\$1 billion a year on its military efforts in Afghanistan. To put these numbers in perspective, the UK, the US and Canada will be spending US\$150 billion in 2008 on wars in Afghanistan and Iraq, almost double all budgeted aid from all donors for 2006. And these figures do not factor in the costs of damage to Iraqi and Afghan infrastructure and economy as a result of the wars⁷ (see Figure 10).

In promoting the importance of the 2005 Paris Declaration on Aid Effectiveness, donors have often referred to their commitment to spend effectively the new aid resources made available in the wake of the 2002 UN Financing for Development Summit. Sadly, the reality is that very few new aid dollars, from the accumulated increases since 2000, are available to

Global Aid Trends

demonstrate the potential impact of increased aid spending on poverty reduction for millions of people who continue to live in poverty (see Table 7).

But perhaps the quality of aid dollars has been improving overall, with the implementation of the Paris Declaration and the commitment to the Millennium Development goals? While clearly insufficient in quantity, an improved targeting of existing aid dollars and actual reform of anarchic, unpredictable, non-transparent and volatile aid practices would demonstrate that the international community has listened to the call of citizens, North and South, for governments to meet their international human rights obligations to end global poverty and inequality. Unfortunately the evidence suggests that donors have made little progress in the quality of their aid, despite repeated commitments since the early years of this decade.

TRENDS IN THE QUALITY OF AID FOR POVERTY REDUCTION

Focusing on poverty reduction and the rights of the poor: Paris Declaration indicators fail to measure impact...

In follow-up to the Paris Declaration, the DAC and the World Bank identified 14 indicators and targets for measuring progress in achieving the Paris Declaration commitment. A baseline report was produced in 2006 and progress on these indicators and targets is currently being measured in an exercise coordinated by the DAC Secretariat and involving developing country governments, donors and the World Bank for the September 2008 High Level Forum.⁸

In measuring progress from the baseline study on the Paris Declaration commitments, CSOs are calling for greater aid transparency at the country level (including gender disaggregated data), engagement with CSOs in assessing aid performance, and

explicit documentation of the progress made by individual donors.

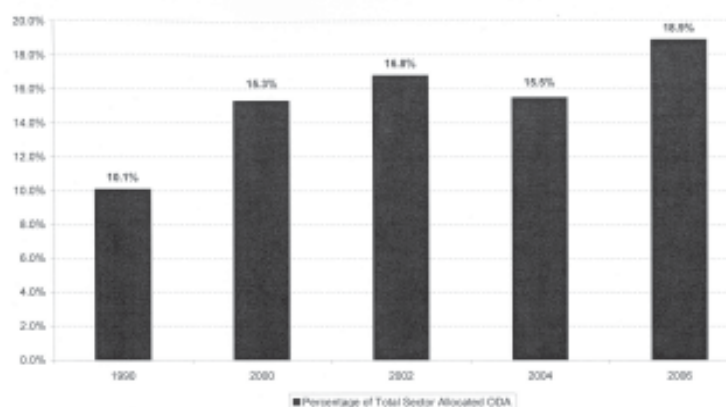
The International Civil Society Steering Group for the Accra High Level Forum has stressed the centrality of human rights, gender equality, poverty reduction and social justice as the true measure of the aid effectiveness agenda. Unfortunately, none of the current Paris Declaration indicators or targets measures the methods used for these disbursements and the actual impact of aid disbursements on the rights of poor, on women's rights or marginalized populations.

The World Bank and the International Monetary Fund in the 2008 *Global Monitoring Report: MDGs and the Environment* admits for the first time that "on current trends, most countries are off track to meet most of the MDGs, with those in fragile situations falling behind most seriously". The report notes that "shortfalls in the human development areas are especially serious in South Asia and Sub-Saharan Africa".⁹ Recent World Bank technical data point to serious over-estimations of the degree to which the number of people living on less than a dollar a day, in at least 33 countries, including China and India, has been reduced.¹⁰ These last two countries have contributed the most reductions to meet the first MDG to halve the proportion of people living on less than a dollar a day between 1990 and 2015. With this over-estimation, realizing the MDGs is even more illusory.

Donors have significantly improved their focus, since 1990, on key sectors relevant to achieving the Millennium Development Goals, such as basic education and primary health. But donors have not significantly increased funding to these key sectors since 2000.

Neither the DAC nor the United Nations system measures aid contributions in achieving the Millennium Development Goals. Aid statistics can only give an

Figure 11. MDG Sector Indicators as Percentage of Total Sector Allocated ODA, 1990 to 2006



OECD DAC Stats Extract, CRS

MDG Indicator Sectors are basic education, basic health, population programming and reproductive health, general environmental protection, development food aid and food security assistance.

Total ODA (multilateral and bilateral) includes Social Infrastructure and Services, Economic Infrastructure and Services, Production Sectors, Multi-Sector/Cross Cutting, Commodity Aid and General Program Assistance, Humanitarian Aid, Administrative Costs of Donors. Not included are Action relating to Debt, Support to NGOs, Refugees in Donor Countries and Unallocated.

approximate measure of change over time for some sector allocations that seem highly relevant to the MDGs.¹¹ Reality of Aid's proxy indicator for aid to MDG priorities, using a number of key sectors (see Figure 11), suggests that by 2006, the proportion of aid committed to these sectors doubled from 1990 and the dollar value of US\$18 billion in 2006 was more than three times its value in 1990.

Interestingly, the proxy indicator also suggests that increased allocations, as a proportion of aid, since 2000 have been marginal. (Measuring progress from 2000 is relevant because although 1990 is the baseline for measuring progress in achieving the MDGs, world governments only committed to the MDGs in 2000.) This marginal increase is not surprising given that most new aid money since 2000 was

not available for these purposes (except insofar as aid allocated to Afghanistan and Iraq were directed to MDG goals). It is also not possible to know whether improved targeting of these sectors since the early 1990s was the result of better targeting of existing aid and/or the consequence of better reporting by donors to the DAC's Donor Creditor Reporting System.

Sufficient aid to meet poverty reduction goals inherent in the MDGs requires major scaling up of total aid resources for these purposes. Aid disbursed for basic education, for example, did increase significantly from US\$747 million in 2000 to US\$2.8 billion by 2006, in no small measure due to strong pressure from civil society in support of the global Education for All (EFA) initiative. EFA points out that despite these investments

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"77 million children [are]not enrolled in school and an estimated 781 million adults have not yet had the opportunity to learn to read and write - two-thirds of them women. By the latest estimation, 23 countries are at risk of not achieving universal primary education by 2015 and 86 countries are at risk of not achieving gender parity even by 2015. Primary-school fees, which are a major obstacle for universal access, are still collected in 89 countries out of 103 surveyed."¹²

The 2008 *Global Monitoring Report* for the EFA initiative proposes that bilateral donors allocate 10% of their sectoral aid to basic education. Aid for basic education was only approximately 4% of total sector aid allocated aid in 2006. Civil society organizations involved in the Global Campaign for Education argue that it is only through reaching the 0.7% target for aid spending that there will be the resources needed to fulfill donor commitments to education.¹³

Gender equality is invisible in donor accountability...

It is widely agreed that poverty is a feminized phenomenon, with women making up to 70% of people living in poverty. Many donor agencies have impressive policies that put gender equality and the empowerment of women as central priorities in efforts for development. CSOs have argued, in relation to the implementation of the Paris Declaration, that "without that commitment [to gender equality and women's rights], no aid mechanism can be effective in delivering sustained poverty reduction". Assessing the gender implications of implementation of the Paris Declaration, CSOs have also drawn attention to the fact that "women's voices and perspectives have been largely excluded at both the national and

international levels in development policies and processes funded by aid".¹⁴ Given the stated centrality of gender equality in donors' development policies, it is remarkable that donors have only recently begun to provide the DAC documentation to track trends in "gender-equality focused aid".¹⁵ There are, however, currently no statistical tables related to gender-equality focused aid included in the annual DAC *International Cooperation Report*.

Women's rights organizations are seeking a target of 10% of ODA for gender equality and women's empowerment by 2010 and 20% by 2015.¹⁶ Donors have a long way to go to reach this target. Unfortunately, since 2003, only an estimated meager 3.8% of ODA has been allocated to gender equality. Monitoring of the Paris Declaration implementation should be adjusted to integrate gender equality targets, with substantive work up to 2010 to develop strategic plans on gender equality in subsequent aid reform initiatives. Women's organizations play a crucial role in holding government accountable for financing gender equality and women's empowerment. If donors are to achieve gender-related targets, donors must also improve and ensure direct funding for women's rights organizations as part of civil society, and particularly those CSOs representing women from socially excluded groups.

Gender equality-focused ODA is still not reported systematically by donors. A two-year average for 2005 and 2006 of a DAC gender marker as a proportion of sector-allocated aid put gender equality-focused aid for 16 donors reporting on this marker at only 5.1% of their sector-allocated aid.

The DAC gender marker, while an important step forward, includes both aid that has gender equality as a "principal objective" and as a "significant objective". The latter leaves a wide margin for differing

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approaches to assessing aid disbursements in terms of gender equality. In a study, by the DAC Secretariat and Gendernet, of 16 countries reporting on the gender marker, more than 87% of the reported activities in 2005 reported gender equality as a "significant objective". Only US\$1.2 billion were reported as disbursed to gender equality as a "principal objective", amounting to 13% of all gender marker activities, and a mere 3.3% of all sector-allocated aid in that year.¹⁷

"Aid-for-trade" departs from the primary focus of aid on poverty reduction and the rights of poor and excluded populations. The DAC notes strong growth in "Aid-for-Trade" ...

The DAC notes in its 2007 *International Cooperation Report*, a growing commitment to "aid-for-trade" to assist developing countries to benefit from WTO agreements and more broadly to expand their trade. Between 2002 and 2005, according to the report, an average of US\$21 billion per year on categories associated with "Aid for Trade" (including US\$2.6 billion for trade development and increasing understanding of trade policy and regulations).¹⁸ These aid commitments averaged 34% of total sector-allocated aid and grew by 22%. This contrasts with an average of less than half (15% of total sector-allocated aid) for basic education, primary health and population programs combined. The DAC expects that an additional US\$8 billion will be delivered by donors for aid for trade by 2010, reaching a total commitment of US\$30 billion in that year.

Can "aid-for-trade" initiatives demonstrate coherence with aid effectiveness principles? Is this aid truly country-driven and untied, or is it driven by donor policies and strategies to extend their interests in trade and

investment liberalization? What is the demonstrated impact on poverty reduction, employment generation and gender equality?

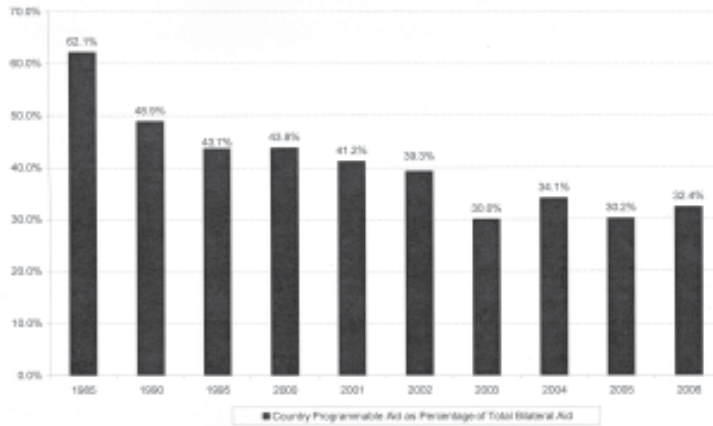
CSOs point out that a focus only on export industries and international markets will likely disadvantage poor producers, traders and entrepreneurs for whom domestic and regional markets might be more important. The latter are the backbone of economic development for poverty reduction. "Aid-for-trade" relies heavily on technical assistance, which remains highly reliant on donor initiative, knowledge and advice. Finally, increased spending on "aid-for-trade" should be clearly delinked from current and future trade negotiations. "Aid-for-trade" should not be used to "compensate" developing countries as trade deals fail to deliver real benefits for these countries.¹⁹

Country ownership of diminishing bilateral aid resources...

Country ownership is the defining principle of the Paris Declaration on Aid Effectiveness. But country ownership of aid priorities should be implemented in ways that build from local and democratic ownership. CSOs have pointed out that not all ODA is available to be managed by developing country partners. Since its 2002 report, Reality of Aid has estimated aid disbursements that have the *potential* to be managed by aid counterparts in the South.²⁰ Reality of Aid makes this estimate based on the amount of total bilateral ODA that could be available for actual programmes in developing countries.²¹ Richard Manning, former DAC Chairperson, has also addressed this issue as "programmable aid", involving genuine transfer of resources to developing countries, in his "Overview" in the 2007 *Development Cooperation Report*. He points out that programmable aid, excluding Iraq, was lower in 2006 than it was in 2002.

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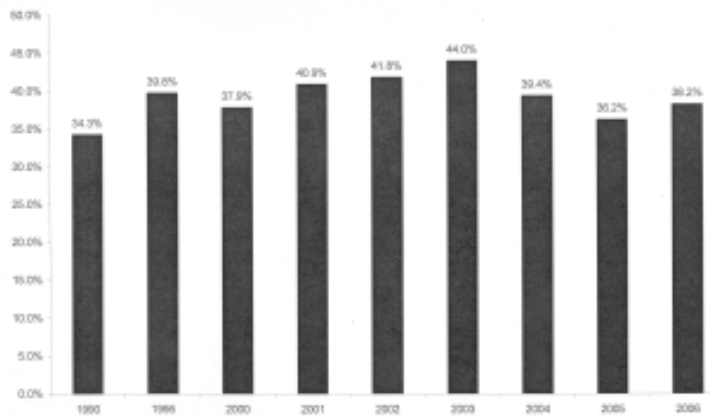
Figure 12. Trend in Country Programmable Aid As a Percentage of Total Bilateral Aid, 1985 to 2006



OECD Stat Extract DAC1 & 5

Country Programmable Aid is Bilateral Aid, Less Debt Relief Grants, Imputed Student Costs, Support for Refugees in Donor Countries, 80% of Technical Assistance, 15% Cost of Tied Aid, Humanitarian Assistance and Donor Administration Costs.

Figure 13. Percentage of Technical Assistance in Total DAC Bilateral Aid (Excluding Multilateral ODA and Less Debt Cancellation)



OECD Stat Extract DAC1

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According to the Reality of Aid, since 2003, less than a third of all bilateral ODA and about US\$25 billion in 2006, has been available for actual programs in developing countries - that is aid which developing country partners can potentially use to meet development priorities that they themselves determine.

Country programmable aid has been falling since 1990, and particularly since 2003 (see Figure 12). As a percentage of total bilateral aid, country programmable aid has been less than 32% on average since 2003, down from an average of 41% between 2000 and 2002 and 49% in 1990.

Supply-led and donor-managed technical assistance challenged by developing country governments...

The failure of bilateral donors to address supply-led and donor-managed technical assistance is a major factor in the capacity of developing country partners to determine and manage the allocation of aid in their country.

Technical assistance, as a proportion of all bilateral aid from DAC donors (net of debt relief grants), averaged 38% between 2004 and 2006 and remains largely tied to Northern contractors and donor control.

Donor-driven technical assistance, unfortunately, is still a major channel for the delivery of development assistance (see Figure 13). While total technical assistance has declined marginally, as a proportion of non-debt bilateral aid, from a high of 44% in the early 2000s, it remains much higher today than it was in 1990 when such spending was 34% of bilateral aid. There are no comparable statistics for the levels

of technical assistance in multilateral aid, but there is little doubt of its importance for the World Bank and many UN agencies. One study calculated that in 2004 there were more than 20,000 free standing technical assistance activities related to aid, enough for a least one starting every working day in every developing country.²²

A study by Actionaid UK concluded that technical assistance remains "heavily donor-driven, tied to donor country firms and dependent on expensive 'expert' knowledge from rich countries". Actionaid's research confirmed earlier reports from the DAC, the World Bank and the UNDP that technical assistance has been largely ineffective as a development resource.²³ Donors use technical assistance often to enforce multiple conditions attached to aid programs in order to promote reforms that donors believe important for aid effectiveness, but with few options and little direction from developing country partners.

In the DAC 2006 benchmark survey of the very modest targets set for the Paris Declaration, developing country government representatives pointed to the pervasive failure of donors to make any progress in re-orienting technical assistance so that it builds real capacity, with its use and terms determined by developing country partners. While there is no agreement among donors about what the contribution of technical assistance can be, representatives of developing countries interviewed for the DAC study suggest that "the element most often missing was effective country leadership based on a specific strategic vision for capacity development". The benchmark survey report concluded that "the Paris Declaration's vision of the future needs of capacity development is clearly not just unfinished business, but business that has barely begun".²⁴ Given its predominance within bilateral aid, technical assistance reform remains one of the most important barriers to local and democratic ownership of aid relationships.²⁵

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No donor targets for reducing conditionality...

The 2006 benchmark survey on monitoring the Paris Declaration noted that country ownership implied that developing countries have to develop their own development strategies based on “each country’s priorities, pace and sequencing of reform”. CSOs suggest that donor conditionality undermines the potential for democratic ownership to influence the allocation of aid to country priorities as determined by citizens, legislatures and government. CSOs argue that the “use of aid as a tool to impose policy conditions has no place in an aid paradigm rooted in a commitment to ownership”.²⁶

Since the adoption of the Paris Declaration, there has been no reduction in imposed policy conditions, including benchmarks, triggers and performance-based allocations. The Paris Declaration has no objectives or targets for reducing aid conditionality, even though it espouses the principle of country ownership.

The World Bank has adopted a set of “Good Practices Principles” for conditions it attaches to loan programs. The Bank claims that these principles have resulted in some reform of conditionality and in reducing the numbers of conditions attached to its loans. The European Network on Debt and Development (Euodad) reports, in a recent review of the World Bank’s own conditionality database, that while this claim of reduced numbers of conditions may be technically true, it is the result of a reduction in non-binding conditions (from an average of 33 to 24 per loan). Binding conditions have remained largely unchanged at an average of 13 per loan. It is these binding conditions that continue to promote detrimental economic policy conditions such as privatization and liberalization. Indeed the actual number of

conditions may not have fallen as the World Bank now “bundles” conditions. When counted as separate conditions, these bundled conditions resulted in a 12% increase in the overall number of conditions. There are also highly variable country experiences where Senegal, for example, faces a total 99 conditions in its recent loans with the World Bank.²⁷

While aid relationships should have clear fiduciary terms that are fair to both donor and recipient, the continued practice of conditionality goes to the heart of political will on the part of donors to reform their aid practices. All donors, as they move to implement the Paris Declaration principle of harmonization, are increasingly aligning themselves, not with democratically determined country strategies, but are rather using the power of their aid relationship to impose their policy preferences. Such impositions need not be spelled out as a condition of aid. There are more oblique ways to achieve donor influence on policy. The World Bank annually assesses and ranks low income countries in terms of economic policy and institutional governance in its “Country Policy and Institutional Assessment” (CPIA).²⁸ Recipient-country governments are well aware of the influence CPIA scores as well as the World Bank’s review of “Public Financial Management Systems” as signals for continued donor support. Indeed, donors have included in their assessment of Paris Declaration’s commitments on alignment and harmonization, several indicators drawn directly from the Bank’s CPIA.²⁹

As a principal means to harmonize donor practices and align with country strategies, donors have agreed, in the Paris Declaration, that 66% of their aid flows by 2010 are to be “provided in the context of program-based approaches”. CSOs have welcomed a greater focus on coordinating aid and support for the capacities of governments to meet their human rights obligations, particularly to

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those living in poverty and otherwise marginalized. At the same time, without fundamental commitments to donor-agreed targets that move substantially away from conditionality, program-based approaches will, unfortunately, become a highly effective means for the transmission of donor aid conditions.

The proportion of program aid (direct support for the budget of a developing country government or a sector-wide program) recorded by the DAC has grown from 12% of non-debt related bilateral aid in 2000 to just over 18% in 2006.

The DAC "Creditor Reporting System" records a relatively small proportion of aid as program and sector aid (18% in 2006). The 2006 benchmark survey of targets for the Paris Declaration, however, identifies a baseline of 43%. The authors of the survey indicate that donors are working with differing assumptions about a "program based approach" in arriving at this higher figure. The DAC "Creditor Reporting System" suggests that approximately 65% of "program budget support" between 2004 and 2006 was implemented in Sub-Saharan Africa, in countries where governments remain highly dependent on aid and least able to resist multiple donor conditions attached to such programs.

Aid tying still a major concern...

The donors offered an almost meaningless commitment in the Paris Declaration to "continue to make progress on untying aid". Untying aid reduces transactions costs for developing countries and improves country ownership and alignment.

According to the World Bank, the proportion of donor aid considered to be tied to

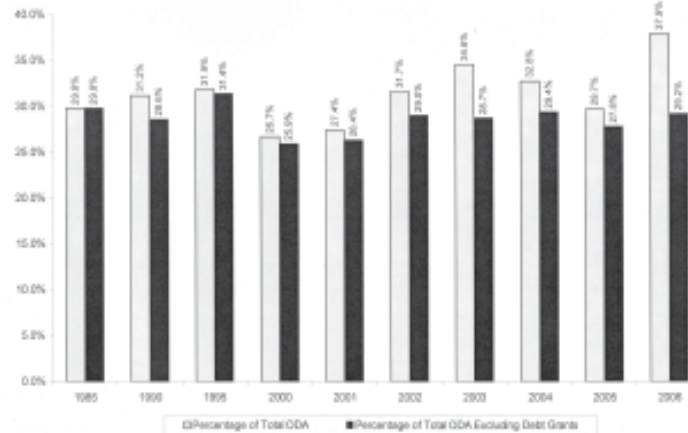
purchases in the donor's country, all items considered, is 58%. The proportion of aid tied to purchases in least developed countries is 32%.³⁰

Meanwhile the DAC reports that the proportion of tied aid has fallen from 19% in 2000 to 5.4% in 2006. DAC figures differ from the World Bank's assessment because DAC members have not agreed to include in their figures for tied aid technical assistance and food aid, which are highly tied. DAC figures also do not include the United States, the largest donor by volume (disbursing 33% of all DAC bilateral aid, net of debt relief grants), nor Italy, both of whom are reputed to heavily tied their aid.³¹ The Centre for Global Development, in its 2007 *Commitment to Development Index*, estimates that approximately 70% of US aid remains tied to US purchases. The 2006 DAC survey of Paris Declaration targets reports that an astounding 93% of US aid to 29 countries was tied.

But has untying aid benefited developing country suppliers? The rationale for untying aid is to give more choice to developing country partners in the procurement of aid goods and services. It should serve to stimulate developing country enterprises and to develop and use developing country expertise. In reality, untying of aid has meant the liberalization of procurement in Northern donor countries. Incredibly, despite reported progress on aid untying, particularly by Netherlands, Sweden, Ireland and the United Kingdom with fully untied aid, according to a UNDP official, in 2003, a mere 4% of the US\$50 billion development procurement business went to enterprises in G77 developing countries and China.³² This is because "fully" untying aid means that goods and services can be procured anywhere. Donors that give preference to local developing country suppliers have, according to the DAC, only "partially" untied their aid. But in only "partially" untying their aid, donors

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Figure 14. Aid to Sub-Saharan Africa as Percentage of Total ODA
(2005 Constant USD)



OECD Stat Extract DAC2b

can actually favour developing country suppliers.

Donors fail to give priority to Sub-Saharan Africa...

At the 2005 Gleneagles G7 Summit major donors agreed that US\$25 billion would be added to aid to Sub-Saharan Africa by 2010, more than doubling aid from 2004 (US\$16.7 billion). More than two-thirds of Sub-Saharan African countries (34) rank among the bottom 40 countries on the UNDP 2007 Human Development Index (HDI). All 22 countries that the UNDP ranks as "low human development" are from the sub-continent. Sub-Saharan Africa's overall HDI in 2007 at 0.493 is lower than it was in 2005 (0.515).

Donors are significantly off-track in their commitment to add at least US\$25 billion to their aid for Sub-Saharan Africa. Donors will no longer be able to hide their actual performance behind debt relief grants in their ODA. From 2004 to 2006, non-debt aid to Sub-Saharan

Africa increased by only an average of 8.8%. If donors are to meet their commitment, aid to Sub-Saharan Africa will have to increase by 30% each year from 2007 to 2010.

Shockingly, there was no evident priority for aid spending to Sub-Saharan in this decade, when debt relief grants are excluded. In 2006, only 29.2% total ODA spending went to Sub-Saharan Africa down from a high of 31.4% in 1995 (see Figure 14).

If donors are serious about poverty-focused aid to Sub-Saharan Africa, Reality of Aid would have expected its proxy indicator for aid investments to achieve the MDGs to demonstrate this priority. Indeed, more than a third of the aid commitments covered by the proxy MDG indicator in 2006 were made to Sub-Saharan Africa. However, as a proportion of total sector-allocated aid to that region, the proxy indicator made up only 21%, just marginally greater than the 18% proportion for all regions of the developing world.

According to the DAC, aid disbursements to Sub-Saharan Africa amount to 37.9% of total ODA in 2006, an increased

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proportion from 26.7% in 2000. However, the reason for this increase is not greater priority, but rather was due to the impact of high debt relief grants, particularly in 2005 and 2006. Removing these grants, aid disbursed to the region was 29.2% of total ODA, up marginally from 25.9% in 2000. On this measure, Asia received the highest proportion of ODA in 2006 - 34.4% -primarily the result of very high disbursements for Afghanistan and Iraq (3.5% and 6.2% of non-debt ODA respectively).

Humanitarian assistance remains high...

Humanitarian and emergency assistance as a proportion of donor aid fell only marginally in 2006 to 8%, from a high this decade of 8.9% in 2005.³³

High disbursements for humanitarian assistance in 2006 are likely still affected by the huge response to the 2004 Tsunami and the 2005 earthquake in Pakistan. In dollar amounts, bilateral humanitarian assistance has more than doubled from US\$2.9 billion in 2000 to US\$6.6 billion in 2006.

Aid to Afghanistan and Iraq overwhelms overall aid to conflict-affected countries ...

Total aid to countries experiencing severe and prolonged conflict is becoming more concentrated as a proportion of total donor aid. Aid to countries in conflict has more than doubled from 9.3% in 2000 to 20.4% in 2006. Aid to conflict-affected countries was also highly unequal, with extremely high levels of aid for Iraq and Afghanistan compared to other conflict-affected countries.

With foreign policy imperatives driving large amounts of aid to Iraq and Afghanistan since 2002, the emphasis on conflict-affected

countries is affecting overall aid allocations in 2006. Examining aid allocations to the most severely conflict-affected countries³⁴, not including debt relief grants, aid increased from 9.3% of total ODA in 2000 (for 12 countries) to 20.4% (for 10 countries) in 2006. In current dollar terms, donors have concentrated more of their aid on the immediate needs of conflict-affected countries with the amount of aid devoted to these countries almost tripling in value in these six years. But the distribution of aid among severe conflict-affected countries was also highly unequal in 2006 and influenced by donor foreign policy pre-occupations. Iraq and Afghanistan accounted for close to two-thirds of all aid directed to severely conflict-affected countries. The other eight countries shared the remaining 36.7% (with the Democratic Republic of Congo and the Palestinian Administered Areas accounting for 5.4% and 6.4% respectively).

UN aid channels declining in importance...

Multilateral aid as a whole, as a proportion of total ODA, experienced a modest declining trend since 2000. But within multilateral aid, the share for UN agencies declined from close to 30% in 2000/2001 to less than 20% in 2005/06. Multilateral aid channeled through the International Financial Institutions (IFIs), however, saw an increase from 33% to 37% in the same years.

Overall, aid delivered through multilateral channels declined from 37% of non-debt ODA in 2000 to just less than 34% in 2006. This modest decline, however, has not yet approached the low of 31% in 1990. However, there have been significant shifts in the relative importance of different multilateral channels. UN agencies are seemingly increasingly marginalized

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financially as a channel for DAC donor multilateral aid. The UN agencies' share of this aid channel declined almost 10% since 2000, while the IFIs increased their share by 4%. The growing pre-dominance of IFIs will likely continue. In renewing their commitments to the concessional International Development Association (IDA) loan and grant window at the World Bank for the poorest countries, donors in late 2007 pledged a record US\$25.1 billion for the next three years, a jump of 41% over the previous three-year period.

While there is a growing concentration of multilateral resources in the World Bank and regional bank channels, there has also been a proliferation of international organizations, funds and programs within the multilateral sector. One study noted 230 such funds and programs in 2007, many of which are specialized in a particular sector or theme.³⁵ This study also commented on increased donor ear-marking of contributions to multilateral organizations, with about half of bilateral aid channeled through multilateral channels in 2005 having some degree of earmarking by sector or theme. Such practices complicate budget management, and may reduce the inherent capacity of multilateral aid to more closely align with recipient countries' priorities.³⁶ The study also drew attention to the growth of "Vertical Funds" or global programs such as the long standing Consultative Group on International Agricultural Research (CGIAR) or the more recent Global Fund for Aids, Tuberculosis, and Malaria (GFATM). These funds have catalyzed resources in support of agreed international priorities and strategies in a particular area of health, education or environment. But again they may also distort the capacities of developing countries to maximize support for a more holistic sector approach. For example, aid for infectious diseases made up 36% of all health financing for Sub-Saharan Africa in 2005, in a context where strengthening basic health systems is essential for effective health investments.³⁷

New resources for climate change adaptation and mitigation...

Increasing donor financing for climate-change adaptation must be channeled through equitable North/South mechanisms based within the United Nations Framework Convention on Climate Change (UNFCCC) and should be considered additional to the donor's commitment to reach the 0.7% aid target for ODA.

At their 2006 High Level Meeting, Development Cooperation Ministers from the donor countries agreed to the *OECD Declaration on Integrating Climate Change Adaptation into Development Co-operation*. This statement acknowledged "the importance of adaptation for developing countries and poor people due to their particular vulnerability to the adverse effects of climate change and weak adaptive capacity".³⁸ Since then, many donors have stated their intention to review current aid programs with reference to mitigating climate change risks. Several donors have also announced an intention to create or contribute to bilateral and multilateral climate-change mechanisms promoting "low-carbon" development paths for developing countries.³⁹

In April 2008, the World Bank moved forward on plans to create three specific investment funds, providing both loans and grants, "to scale up financing available for policy reforms and investments and achieve sustainable development goals through a transition to a low-carbon path and climate resilient economy". These funds will include a Clean Technology Fund (with a target of US\$5 to \$10 billion), a Forest Investment Fund (US\$300 - \$500 million), and an

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Adaptation/Climate Resilience Pilot Fund (US\$300 to \$500 million). A Strategic Climate Fund, will act as an umbrella for receipt of donor funds and disbursements.

The UNFCCC is recognized as the multilateral framework in which globally equitable climate change negotiations take place and in which the commitments under the Convention on Climate Change, including financial, are to be met. But since the December 2007 UN Climate Change Conference in Bali, donors, under the leadership of the World Bank, have been moving quickly to establish "parallel" donor-driven and controlled mechanisms for financing donor climate change commitments. These parallel mechanisms already have \$US7 to \$12 billion in new resources. By comparison the Least Developed Countries Fund for adaptation action under the UNFCCC had pledges of \$US163 million and has received only US\$67 million as of December 2007.⁴⁰

CSOs have raised a number of concerns about placing control of significant climate change investment and mitigation resources under the control of the World Bank:

- Contrary to the UNFCCC that recognizes climate principles and the rights of developing countries who experience the impacts of climate change to participate fully in policies for its mitigation, these "parallel" Funds are donor-controlled and will be managed to respond to donor priorities.
- Rather than meeting an obligation of developed countries under the UNFCCC (polluter pays), access to funds will depend on developing countries demonstrating that they have in place a regulatory framework for a low-carbon path of development.
- Climate change funds under the control of the World Bank pose a serious risk that developing countries will be subject to new

conditionalities for access to these funds, including informal pressures to agree to the negotiating framework of donor countries for a post-2012 convention on climate change.

- The World Bank, with its dismal track record of continued strong support for carbon-intensive investments in oil, gas and coal extraction, and large traditional energy infrastructure projects in developing countries, has no credibility and is in serious conflict-of-interest to be seen as a promoter of low-carbon development paths.⁴¹

Developed countries, as the primary sources of emissions related to climate change, have an urgent obligation to reform, fundamentally, their own high-carbon development paths. They also have a responsibility, under the UNFCCC, to provide sufficient funds to respond to the unavoidable impacts of climate change felt most acutely by billions of poor people who bear no responsibility for the shifts in climate patterns.

Meeting donor climate change financial obligations should be considered additional to individual efforts to achieve the 0.7% target for aid spending. Climate change funding should not divert ODA from other urgent development priorities. In proposing additionality for climate-change financing, CSOs are also urging donors to give priority to sustainability in implementing ODA programs, taking account of the importance of addressing adaptation and minimizing the risks for poor people.

New country donors and increasing and private aid flows assuming greater importance...

Richard Manning noted in his 2007 *Development Cooperation Report "Overview"* that recipient countries are likely to

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experience an expansion of aid-type flows from both non-DAC country donors and a growing number of private foundations, both of which have significantly added to the flows from the traditional private voluntary agencies (Northern NGOs).

New and existing private sources of aid, along with new emerging donors, may provide a funding counter-balance that challenges the influence of DAC donor-imposed aid terms and conditions. But, the increasingly anarchic array of aid channels may also reduce the potential for the citizens of the poorest countries to achieve real ownership in support of local and country-determined priorities.

Fifteen donors, not members of the OECD DAC, report their aid activities to the DAC. These 15 non-DAC donors accounted for US\$4.2 billion in aid in 2005, up from US\$3.2 billion in 2002. Several other countries - Brazil, China, India - are both developing country recipients and donors of development assistance. Brazil, China and India are not among the 15 non-DAC donor countries currently reporting to the DAC.⁴² One analyst estimates that Brazil, China and India contributed between US\$3.5 and US\$4 billion in aid in 2005, bringing the total of non-DAC aid in 2005 to about US\$8 billion.⁴³ This amounts to about 10% of non-debt DAC ODA in that year.

In 2007, China announced significant increases in its assistance plans for the next three years. These increases include "US\$10 billion for developing countries, with an incremental US\$5 billion for the ASEAN countries, US\$3 billion for the Pacific Islands, and US\$3 billion for Africa, plus another US\$3 in preferential credits".⁴⁴ It is not clear how much can be considered ODA under the DAC guidelines. Firoze Manji, Director of Fahamu and Pambazuka News, notes that Chinese aid "has taken the form of financial investments in key

infrastructural projects, training programs, debt relief, technical assistance and a program of tariff exemptions for selected products from Africa, not dissimilar to the agreements that Africa has had with Europe, the US and other western economies". Some DAC countries raise concerns that unrestricted Chinese lending in Africa, without formal conditions, may undermine DAC-donor "progress" in conditional debt relief and DAC-donor leverage over African economies.⁴⁵

Significant new aid resources are also coming from private philanthropy. The Bill and Melina Gates Foundation, with the donation of US\$30 billion by Warren Buffet in 2007, has become the world's largest foundation. It is projected that the Gates Foundation will disburse about US\$2.8 billion in 2007, which is equal to more than 3% of non-debt DAC ODA in 2006 and exceeds about half of the DAC members' level of ODA.⁴⁶ The Gates Foundation influence in a number of health areas is already predominant. The Foundation is set to make major investments in "green revolution" technologies for African agriculture, a strategy criticized by African and international NGOs.

Total private aid from the United States alone is estimated at \$33.5 billion in 2005, of which Private Volunteer Organizations (not including religious organizations) and International NGOs provided US\$16.2 billion.⁴⁷ Approximately US\$21.4 billion is directed to development projects and programs, excluding including emergency operations. These estimates for US private giving demonstrate the significant under-estimation by donors in their report to the DAC. For 2006, all DAC donors reported that Private Voluntary Agencies contributed only US\$14.6 billion in grants, up from US\$10.2 billion in 2003. Funding from private voluntary sector organizations, including foundations, could rival total non-debt official DAC flows.

Aid architecture, with the emergence of new donors and growing funding by the private voluntary sector, is becoming more

fragmented and volatile. At the same time, donors are struggling to reform their own aid practices. In this context, CSOs are independently examining their own aid effectiveness. CSOs are looking at principles to guide them in their relationships with other development

actors (donor and governments). They are finding ways to strengthen the capacity of civil society to play a central role for local and democratic ownership of aid policies. CSOs will also continue to support capacity of the poor and marginalized to have a voice in the aid system.⁴⁸

Notes

- ¹ This calculation is made from the OECD Dataset, DAC1 Official and Private Flows for DAC donors, current dollars, accessed April 2008, taking account of Imputed Student Costs (1.A.1.2), Debt Relief Grants (1.A.1) and Refugees in Donor Countries (1.A.13). For 2007, students and refugees and donor countries is estimated by the author at the same level as 2006.
- ² OECD DAC. (2008). Development cooperation report 2007. *OECD Journal on Development* 9(1). OECD Paris.
- ³ However, not all donors allocate their fiscal aid budgets for this purpose. Canada, for example, counts debt relief grants in its ODA reported to the DAC, but pays for bilateral debt relief out of non-budgetary reserves, not the annual budget for international assistance.
- ⁴ Non-debt bilateral aid is a term used in this review of trends to refer to total ODA minus debt relief grants, support for students and refugees in donor countries for that year. Gross bilateral ODA does not reduce ODA by loans received.
- ⁵ 2004 is the last year for information on government tax revenue from the OECD statistics.
- ⁶ When converted to the value of 2006 US dollars and removing the impact of exchange rates changes, only 18% of the value of new aid resources in 2006 dollars was available for MDGs and other poverty related investments.
- ⁷ Charles Hanley, "Iraq, Afghanistan wars to cost U.S. \$12-billion monthly: studies", *Globe and Mail* (Canada), March 10, 2008. See also Richard Norton-Taylor, "Cost for Iraqi and Afghan wars has doubled", *Guardian* (UK), March 11, 2008. UK estimates the total cost of both wars to the UK Treasury since 2003 is approximately US\$10 billion. Canadian estimates have been reported in "Tories don't deny Afghan mission \$1B over budget", *Toronto Star*, March 11, 2008.
- ⁸ OECD Secretariat / World Bank, "Baselines and suggested targets for the 12 indicators of progress - Paris Declaration on Aid Effectiveness", August 2005. Indicators 2 and 5 each have two separate indicators and are counted as separate in this chapter. A Benchmark study was published in 2007 and is available at http://www.oecd.org/document/20/0,3343,en_2649_3236398_38521876_1_1_1_1,00.html. For a CSO assessment of the scope and results of this monitoring exercise see EURODAD, "EURODAD brief analysis of the OECD Paris monitoring survey", June 2007, available at http://betteraid.org/index.php?Itemid=26&id=42&option=com_content&task=view. This world trends chapter also references CSO perspectives set out in the Policy Paper prepared by the International Civil Society Steering Group for the Accra High Level Forum in September 2008, "From Paris 2005 to Accra 2008: Will Aid be More Accountable and Effective?", February 2008, also available at http://www.betteraid.org/index.php?option=com_content&task=view&id=88&Itemid=26.
- ⁹ The World Bank (2008, April). *Global Monitoring Report 2008: MDGs and the Environment: Agenda for Inclusive and Sustainable Development*. p.xi.
- ¹⁰ A Keidel, "The Limits of a Smaller Poorer China", *Financial Times*, November 14, 2007. This report suggests that the number of people living on less than \$1 a day is 300 million in China, three times the current estimate. See also Institute of Development Studies, "PPP - Purchasing power parity or patently persistent poverty?", February 2008. The World Bank will release revised figures for number of people living on less \$1 a day in late 2008. See World Bank 2008, op. cit., page 27.
- ¹¹ The Reality of Aid has refined a proxy indicator for aid and the MDGs used in its 2006 Global Report. For the current Report, the following sectors have been chosen as a proxy indicator of the degree to which aid is directed to MDG purposes: basic education, basic health, population programming and reproductive health, environmental protection and development food aid and food security assistance. Aid commitment to these sectors (both bilateral and multilateral) are compared to total sector commitments of ODA, excluding action relating to debt, support to NGOs, refugees in donor countries and unallocated. Current information is quantitative only, and does not

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- permit a measurement of the actual impact of these disbursements on achieving quality progress in these areas. The trends should also be treated as indicative only, as it is not possible to verify that disbursement data is complete for these sector codes, particularly for earlier years. Data is drawn from the DAC CRS Database, March 2008.
- ¹² See Education for All, "Ten Things you should know about EFA" at http://portal.unesco.org/education/en/ev.php-URL_ID=52210&URL_DO=DO_TOPIC&URL_SECTION=201.html.
- ¹³ See UNESCO, *EFA Global Monitoring Report 2008: Education for All by 2015 - Will We Make It? Summary Report*. 2008 p. 39, accessible at <http://unesdoc.unesco.org/images/0015/001548/154820e.pdf> and the Global Campaign for Education. *Class of 2007: Not Up to Scratch*. Johannesburg:GCE, 2007. p.16 accessible at <http://www.campaignforeducation.org/documents/news/2007/April/EngNarrativelowres.pdf>.
- ¹⁴ Cecilia Alemany, Nerea Craviotto, Fernanda Hopenhaym et. al. "Implementing the Paris Declaration: Implications for the Promotion of Women's Rights and Gender Equality", AWID and WIDE, January 2008, accessible at http://www.cic.ca/e/docs/002_aid_2008-02_aidwid_wide_aid_effect_gender_equality.pdf.
- ¹⁵ The OECD DAC Gendernet and the DAC Secretariat recently published a review of "Aid in Support of Gender Equality and Women's Empowerment" based on the DAC Creditor Reporting System for 2004 - 2005, <http://www.oecd.org/dataoecd/7/55/38898309.pdf>. See also Report of the Expert Group Meeting, "Financing for gender equality and the empowerment of women", Division for the Advancement of Women, United Nations, Hosted by the Government of Norway, September 2007, accessible at http://www.un.org/womenwatch/daw/egm/financing_gender_equality/EGM%20Report%20Final.pdf.
- ¹⁶ Report of the Expert Group Meeting, op. cit., page 29.
- ¹⁷ OECD DAC, "Aid in Support of Gender Equality and Women's Empowerment", OECD Paris, June 2007, accessible at <http://www.oecd.org/dataoecd/7/55/38898309.pdf>. 70% of this US\$1.2 billion was accounted for by four donors - Sweden, the Netherlands, Japan and Germany.
- ¹⁸ OECD DAC, *International Cooperation Report 2007*, pp 32 - 34. The broad sector categories included are i) trade policy and regulation, ii) trade development, iii) trade related infrastructure, iv) building productive capacity, and v) trade related adjustment.
- ¹⁹ See "CSO Statement: Global Aid for Trade Review", November 21 - 22, 2007, accessible at http://www.realizingrights.org/pdf/Global_Aid_for_Trade_Review_Statement_Nov_07.pdf.
- ²⁰ The Reality of Aid measure of potential country ownership of aid reduces ODA by the following amounts: debt relief grants, imputed student costs in donor countries, imputed costs for refugees in donor countries, donor administration, emergency and humanitarian assistance, 15% of the amount of tied aid (representing the cost of tied aid to developing countries) and 80% of all technical assistance (on the assumption that it is directed by donor countries).
- ²¹ A number of other CSOs and research centres have made similar estimates (based on somewhat differing assumptions) in recent years. Actionaid UK has developed the concept of "real aid" (See http://www.actionaid.org.uk/100473/real_aid_reports.html). Concord has analyzed European donor aid using a more limited definition. Homi Kharas, writing for the Wolfensohn Centre for Development at the Brookings Institute has adopted the notion of "country programmable aid" in "Trends and Issues in Development Aid", Working Paper #1, November 2007, accessible at http://www.brookings.edu/papers/2007/11_development_aid_kharas.aspx.
- ²² IDA, "Aid Architecture", op. cit., p. 22.
- ²³ Actionaid International. Real Aid 2: Making Technical Assistance Work. 2007, accessible at http://www.actionaid.org.uk/doc_lib/real_aid2.pdf. The Actionaid Study notes that a foreign consultant in Cambodia typically costs US\$17,000 a month, while a local civil servant earns US\$40.
- ²⁴ OECD DAC. "The 2006 Survey on Monitoring the Paris Declaration", May 2007, pages 23 & 24, accessible at http://www.oecd.org/document/52/0,2340,en_2649_15577209_36162932_1_1_1_1,00.html.
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- ²⁶ International Civil Society Steering Group for the Accra High Level Forum, op. cit., page 4.
- ²⁷ Eurodad, "Untying the knots: How the World Bank is failing to deliver real change on conditionality", Eurodad Report, November 2007, accessible at http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Untying%20the%20knots%20-%20How%20the%20WB%20is%20failing%20to%20

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- ²⁸ For a critique see Kanbur, Ravi, "Reforming the Formula: A Modest Proposal for Introducing Development Outcomes in IDA Allocation Procedures" (March 2005). CEPR Discussion Paper No. 4971
- ²⁹ See Roberto Bissio's overview of the assessment of the implementation of the Paris Declaration from the point of view of the Right to Development in this volume.
- ³⁰ International Development Association (IDA). "Aid Architecture: An overview of the main trends in official development assistance flows", February 2007, page 39, accessible at <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/73449-1172525976405/3492866-1172527584498/Aidarchitecture.pdf>.
- ³¹ The 2007 DAC International Cooperation Report says that in 2006 the tying status of 43.9% of "financial aid" (i.e. still not including technical assistance) was not reported by DAC members (page 23).
- ³² Nachilala Nkombo quoting a UNDP official at the Inter Regional Dialogue on Aid Effectiveness Workshop - Ensuring Aid Effectiveness, the way to Sustainable Development - in Lusaka, Zambia, 16 - 19 October 2007 in Nkombo, N. "Development Aid and National Ownership: A review of critical experiences from Africa: milestones, good practices, failures and future research options", Forum on the Future of Aid, page 4, accessible at <http://www.futureofaid.net/files/Ownership%20-%20Nkombo.pdf>.
- ³³ Reality of Aid calculations of the proportion of aid devoted to these purposes is higher than comparable DAC figures, as the former excludes both debt relief grants and support to refugees from total ODA.
- ³⁴ Severely conflict-affected countries are those where the current phase of the conflict has resulted in more than 100,000 casualties. The list of such countries for 2000 and 2006 is derived from Project Ploughshares' *Armed Conflicts Report 2007* and *2001*. See <http://www.ploughshares.ca/libraries/ACRText/ACR-TitlePageRev.htm>. These countries are Afghanistan, Iraq, Indonesia (2000), Angola (2000), Philippines, Palestinian Administered Areas, Sudan, Somalia, Algeria, Burundi, Rwanda, and the Democratic Republic of the Congo.
- ³⁵ IDA, "Aid Architecture", op. cit., p. 12.
- ³⁶ Ibid., pp. 15 - 16.
- ³⁷ Ibid., pp. 18.
- ³⁸ OECD, "Declaration on Integrating Climate Change Adaptation into Development Cooperation", adopted by OECD Environment and Development Ministers, April 2006. Accessible at <http://www.oecd.org/dataoecd/44/29/36426943.pdf>. See also OECD DAC, Network on Environment and Cooperation, "Adaptation: Stocktaking of Progress on Integrating Adaptation to Climate Change into Development Co-operation Activities, October 2007. Accessible at <http://www.oecd.org/dataoecd/11/18/39575695.pdf>.
- ³⁹ Japan for example recently pledged \$10 billion "in aid" over five years to help combat the effects of global warming. One suggested use for these funds would be to "improve the efficiency" of China's coal fired power plants. See "Japan plans \$10 billion aid to fight global warming", Reuters, January 10, 2008, accessed at <http://uk.reuters.com/article/environmentNews/idUKT26232320080110>.
- ⁴⁰ See Celine Tan, "World Bank's Climate Funds will undermine Global Climate Action", Third World Network, April 10, 2008, accessible at <http://www.twinside.org.sg/title2/climate/info.service/climate.change.20080401.htm>. See also Toby Quantrill, "Adapting to Climate Change: the Challenge for Development", WWF UK, Powerpoint Presentation, December 7, 2007.
- ⁴¹ See Janet Redman, *World Bank: Climate Profiteer*, Sustainable Energy and Economy Network, Institute for Policy Studies, April 2008, accessible at <http://www.ips-dc.org/reports/#292>.
- ⁴² World Bank, *Global Development Finance Report*, 2007, Volume One, Chapter One, accessed electronically.
- ⁴³ Kharas, H. "Trends and Issues in Development Aid", op.cit. pp. 17 - 18 and Kharas, H. "The New Aid Reality", Wolfensohn Centre for Development at Brookings, August 2007, pp. 7 - 8, accessible at http://www.brookings.edu/papers/2007/08aid_kharas.aspx.
- ⁴⁴ Kharas, "The New Reality of Aid", op. cit. p. 9.
- ⁴⁵ Firoze Manji, "BRICS countries - A perspective on China in Africa", presentation to an International Conference, The Changing Face of Global Development Finance", Ottawa, February 1, 2008, accessible at <http://www.nsi-ins.ca/english/events/HALifax.asp>.
- ⁴⁶ World Bank, *Global Financial Report*, op. cit.
- ⁴⁷ Kharas, "The New Reality of Aid", op. cit., pp. 9-10.
- ⁴⁸ See information on CSO discussions of aid effectiveness, including CSO aid effectiveness, on www.betteraid.org and on CCIC's web site at <http://www.ccic.ca/e/002/aid.shtml>.

A Mixed Performance

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Overview

- The headline ODA figure was US\$10,435m (8,313m euros) in 2006 - the highest in Germany's history and up from US\$10,082m in 2005.
- Officially, ODA was at 0,36% of GNI in 2006 - exceeding its EU commitments on ODA, but only through inflating the figures by including debt relief, the imputed costs for students from developing countries and the costs for refugees during their first year of stay (costs not included by most other DAC countries).
- Debt relief by Germany amounted to US\$3,034m (€2,417m) in 2006 - mainly for Nigeria (US\$1,840m) and Iraq (US\$377m). ODA without debt relief amounted to only 0.26% of GNI.
- Imputed student costs have more than doubled over the past six years. In 2006 they amounted to €717m, higher than the total amount spent by the German Development Ministry on bilateral technical cooperation (€655m). They represent a significant part of the German ODA for education but do not provide a single euro for the direct support of the educational system in developing countries.
- Germany pledged to increase ODA by a further 750m euros in 2008 as well as providing 500m euros per year between 2008 and 2015 to combat HIV/AIDS.
- The number of Germany's partner countries has now been reduced from 92 to 78.
- Germany has continued a gradual shift of priorities towards Africa, with the percentage of funds allocated to Sub-Saharan Africa increasing each year from 27.7% in 2002 to 40.0% in 2008. In comparison the share of funds for bilateral co-operation with the Mediterranean Region and the Middle East has decreased.
- This strong focus on Africa is, however, not reflected in the leading recipient countries of German development co-operation. The list of the "Top 10" beneficiaries of German bilateral aid for 2008 does not include a single Sub-Saharan country. At the top we find - as in previous years - Afghanistan, China, India and Serbia.

- Support for the least-developed countries was raised from €432.5m in 2007 to €619.0m this year - that is, 42.8% of the bilateral finance commitment.

Shortfall in ODA looms despite the record figure

Germany faces an emerging and significant problem in its ODA funding over the coming years which it has to solve in order to meet its EU commitments. Although the headline ODA figure for 2006 amounted to 0.36% of GNI, *without debt relief the figure is only 0.26%*. Taking off the imputed costs for students from developing countries (€717m in 2006) and the costs for refugees during their first year of stay reduces the 'real' level ODA still further.

The special effect of debt-relief for Iraq and Nigeria will cease by next year. So despite a 2008 Budget increase in ODA of about €870m in 2008, there will be a sharp tumble in the ODA figure by 2010 if the Government does not close the emerging gap with additional funds.

They have to raise ODA to around €12,963m by 2010 to meet the EU target of 0.51% of GNI by that year.¹ This would require German development assistance to grow by about €1.2 billion a year between 2006 and 2010. Further substantial increases would then be required to reach the European target of 0.7% by 2015.

Germany has pledged to meet these EU commitments in large part by mobilising innovative financing instruments.² The country is part of the *Leading Group on Solidarity Levies to Fund Development* which has about 50 member countries. Of these, 20 have already announced or introduced a solidarity levy on air tickets. But Germany did not follow suit.

The Government has, instead, taken a decision to earmark about 30% of the revenue from the public sale of CO₂ emission certificates to go towards ODA in international climate protection measures.

It is estimated that this will amount to roughly €120m in 2008.³

Mixed results of the German G8 presidency

Germany's presidency of the G8 in 2007 resulted in a unique boom in public interest and media coverage of its development policies. The Federal Government sought to use the G8 Summit in Heiligendamm to put poverty eradication and Africa on top of the political agenda. This was in contrast to former G8 Presidencies, which had largely focused on new measures for debt relief - as in Cologne, 1999 - or additional ODA - as in Gleneagles, 2005.

This focus on poverty eradication and Africa, with priority given to Africa's own efforts to improve good governance, was seen as the prerequisite for further foreign and domestic investment towards achieving the Millennium Development Goals in Africa.⁴ Yet, despite this approach, the Government announced that German ODA would be increased by €750m in 2008 in any case. This was clearly a reaction to the extensive media campaign mounted by NGOs and celebrities in the run-up to the Summit.

The G8 commitment *"to scaling up towards 'universal access' to comprehensive HIV prevention, treatment and care by 2010"*⁵ resulted in the Federal Government's announcement of €500m per year in additional funds to fight AIDS and HIV from 2008-2015. But in contradiction with that policy, they also argued for strict intellectual property protection that met the interests of German industry but would be likely to raise the price of generic drugs vital for treatment of AIDS patients.

Aid effectiveness, Ownership and Human Rights

Official German development policies ascribe great importance to the improvement of aid effectiveness, the

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strengthening of ownership and participation, and the promotion of human rights.

1. Action plan for human rights

A 2004 'Development Policy Action Plan on Human Rights'⁶ from Germany's Ministry for Economic Co-operation and Development (BMZ) aimed to "to mainstream the human rights approach in German development cooperation".⁷ The plan stipulates the targeted support of economic, social and cultural rights and emphasizes gender equality and the empowerment of women as well as the protection and promotion of children.

The BMZ developed criteria for the allocation of ODA, which included the respect, protection and fulfilment of all human rights. Although these criteria are supposed to form the basis of all country-specific aid allocations, a look at the main recipient countries such as China and Indonesia reveals that, the criteria are obviously not the only deciding factors for allocation of funds at present.

The BMZ acknowledges this to some extent when it says: "In order to protect global interests, such as securing peace or ensuring the supply of basic services for the population, the BMZ sometimes decides to engage in a country which does not fully meet these five criteria."⁸

In February 2008, the BMZ drafted an up-date to the Development Policy Action Plan on Human Rights for the period 2008-2010 and is engaging in discussions with civil society on this issue.

2. Implementation of the Paris principles

The objectives of the Paris Declaration have served as a guiding principle for German development policy. Germany

took the lead among OECD member countries by adopting an operational plan for implementation of the Declaration at its inception in 2005.⁹ This plan links in to the Millennium Development Goals.

German development policy places emphasis on the need for a better coordination and division of labour between the donors. The "Code of conduct on division of labour in EU development policy", adopted by the EU in May 2007 under the German presidency¹⁰ is supposed to help in this. The German Development Minister called the code of conduct "an exemplary milestone for the international donor community... We want to put an end to the indiscriminate allocation... [which] is too much of a burden for the government of the [countries] concerned."¹¹

The Code defines guidelines for improved co-ordination within recipient countries and proposes that EU donors limit their involvement in a partner country to a maximum of three sectors. EU governments are also seeking to reduce the number of recipient countries while bearing in mind that this must not lead to aid orphans entirely neglected by European assistance.

After serious disputes between ministries, the Federal Government decided to focus its development co-operation measures on a smaller number of countries. In February 2008 it reduced the number of partner countries from 92 to 78. Of these, 57 countries (including 24 from sub-Saharan Africa) will be supported by country programs and 21 by regional and sectoral programs

However, a number of shortcomings and contradictions can be seen in the implementation of the Paris principles. Germany continues to oppose further steps towards untying aid and has failed

to improve the co-ordination of its own development co-operation bodies.

The last DAC Peer Review criticized the fragmentation of German development co-operation with its large number of implementation agencies and somewhat artificial distinction between “technical” and “financial” cooperation. The German development co-operation model was described as *“no longer... appropriate from a partner country perspective”*¹², as it implies the risk of designing policies and programs from the point of view of the donor. The report recommended improving effectiveness through *“a major reform of the overall structure of the German development co-operation system”*.¹³

The BMZ reacted by starting a fundamental reform process with a main objective of strengthening its political capacities to steer and govern the implementing agencies GTZ (German Technical Co-operation) and KfW Development Bank. However, up to now this plan has not succeeded because of strong opposition from these agencies and the German Parliament.

3. Budget support

There is great debate within Germany’s development assistance community about the effectiveness of program-based forms of aid and especially budget support. Many fear that budget support will just seep away instead of benefiting the poor in countries with weak governance structures and a lack of budgetary control.¹⁴

Nevertheless, there has been a continuous increase in German funds going to direct budget support and other forms of program-based approaches. In 2007, that figure was €350m, compared to €300m in 2006; for 2008, a further increase to €407m is planned.

The program-based share of aid to Sub-Saharan Africa increased from 6% in 2002 to about 40% in 2006.¹⁵ However, the Federal Government is still far from the target set in the Paris Declaration of 66% of aid in program-based approaches by 2010.

Notes

¹ Cf. Commission of the European Communities (2007), p. 7.

² Cf. BMZ (2005a), p. 19.

³ Statement by Heidemarie Wiczorek-Zeul on 30 June 2007.

⁴ According to a communication of the Federal Ministry of Economics to inform the Bundestag committee on globalisation and foreign trade, 17 January 2007.

⁵ G8 (2007), Pkt. 57.

⁶ Cf. BMZ (2004).

⁷ Ibid. p. 12.

⁸ Cf. <http://www.bmz.de/de/ziele/regeln/kriterienkatalog/index.html>

⁹ Cf. BMZ (2005b).

¹⁰ Cf. Council of the European Union (2007).

¹¹ BMZ, press release 15 May 2007.

¹² OECD-DAC (2006), p. 12.

¹³ Ibid.

¹⁴ For a thorough analysis of program-based approaches cf. Deutsche Welthungerhilfe/terre des hommes (2006), chapter 2.

¹⁵ Cf. Foerster/Schröder (2006).

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Delivery Falls Short of Progressive Policies

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Overview of ODA

- According to provisional OECD DAC figures, in 2007 UK ODA was US\$ 9 921 million, making the UK the fourth largest donor in real terms after the US, Germany and France.
- In 2007, the share of ODA in Gross National Income (GNI) fell to 0.36% compared to 0.51% in 2006, largely due to the end of big debt relief deals.
- In 2007, just 0.7% of UK ODA was debt relief compared to 28% in 2006
- In recent years, the UK's contribution to international organisations has increased; DFID's multilateral programme accounted for 43.2 % of UK aid in 2006/07.¹
- In 2006, the UK provided 15.3% of the EC's development assistance and 15.6% of the World Bank's IDA funding.²

The 2007 Comprehensive Spending Review (CSR) puts the UK on track to meet the European collective target to give at least 0.56% of GNI as aid by 2010. If this is delivered, the UK will also seem to be on course to meet the Government's

commitment to give 0.7% of GNI as aid by 2013.

However, it is not certain that the UK will hit its ODA/GNI targets, even if ODA funds committed to DFID and other departments in the CSR are fully disbursed. GNI is hard to predict, and debt relief, which the Government continues to count towards these commitments, is extremely volatile. The UK is also putting off meeting its commitments ('backloading' the funding) - this means that the UK will be giving up to £2bn less between 2004 and 2013 than expected in the 2004 Spending Review.

Changes in Government, But a Continuation of Policy

A new UK Secretary of State for International Development was appointed in June 2007, following changes in the UK government (as Gordon Brown succeeded Tony Blair as Prime Minister). The overall focus of UK aid on poverty reduction and the MDGs (as set out in the 2006 White Paper³) remains, but there is increasing emphasis on the Department for International Development (DFID) moving 'beyond aid'. This has manifested itself in a greater emphasis on promoting economic growth in Southern countries, and an increased role for DFID in the UK's policy on

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trade, climate change and conflict/security.

UK CSOs are broadly welcoming of DFID's expanded role, seeing an opportunity to have development concerns reflected in a wider range of government policies, and greater policy coherence. However, CSOs continue to emphasise that the UK's trade, climate change and conflict/security policies need to be brought into line with poverty reduction priorities, not the other way round.

The new Prime Minister has maintained a strong focus on the MDGs and launched the MDG Call for Action together with the UN Secretary General in July 2007. The UK Government has been promoting a UN General Assembly meeting on the MDGs, which will take place in September 2008.

Dangers of the Poverty Focus of Aid Becoming Diluted

There has been some concern among UK CSOs about the objectives of aid being broadened to bring in other funding streams, without actually providing additional resources for development. For example, the UK has committed to provide £800 million over three years for a multi-donor 'Environmental Transformation Fund', which is being channelled into new climate change funds at the World Bank. This money is counted as ODA and will make a significant contribution to meeting the target of reaching 0.7% ODA/GNI by 2013.

Although environmental sustainability is a key part of poverty reduction and there is an urgent need to tackle climate change as a poverty issue, UK CSOs argue that real additional resources above and beyond 0.7% ODA/GNI need to be provided to meet the huge costs of climate change in Southern countries.

Similarly, the expansion of the 'Conflict Prevention Pool' and the creation of a Stabilisation Aid Fund, which partly counts as ODA in the 2007 Spending Review have raised concerns that security and foreign

policy objectives may be playing a greater role in UK aid spending.⁴

The UK must sustain its promises that the poorest will benefit from development efforts, including a continued commitment to promote basic services and social protection.

Improving UK Aid Quality: Making Democratic Ownership A Reality

DFID has made some progress in recent years in improving its bilateral aid programme. In areas such as untying aid, reforming conditionality and increasing the use of budget support, the UK is arguably ahead of many other donors. However, there is no room for complacency - the UK still falls short in implementing its commitments in a number of areas, and is not yet as effective as it should be in promoting real democratic ownership.

To improve ownership and plan and implement development strategies, developing countries need to be able to rely on long-term support. In its 2006 medium-term action plan, DFID committed to "provide effective long-term financial support to implement national strategies and to ensure that 100% of aid is reported on national budget".⁵ However, according to the 2006 Paris baseline survey, only 84% of DFID's aid was reported on budget and the un-weighted country average was just 48%, suggesting that DFID is significantly underperforming in a number of countries.

In 2006 the UK government disbursed only 52% of its poverty reduction budget support in the first six months of the year, despite making a commitment to disburse 100% of these funds in full by mid-year.⁶

Ownership is also still heavily undermined by donors through economic and political conditions. In 2005, DFID committed to end its use of economic conditions but has not yet demonstrated implementation of this commitment. There are particular challenges in cases where DFID is working with conditionality-heavy

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donors such as the World Bank and the IMF. DFID must continue to make implementation of its policy a priority, and must also work with other donors to reduce the overall burden of conditions. DFID must also immediately start to publish details of its conditions in all countries where it works, as promised in the conditionality policy.

The challenge of aligning technical assistance (TA), which accounts for around a fifth of UK's bilateral aid, with national systems, needs and priorities remains to be tackled. To improve the effectiveness of TA, the 2006 White Paper laid out specific implementation commitments: it needs to be demand-driven, country-led, provided through government systems and run through pooled donor funds. However, DFID is a long way from realising these commitments. For example, although the UK has committed to untie all its aid, up to 80% of centrally procured TA contracts still go to UK contractors.

Accountability and Transparency: More Work To Be Done

Improving the accountability of aid is fundamental to improving its effectiveness, and transparency forms the basis of accountability. Although the UK is supportive of mutual accountability in international fora, this has yet to be fully reflected in DFID's own operations. As the first step in this process, DFID must improve its transparency by communicating its policies, activities and impacts to recipient governments, and to parliaments and civil society.

As a result of an Act of Parliament, the UK Government must now report annually on: progress towards the Millennium Development Goals and the international 0.7% (ODA/GNI) target as well as on overall effectiveness of UK aid. The first of these reports was produced in 2007, but transparency at recipient country level must now be the priority. DFID should lead the way in adopting a policy of automatic

disclosure of all documents (e.g. conditions attached to aid and findings of evaluation reports) with a strictly limited regime of exceptions.⁷ Information must be made accessible to the wider national public, especially as documents are all too often very technical in language and style and only available in English.

Another key challenge for DFID is to make its decision-making transparent. The criteria upon which budget support (and other aid) will be disbursed or withdrawn from particular countries should be clear to recipient governments, parliaments and civil society.⁸

DFID should further contribute to better donor reporting on financial flows by providing more timely and transparent data on commitments, disbursements and future flows. This would assist long-term planning, support developing country ownership and increase accountability to stakeholders in developing countries and in the UK.

In December 2007, DFID established an Independent Advisory Committee on Development Impact as a monitoring body of UK aid effectiveness. However, its role has not yet become clear and its independence is questionable since the members have been chosen by the Secretary of State. UK NGOs have welcomed the recent appointment of a Southern representative to the Committee. However, the Committee now needs to ensure to involve a wide range of Southern stakeholders in agenda setting as well as evaluations.

Using the UK's Influence in the Wider Aid System

The next few years present real opportunities for significant changes in the aid system - the UK must make the best possible use of its influence in the EU, the International Financial Institutions and the OECD DAC.

During the IDA 15 Replenishment round in December 2007, DFID became the single largest donor to the World Bank but missed

United Kingdom

the opportunity to leverage an agreement by the World Bank to end the use of economic policy conditions. The UK should also push much more strongly for comprehensive reform of IMF/World Bank governance, which should include:

- Ending the practice of appointed chairs
- Significantly reducing European over-representation on the board
- Implementing a double-majority decision-making system
- Ensuring transparent, merit-based leadership selection
- Enshrining the presumption of disclosure as elaborated in the principles of the Global Transparency Initiative.⁹

The EU is becoming more important in the aid system. According to OECD forecasts, by 2010 more than 65% of aid will come from the EU, and the EC will be providing twice as much aid as IDA.¹⁰ The EU has already agreed to higher standards of aid quality than other donors. If it delivers these and other reforms, this could provide the basis for a step change in aid effectiveness. The UK is already one of the main providers of EC aid and needs to be more effective in driving quality improvements in the EC, including an increased focus on poverty in aid allocations.

Conclusions

CSOs welcome the UK's continued commitment to increasing aid spending, but new challenges require new commitments. The poverty focus of UK aid must be preserved and reinforced. Commitments to meet new challenges such as climate change should be matched by new funding in addition to the 0.7% ODA target.

The UK already has many progressive policies in place to improve aid effectiveness. It is now time to deliver on those commitments and focus on:

- Improving the predictability of aid and providing timely disbursements and long-term budget support
- Ending all economic policy conditions, and demonstrating this through transparent reporting
- Ensuring that technical assistance truly reflects national priorities, is aligned to country systems, and is procured locally wherever possible
- Improving accountability and transparency mechanisms at national and international level including through increased access to timely and more disaggregated information on resource flows
- Pushing the World Bank and the IMF on reform of their governance structures as well as on ending the use of economic conditionality policies
- Pushing the EC to improve its effectiveness and focus more effectively on poverty reduction.

Notes

- ¹ DFID. (2008). Statistics on International Development. p. 202.
- ² OECD/DAC. (2007). Development Cooperation Report, Statistical Data.
- ³ Available at <http://www.dfid.gov.uk/wp2006/>
- ⁴ The Stabilisation Aid Fund is a joint fund of DFID, the Foreign Office and the Ministry for Defence
- ⁵ DFID Medium Term Action Plan⁶ DFID Annual Report 2007, section 5.17
- ⁷ See the recommendations for standards of transparency at the "Charter for International Financial Institutions" by the Global Transparency Initiative. Available at: http://www.ifitransparency.org/doc/charter_en.pdf
- ⁸ See also the recent evaluation of DFID's budget support programmes by the National Audit Office recommending clearer and more transparent objectives and monitoring procedures in giving budget support. Report is available at: http://www.nao.org.uk/publications/nao_reports/07-08/07086es.pdf
- ⁹ See "Charter for International Financial Institutions" by the Global Transparency Initiative. Available at: http://www.ifitransparency.org/doc/charter_en.pdf
- ¹⁰ See 2008 EU Aidwatch report "No time to waste: European governments behind schedule on aid quantity and quality", Available at: http://www.dochas.ie/documents/Aidwatch2008_NoTimeToWaste.pdf

Bringing ODA to the Centre of Foreign Policy

*Olive Towey and Howard Dalzell
Concern*

Overview

- In 2008, Ireland will allocate €914million to Overseas Development Assistance (ODA)¹
- It is on track to meet the government's commitment to reach the 0.7% GNI target by 2012.
- Africa remains the primary geographical focus of Irish Aid².
- The Millennium Development Goals (MDGs) remain at the heart of the programme with continued investment in health, education and HIV&AIDS, alongside commitments to the productive sectors including rural development.
- Gender, Environment, HIV&AIDS and Governance have been defined as cross-cutting issues which are to inform all aid programming. In 2007, new policies on Health, Education and the Environment were published and a new strategy paper on governance is imminent.
- Ireland's development assistance remains entirely untied.
- A Rapid Response Initiative has been established to provide pre-

planned response to humanitarian crisis situations.

- A Hunger Task Force has been set up to draw on world-class expertise in support of a substantial Irish contribution to tackling food insecurity.
- In February 2008, Ireland announced the appointment of its first roving Ambassador for conflict-resolution. The ambassador will focus on Timor Leste.

Section 1 Key Policy Changes 2006-2008

White Paper on Aid and Operational Plan

In 2006, following a period of extensive internal and external consultation, Ireland's first White Paper on Irish Aid was launched. The White Paper affirms the principles underpinning Irish Aid. It provides an overarching framework for government policy and practice in overseas development and humanitarian assistance. It restates the government's commitment to reaching the 0.7% of GNI target by 2012.

It signalled a commitment to conflict prevention and resolution and peace-building, emphasising the central

importance of development cooperation to Ireland's wider foreign policy.³ A Unit for Conflict Analysis and Resolution and an annual fund of €25 million to assist conflict resolution in the developing world will be established.

The White Paper is being implemented through an Operational Plan (2008-2012), annual business plans, new policy documents, revised five-year Country Strategy Papers (CSPs) and the development of new CSP Guidelines⁴. These Guidelines, due to be published by May 2008, have been developed in consultation with Irish Aid Headquarters and Field Missions and are informed by existing DAC Principles and Guidelines and by Ireland's commitments under the Paris Declaration.

A Management Review is underway to determine what structure, systems and resources must be put in place to deliver the ambitious agenda set out in the White Paper. The results of this review and the actions which follow will exert a major influence on the effectiveness of the next steps of implementation.

Irish civil society and aid modalities

Irish Aid's support to civil society has become more systematised. The Civil Society Fund (CSF), operational since mid-2006, has consolidated seven former schemes which support development NGOs, while the second five-year Multi Annual Programme Scheme⁵ (2007-2011) provides over €400 million per annum to the five participating organisations. Within the latest CSPs there is also a gradual shift towards supporting civil society networks through 'pooled' funding.

Policies on Civil Society and on Local Development will be published shortly. The former will set down a framework for Irish Aid's partnership with civil society, including support for democratisation, human rights and governance. The latter will outline why and how Irish Aid supports development at the local level.

As aid modalities have changed in recent years, Irish Aid has continued to work at the district and sub-district levels. The evolution on modalities and the likely drift to budget support is an issue which Irish Aid will keep under close review.⁶ Irish Aid is keen to maintain a mix of aid modalities, including budget support and funding administered by the International Financial Institutions, depending on country specific contexts and needs.

Section 2

Aid Effectiveness:

Democratic Ownership and Human Rights.

With the significant recent growth of the Irish aid programme comes an increasing challenge of ensuring optimum quality and effectiveness of that aid. The Paris Declaration is considered by Irish Aid as the roadmap for improving aid effectiveness. It features prominently in the White Paper, has also been incorporated into the Multi Annual Programme Scheme (MAPS), the CSF and CSP Guidelines and the revised CSPs, each of which has a section on Aid Effectiveness and some of which (e.g. Uganda) set down specific objectives in relation to aid effectiveness.

Aid concentration and harmonization

The EU Code of Conduct on Complementarity and Division of Labour in Development proposes that EU donors focus their involvement in a partner country on a maximum of three sectors. Recent Irish Aid programmes show clear advancements in this context, achieving greater harmonization with other donors. In Zambia, Ireland has decided to withdraw from the area of health and to further develop its education programme so as to become the lead donor on education. These decisions have been guided by the importance of the sector in reducing poverty, Irish Aid's relative contribution (expertise and financial), the number of

Ireland

like-minded donors within the sector, and the sector's need and capacity to manage funds effectively. Over the last four years, Irish Aid's focus in Tanzania has narrowed from 13 sectors to three, each of which is aligned to the national growth and poverty reduction strategy.

Ownership - Central to the Paris Declaration is the principle of ownership. Ireland's Minister for Foreign Affairs recently stated that: "The [Irish] government particularly believes that the governments and people of our partner countries are primarily responsible for their own development and should lead the development process, just as the Irish government did in the past here at home."⁷ CSPs are designed around national country processes and informed by detailed contextual analysis, lessons learnt under the previous CSP and increasingly by assessment of comparative advantage and ways in which donors can complement each other.

Democratic ownership - Increasing democratic ownership by ensuring strong civil society participation in local and national processes is seen as particularly important in the context of the Paris Declaration which is a 'government to government' agreement. Irish Aid's policies and guidelines on Civil Society and Local Development seek to strengthen civil society, promote participation in consultation processes and grow capacity to monitor the implementation of government policy.

Governance - The commitment to democratic ownership and accountability is further strengthened by Irish Aid's actions in the area of governance. Governance is one of the four cross-cutting themes in the White Paper and spending is estimated at 15% of overall programme expenditure. Every programme country, with the exception of Timor Leste and Sierra Leone,

has a Governance Advisor and every CSP has both a background section on political/governance issues and a Governance component in the paper. Included in governance initiatives are support for parliaments, public financial management, watchdog organisations and institutions of redress, media organisations including local media, citizenship education, human rights and independent local policy analysis institutions. Tracking expenditure and the extent to which participatory principles are in place are examples of the ways in which implementation of governance is monitored.

Governance clearly has a political dimension and the Political Division of the Department of Foreign Affairs is regularly consulted on governance programming issues. A new strategy paper on Governance is imminent and will set out lessons learnt to date in governance work, the rationale for addressing governance, challenges to be faced and the main priorities to be addressed by Irish Aid.

Human rights

Human Rights are given particular emphasis within the White Paper and Ireland is a strong supporter of the UN human rights machinery, including the Human Rights Council established in 2006. At regional and national level, it supports systems such as the UN Special Court in Sierra Leone, working for the protection and promotion of human rights. By strengthening government systems and in-country human rights institutions - in particular through legal training - Irish Aid aims to 'bring to life' the language of rights.

Promoting debate

Growth in Irish ODA has fuelled public debate about governance and corruption in the developing world. The government has responded by addressing key issues via newspaper articles, radio interviews and other media channels. A broader

communications and awareness raising strategy has included the opening in 2008 of a new Information and Volunteering Centre in Dublin's city centre. Much of this communication reinforces the principle that Irish Aid's programmes seek to work in partnership with poor and vulnerable people so that they can claim and promote their rights.

In 2007, Irish Aid hosted a DAC Workshop on Development Effectiveness in Practice⁸ and in 2008 Ireland will co-chair with Tanzania the Working Group on Mutual Accountability at the High Level Forum on Aid Effectiveness in Ghana⁹.

Conclusions

The Irish government has made serious attempts to begin the implementation of

the White Paper, and to align these efforts with existing commitments to the MDGs and the Paris Declaration. It is too early to say whether adequate mechanisms and manpower will be put in place to ensure these steps are sustained and result in effective delivery on plans and policies. That said, Ireland has brought overseas development policy from the margins to the centre of Irish foreign policy in a few short years. Therefore it can certainly be hoped that political ambition will be equalled by results, enabling Ireland to be a leader in the fields of overseas development and humanitarian assistance.

Notes

- ¹ Ireland is strongly supportive of the current definition of ODA.
- ² Malawi and Vietnam have become the newest partner countries bringing to nine the number of Irish Aid programme countries.
- ³ White Paper on Irish Aid, 2006.
- ⁴ Irish Aid's 'Operational Plan' is also aligned to the 'Strategy Statement' of the Department of Foreign Affairs.
- ⁵ The abbreviation of Multi Annual Programme Scheme is MAPS.
- ⁶ Tanzania Country Strategy Paper (2008-2011).
- ⁷ 'Why Ireland has got it largely right on foreign aid' by Minister for Foreign Affairs Dermot Ahern, Irish Times, January 12, 2008.
- ⁸ The full title of the DAC workshop was 'Development Effectiveness in Practice - Applying the Paris Declaration to Advancing Gender Equality, Environmental Sustainability and Human Rights.
- ⁹ The High Level Forum on Aid Effectiveness will take place in Accra, Ghana in September 2008.

A New Commitment to International Co-operation

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Overview

- The Netherlands is one of the most generous DAC donors in terms of the proportion of national income dedicated to ODA.
- Since 1997, successive governments have fixed ODA at 0.8% of GNI.
- In 2007, ODA amounted to 4.7 billion euros.
- In 2007, the new coalition government committed to making an additional 50 million euros of development co-operation funding (over and above the 0.8%) available each year specifically for sustainable energy.
- The government has renewed focus on achieving the MDGs.

1.1 billion euros (the largest being DRC, 360 million, and Nigeria, 350 million). Of this, 1 billion was export credit debt. This amounts to at least 20% of ODA in the same period.

The evaluation concluded that the Dutch government 'earns' from debt-cancellation. It found that costs were covered by ODA funds from the Ministry of Development Co-operation but the benefits went to Dutch export rather than poverty-eradication. This year (2008) the cancellation of export credit debt will amount to 301 million euros (around 6 percent of the budget).

There would have been an even greater effect on the ODA calculation if the government had not decided against a move to include security-related expenditure in the OECD-DAC criteria.

The Debt-Cancellation Effect

However, the headline figures do not tell the whole story about the level of aid.

The reported ODA figure is inflated by the amount spent on cancellation of export credit debt. In a recent evaluation of Dutch policies in Africa, the amount of debt cancellation for countries in Sub-Sahara Africa between 1998-2006 was estimated at

The New Agenda: Focus on Achieving the Millennium Development Goals

There are, however, good reasons for optimism for the future. In 2007, the Netherlands came in first on the 2007 Commitment to Development Index and fourth on the Humanitarian Response Index.¹ After a number of years in which international co-operation was mentioned last, the new Coalition government

The Netherlands

announced last year that the *first* pillar of their agreement was a commitment "to strengthening international co-operation and the international legal order, and investing in the sustainable development of countries blighted by poverty".²

The new cabinet promised a stronger focus on achieving the Millennium Development Goals (MDGs), the harmonization of bilateral aid and pursuing new initiatives for "substantial debt relief". It said that Europe "must make a concerted effort to promote the position of poor countries within international organisations such as the WTO. Developing countries should be encouraged and helped to play a much greater role in the world trade system".

The Minister for Development Co-operation presented his new policy on 16 October 2007 setting out four areas where government was to step up efforts:

- (1) *The fragile states* - which are lagging furthest behind on the MDGs. The emphasis that donor countries have placed on good governance has led to a situation where the countries that need assistance most do not receive it because they do not meet the criteria.
- (2) *Equal rights* - opportunities for women; sexual and reproductive health and rights.
- (3) *Growth and equity* - to help bridge the gap between rich and poor, both between and within countries.
- (4) *Environment* - Greater recognition will be given to the importance of the environment and energy in achieving all MDGs and to the impact of climate change. The government intends to take the lead on measures to mitigate climate change and has recognized

that extra funds will be necessary for adaptation, although it has not yet made them available. It believes that adaptation should be organised according to the 'polluter pays principle.'

NGOs concerned about areas where progress towards achieving the MDGs has been slow - *fragile states, gender and women's rights* - have been encouraged by the new priorities. However, they argue that the funds necessary for the climate change agenda must be on top of ODA because of the need to support the MDGs.

The Role of Budget Support

Development countries need long-term, predictable aid that is based on nationally-owned plans, and aligned to national budget processes. The aid needs to become part of their budget (i.e. budget support) so that they can use it to finance their own plans to increase access to basic services. The kind of budget aid needed is tied to clear outcomes on health, education, gender equality, and other targets contained in the MDGs. In particular, achieving the MDGs would require the recruitment of around two million teachers and more than four million health workers. This requires real long-term planning and investment. It needs to be based on plans that are designed by developing-country governments themselves, in consultation with civil society, and agreed by parliaments. It should only be given to countries that are tackling corruption and which can ensure that the money is clearly accounted for.

However, despite the Netherlands being among the driving forces within the DAC promoting budget support, only a small amount of Dutch aid is provided in this way. In 2007, 5% of net aid came as general budget support. The Netherlands currently uses a mix of general budget support with earmarking, and sectoral budget support.

The Netherlands

Policy coherence

The Netherlands has become more coherent in areas of investment, trade and environment, but less coherent in its development co-operation and migration policies and the transshipment of arms. Meanwhile, the practice of referring to EU decision-making tends to shift responsibility for coherence issues to Brussels at a time when there is a lot of criticism at the lack of coherence within common European policy. Dutch NGOs have called on the government to stop financing export credit debt cancellation from the ODA budget and ensure that gender equality is a key theme in all aid modalities. In addition, Dutch NGOs are concerned that the Dutch government is still reluctant to take a

strong position on economic policy conditionality. While the government's position is somewhat critical of old-fashioned economic policy conditions, and is pushing for increasing the use of Poverty and Social Impact Analyses to assess the impact of specific economic policy recommendations on development, the government has not taken steps to explicitly refuse the use of economic policy conditions in aid. This means that there has been little progress overall in Dutch policy coherence during the past two years and this is an area where the Netherlands has room for improvement. The top ranking the country received from the Center for Global Development can to some extent be explained by the lack of progress by other rich countries.

Notes

- ¹ Commitment to Development Index 2007, Center for Global Development. The index ranks 21 of the world's richest countries on their dedication to policies that benefit the five billion people living in poorer nations. The Humanitarian Response Index, ranking 23 OECD/DAC countries that endorsed the Principles and Good Practices of Humanitarian Donorship (GHD), considered to be the international benchmark for best practices in humanitarian action, is developed by the Madrid-based evaluation agency DARA.
- ² Coalition agreement between the parliamentary parties of the Christian Democratic Alliance, Labour Party and Christian Union, 7 February 2007.

Aid Gap Leaves Questions Over Commitment

*“Global Responsibility -Austrian Platform for Development and Humanitarian Aid”
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ODA in 2006

- Official Austrian ODA in 2006 was US\$1,498m, representing 0.47% of GNI.
- This was down (6.9% in real terms) from US\$ 1,573m in 2005, which represented 0.52% of GNI.
- However, debt relief grants make up a dramatic proportion of overall ODA - in 2006, 50% of ODA referred to debt relief in Cameroon and Iraq. Equally, in 2005, the ODA figures were more than doubled with the inclusion of US\$ 904m in debt relief grants to Iraq and Madagascar.
- “Real” ODA - net of debt-relief and such items as the imputed cost of foreign students and refugee housing - in 2006 was only 0.2% of GNI.¹
- In 2006, Austria spent US\$ 406m for multilateral activities. US\$ 236m went to EU development activities, US\$ 98m to IDA, US\$ 36m to regional development banks and US\$27m to UN organisations.

Given that Austria’s apparent good performance in spending on ODA is heavily based on debt relief initiatives and that

debt cancellation will probably come to an end in 2009, it is not at all clear how Austria will meet its ODA commitments (0.51% of GNI by 2010). So far, no budgetary forecasts beyond 2008 or binding political obligations exist.

Despite the European initiative to put policy coherence into political practice, most of the ODA activities are not coherent at all. The Austrian Ministry of European and International Affairs (BMeiA) is legally in charge of implementing policy coherence for development, but has so far started only informal dialogues with other ministries and stakeholders of various interests.

Only the bilateral core budget for development co-operation, implemented by the Austrian Development Agency (ADA) and amounting to US\$ 119m (8% of Austrian ODA), meets the internationally-agreed quality standards. Most of the remaining budget reported as ODA is spent by the Ministry of Finance, the Ministry of Science and Education and the Ministry of Interior, and therefore, in many cases is not in line with development priorities. Expenditure for debt cancellation, imputed student costs and asylum seekers reflects neither DAC principles nor effective aid efforts.

Austria

New Trends in Austrian Policy

Increasing focus on private sector development and co-operation with business

An *Austrian Development Bank* was due to start operations in March 2008. Established as a subsidiary of the Austrian export credit agency OeKB, its aim is to support long-term private-sector investment in developing countries and economies in transition.

Austrian CSOs lobbied for a strong development orientation for this new institution, which should be reflected in its strategy, expertise, structures, and the process of project-appraisal, monitoring and evaluation. Key issues are the observance of internationally-recognized standards; safeguard mechanisms; participation of stakeholders; transparency; and public accountability.

There are some positive signs. It is committed to: observe the Austrian Act for Development Cooperation and link to its three-year-programme; untie aid; co-operate with other European development banks including the German DEG; report to Parliament; conduct regular evaluations; and enter into dialogue with civil society.

It remains to be seen whether the Bank will contribute primarily to development and poverty-reduction or merely serve the interests of Austrian business. These concerns are exacerbated given that its operations are regulated by the Austrian Export Credit Act and that it is ultimately accountable to the Ministry of Finance.

Finally, it must not be forgotten that, overall, its contributions to ODA will remain limited and that increases will still need to be sought elsewhere.

Aid-effectiveness and human rights as new paradigms for development co-operation

A 2007 update of the three-year Austrian Development Cooperation Programme recognised the “enormous challenge of delivering more and better aid” and suggests stronger concentration on focus countries and sectors; division of labour within the donor community; active participation in donor co-ordination processes in partner countries; support for national parliaments and civil society, and increased engagement in international organisations.

In 2006, the Development Agency and the BMeiA published policy documents on good governance and human rights which function as political guidelines for state-funded development assistance.² Both documents stress direct links with the aid-effectiveness agenda of the Paris Declaration and underline the importance of systematic harmonisation and alignment in order to “increase the effectiveness of work, lower transaction costs and promote ownership of and alignment to Austrian Development Cooperation partners”.³

The policy document identifies three intervention levels in terms of human rights: integration of human rights perspectives into all areas of development co-operation; human rights promotion as a sector intervention; and human rights as part of “political dialogue”. It says “The aim of political dialogue... is to increase the effectiveness of programmes by aligning them with national development strategies... by promoting transparency and harmonisation and hence strengthen the partner government”.⁴

Good governance is both a crucial precondition and result of effective development cooperation. In this context, Austrian Development Cooperation puts a strong emphasis on ownership, with the participation of all relevant social groups. In more precise terms, this is a commitment to

“democratic ownership”, especially recognizing civil society organisations and democratic institutions (in the South) as partners in the implementation processes.

However, it remains largely unclear what these commitments mean in practice and to what extent Austrian development cooperation has significantly changed with respect to aid effectiveness and human rights since the Paris Declaration was signed. Significantly, human rights discussion and strategies have been almost absent in Austria’s preparation for the Third High-Level Forum in Accra in September 2008.

Overall, Austria can be seen to be still in a starting phase, but has initiated the following:

1. capacity and awareness building, including for parliamentarians and local civil society (to overcome major deficits in this field in recipient countries)
2. budget support to selected partner countries such as Nicaragua, Uganda and Mozambique with which Austria has long-term partnership experience (started as a pilot phase in 2005). So far, this has focused exclusively on sector budget support (e.g. Austria has taken on donor coordination in the water sector in Uganda and supports the health sector in Nicaragua.
3. minimal support to international trust funds in areas such as health, gender, environment or governance⁵
4. some regulations regarding project funding show an increasing tendency to prove that projects support the Austrian policy focus or national development plans in the respective countries
5. recognising that NGO projects can contribute to strengthening local civil society or institutions

Public debate on the Paris Declaration

Discussion on the Paris Declaration and its consequences for development co-operation intensified in Austria during 2007. Various public events, workshops and discussion forums were organised, and the non-state development actors initiated debate around their reading of the Paris Declaration and the relevance of effectiveness-related questions for Austrian CSOs themselves and their work in partner countries.

This debate continues among the various stakeholders and the CSO umbrella organisations.. In 2006, an internal paper on civil society perspectives on the Paris Declaration circulated among CSOs.⁶ Lively discussion among Austrian NGOs⁷ resulted in a joint paper by AGEZ and the Austrian EU Platform⁸ about their roles in the light of recent trends, including the Paris Declaration. Crucial for Austrian CSOs is the somewhat narrow perspective and very technical approach of the official aid-effectiveness agenda.

Once more, whilst Austrian Development Co-operation shows apparent commitment to the principles of democratic ownership, decentralization, transparency, participation and local accountability, a closer look is needed to identify overlaps and differences between official perceptions and those of the CSOs.

The following proposals emerged from the Austrian NGO perspective:

1. *Broaden the agenda from aid-effectiveness to the quality of development co-operation.*

This would cover systemic issues and the coherence of policies and require special measures to counteract imbalanced power relations.

Austria

2. *Agree on the aims and types of aid as a basis for alignment.*

Alignment requires common understanding of aims and processes. CSOs view development as empowering people to improve their own lives and contribute to the common good. Development cooperation partners need to work together towards the common agenda of poverty reduction and human rights for all. This approach also needs qualitative and quantitative monitoring of the impact on poverty on the ground. Nevertheless, harmonisation should allow flexibility and diversity in order to avoid support gaps in crucial areas.

3. *Promote broad-based democratic ownership*

National development strategies can only function as a useful basis for ownership if they are themselves products of a broad participation and consultation process within the societies concerned. This is threatened in practice by a lack of both political will among the elites and capacity among marginalised sections of the population. Donor countries themselves are responsible for securing conditions of broadest possible participation in the formulation of national development strategies, ensuring transparency and fostering local accountability.

The role of NGOs

Austrian NGOs are trying to integrate human rights aspects into development policy in a systematic way, from project co-operation to advocacy. In particular,

lobbying and training has been done regarding the right for food, women's rights, children's rights, the right for health care (e.g. in the context of HIV/AIDS) and the social rights of disabled people. They call for full local participation in development policy processes.

However, official Austrian development co-operation tends to see only a limited role for CSOs in the future, mainly restricted to implementing innovative pilot projects, to being partners in policy dialogue and acting as "watchdogs".⁹ It sees the primary role of Northern CSOs as that of supporting Southern civil society through capacity-building and networking; their contribution to raising development-awareness in the North does not get much attention in the recent three-year programme.

In contrast, the CSO draft paper of 2006 underlines the importance of CSOs as respected development actors in their own right. Their strengths are their diversity; focus on the poorest and most-marginalised groups of society; commitment to equal rights; and closeness to the grassroots. They identify a diversity of tasks that need to be taken on by CSOs:

- Supporting and implementing projects at grass-roots level or in fragile states.
- Contributing practical and scientific experience and expertise.
- Capacity building and empowerment of Southern partners.
- Building bridges and networking from national to international level.
- Awareness raising and advocacy in the North to influence global politics.
- Contributing to the formulation of development policy and strategy
- Acting as watch-dogs and monitoring implementation.

- Campaigning or mobilising movements developing alternatives.

CSOs are challenged by the Paris Declaration to make their work more effective in their own way, without simply following government frameworks. Thus, acceptance of CSOs and their roles in (effective) development processes cannot be their alignment with the development policies of the donor states. They are not subject to official donors' interests, but have an important role to play in giving voice to otherwise neglected needs and perspectives and they may need to be critical of national development policies.

Conclusion

The debate over Austria's official development co-operation policy in the light of the Paris Declaration continues. Whilst the government is emphasising aid effectiveness in its policy documents (if not yet fully in practice), human rights based approaches and the issue of power relations are not clearly addressed.

The Declaration also tends to increase pressure on NGOs to fulfil a rather limited complementary role such as capacity

building for local civil society or experimenting with innovative pilot projects. This limits the space of NGOs as actors in their own right and the diversity of their roles with regard to development policies.

These are matters that Austrian Civil Society is challenged to engage with and thereby review its own effectiveness and added value.

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Abbreviations:

ADA: Austrian Development Agency (state owned agency for development cooperation)

BMeiA: Federal Ministry for European and International Affairs (Austrian Foreign Ministry)

OEZA: (Public) Austrian development cooperation

Notes

- ¹ CONCORD: Hold the Applause! EU governments risk breaking aid promises. April 2007 (<http://doku.cac.at/aidwatchreport.pdf>)
- ² Federal Ministry for Foreign Affairs, Good Governance. Policy Document, 2006, Vienna (http://www.ada.gv.at/fileadmin/user_upload/ADA/media/2-Aussenpolitik_Zentrale/OEZA_ab_Februar_2006/2380_policy_document_good_governance_web.pdf); Federal Ministry for Foreign Affairs, Human Rights. Policy Document, 2006, Vienna (http://www.ada.gv.at/fileadmin/user_upload/ADA/media/2-Aussenpolitik_Zentrale/OEZA_ab_Februar_2006/2379_policy_document_human_rights_web.pdf)
- ³ Federal Ministry for Foreign Affairs, Good Governance. Policy Document, 2006, Vienna, 15
- ⁴ Federal Ministry for Foreign Affairs, Human Rights. Policy Document, 2006, Vienna, 15
- ⁵ OEZA Bericht 2006, Teil II (http://www.bmeia.gv.at/fileadmin/user_upload/bmeia/media/2-Aussenpolitik_Zentrale/EZA/4844_oeza_bericht_teil_ii.pdf)
- ⁶ Johannes Trimmel, Stellungnahme der NGOs zur Pariser Erklärung [NGO comment on the Paris Declaration] (unpublished paper), 2006, Vienna
- ⁷ In April 2008, the new Austrian NGO umbrella organisation "Global Responsibility - Platform for Development and Humanitarian Aid" has started to operate as a successor of AGEZ and the Austrian EU Platform of Non-governmental Development Organisations.

Austria

⁸ AGEZ & Austrian EU-Platform of Non-governmental Development Organisations, Die österreichischen NGOs der Entwicklungspolitik und Entwicklungszusammenarbeit - ihre Rolle jetzt und in der Zukunft: ein unverzichtbarer Partner für die OEZA und die Länder des Südens [Role of the Austrian NGOs in development policy and cooperation], March 2006 (<http://www.oneworld.at/agez/Positionspapier%20Rolle%20der%20NGOs%2027-3-06.pdf>)

⁹ Federal Ministry for Foreign Affairs, NGO cooperation. Policy Document, 2007, Vienna (http://www.ada.gv.at/fileadmin/user_upload/ADA/media/2-Aussenpolitik_Zentrale/OEZA_ab_Februar_2006/2664_ngo_cooperation_policy_document.pdf)

The Changeability of Aid

Els Hertogen

11.11.11 - Coalition of the Flemish North South Movement

Belgium At A Glance

- In 2006, Belgium gave 1,575,720,347.00 Euros, which is the equivalent of 149.47 Euros per person.
- ODA from Belgium rose by a meagre 1.8 million Euros in 2006 compared to the previous year
- The percentage of GNI given dropped slightly from 0.53% in 2005 to 0.5 % in 2006 and then to a mere 0.43% in 2007..
- Almost 25% of this 'aid' is inflated with debt cancellations and costs for the reception of refugees.
- Belgium was fourteenth amongst the OECD donors in absolute figures and ranked eighth by percentage of ODA in relation to GNI.
- In 2006, Belgium spent 123.6 million Euros on education (7.8% of total ODA), 110.1 million Euros (6.9% of total ODA) on health and 43.9 million Euros (2.7% of total ODA) on water and sanitation.

Main Developments in Belgium's Aid

"In 2005, the OECD-DAC report made a promising assessment of our development cooperation policy. The

DAC congratulated Belgium for its commitment to reach the 0.7% norm by 2010, on its geographical concentration and on the increasing aid figures. Despite a difficult budgetary context, Belgium will stick to its promise to reach 0.7% by 2010. "

- Former Prime Minister Guy Verhofstadt in a speech to the Belgian Technical Cooperation, 6th February 2007

The changing pace of Belgian aid

In December 2001, Belgium confirmed by law its commitment to reach the 0.7% target by 2010. Since then, the level of Belgian aid has been very changeable. The Belgian government blames the latest fall since 2006 on the political crisis in the second half of 2007 while Belgian NGOs blame a lack of political will.

Year	Percentage of GNI given by Belgium
2002	0.43%
2003	0.6%
2004	0.41%
2005	0.53%
2006	0.5%
2007	0.43%

Belgium

The main cause for this instability is that Belgium inflates its aid with considerable amounts of debt relief, which tend to fluctuate substantially from one year to the next. If debt relief is subtracted from the overall budget, Belgian aid remains more or less stable at 0.38% of GNI.

Given the fact that possibilities for debt relief will disappear in coming years, a serious commitment to real aid must be made, particularly if the 0.7% target is to be met. The preliminary 2008 budget aims to reach 0.5%, of which approximately 58% will be spent by the Directorate-General of Development Cooperation (DGDC) and the rest by other departments (finance, external affairs and internal affairs) and regional governments.

In 2005 the DAC congratulated Belgium on its efforts at geographical concentration and Belgium has continued with this focus. The new Minister of Development Cooperation intends to further decrease the number of partner countries of which there are currently eighteen. The Belgian government launched the idea of slowing down cooperation with middle-income countries in terms of aid, instead: seeking other forms of collaboration, developing efficient exit strategies, focussing the extra aid money on Central Africa etc. Currently, Belgium has no adequate exit strategy and, in 2006, expenses were still budgeted for 36 developing countries. In principle, Belgium wishes to further geographic concentration, but there are questions on how this will be implemented.

According to official statistics based on the 2001 OECD-DAC recommendation, 97-99% of Belgian aid is untied. This figure however, also includes multilateral aid, which in itself is untied. According to 2007 OECD DAC figures on bilateral aid, only 90,7% is untied. The fact that technical assistance (which makes up 40-50% of total Belgian aid) is not being taken into account in the figure makes it difficult to have an exact idea on the untying of Belgian aid. In 2002, Belgium decided to make all aid given under the budget of development cooperation untied,

except technical assistance. Nonetheless, this decision implies that budget posts such as loans from state to state, which fall under the responsibility of the Department of Finance, also remain tied.

Institutional changes

The autonomy of Development Cooperation from Foreign Affairs remains an issue. After the 2003 elections, a Minister of Development Cooperation was appointed, as was requested by Belgian NGOs. However, the decision to integrate the budget of Development Cooperation into the budget of Foreign Affairs diminished his influence on the aid budget substantially, undermining his overall power. The Ministry of Foreign Affairs also has responsibility for discussions on good governance.

Additionally, the Belgian development administration went through some fundamental reforms in 1999, which have taken some time to digest. There remains concern in filling the roles of the different institutions involved in bilateral cooperation. The relationship between the DGCD - responsible for policy making - and the Belgian Technical Cooperation (BTC) - responsible for policy implementation - remains a difficult one. Although the management of both institutions is committed to ensure dialogue between the two, this is not always the case in practice. The DGCD is not substantially equipped - due to a lack of experts - to fully take up the responsibility of policy making.

Criticism has also been directed at the BTC, since too many decisions are being made in Brussels. Although the BTC is making efforts to decentralise the implementation of Belgian development policy, there is not a strong framework within which the Belgian delegates can operate efficiently.

De-federalisation remains a political issue in Belgium, but has not been implemented so far. A new round of state reforms is to be prepared in 2008. Belgian NGOs will look closely at this discussion and continue stressing the contradiction

between a de-federalisation of development cooperation and principles such as concentration, harmonisation and coordination.

Aid Effectiveness

In June 2007, Belgium released a 'Plan on Harmonisation and Alignment' (H&A). In this plan, Belgium focuses on the implementation of the Paris Declaration:

- Belgium aims to respect the country's PRSP by aligning to the priorities set in it. It will adjust its own programming cycle to the Mid-Term review rhythm of the PRSP cycle of the partner country.
- Belgium aims to shift from service delivery to local populations to strengthening the capacities of national institutions by giving technical assistance.
- Belgium will invest in capacity building of procurement systems.
- Belgium will concentrate on only two sectors per partner country to foster active partnership and participation in policy dialogue.
- Belgium will increase budget support.
- Two evaluations are foreseen on how Belgium implements its Plan on H&A.

This plan is full of intentions in terms of procedure, but it lacks statements about concrete priorities. Furthermore, it refers to national ownership as defined in the Paris Declaration. The concept of democratic ownership is not used, nor is civil society in general referred to. This plan has only been operational since June 2007, so it is too early to see any major shifts in Belgian development cooperation spending.

The Minister of Development Cooperation wants to take some concrete steps to further concentrate on both geographical (supra) and sectoral levels. The selection of just two sectors per partner country - one social and one economic - will happen on the basis of the Belgian delegate's analysis stemming from the partner country's PRSP and dialogue with the recipient government. While the intentions of sectoral concentration can be encouraged, its definitions of 'social and economic sectors' are too vague to be workable. Moreover, too much power is laid in the hands of the Belgian delegates in the partner countries. A much stronger framework is required.

Belgium has been giving budgetary support since 2005 and has developed strongly on this issue. Since Belgium does not have the capacity to do a qualitative follow-up and hardly influences policy dialogue because it is a relatively small donor, it will only give general budget support in a delegation of the EC or the World Bank.

Within the framework of alignment and harmonisation, the Belgian government also decided to delegate some of its funds to other donors, who have more experience in certain areas. It is necessary to be aware that there may be a hidden agenda behind this decision. Some argue that the Belgian Technical Cooperation (BTC) (the institution responsible for the implementation of development policy) is being weakened by this decision, since the implementation of certain programmes is being handed out to other institutions. Therefore, we need to stress that to attain good quality development cooperation, strong Belgian institutions and administrations are needed. The Belgian government should invest in the strengthening of these institutions instead of weakening them. Also, a sound framework on delegated forms of cooperation needs to be elaborated.

Neither democratic ownership nor NGOs in general are mentioned in the Plan

Belgium

on H&A. Nevertheless, the Belgian government does invest in strengthening civil society capacity. It has a programme which directly funds local southern NGOs. However, this is managed by Belgian delegates in the countries and there is no guiding framework or coherent policy to guide their work, which therefore depends on the personal interest and will of the local delegate to decide on budget usage. Another means of support is that the Belgian government also co-funds Belgian NGOs and several Southern NGOs are funded through Northern (Belgian) NGOs. Some Belgian NGOs have the explicit goal of strengthening local civil society.

In the policy statements by the Minister and DGCD special attention is given to cooperation between the Belgian government and Belgian NGOs. There is to be more involvement in the preparation of the mixed commissions which prepare the new indicative programmes with partner countries. This will hopefully aim at true dialogue, rather than an attempt to align NGOs to government policies. However, in this context, it is somewhat worrying that NGOs will be asked for complementarity with the Belgian governments sectoral and geographical concentration, while no

qualitative consultative framework exists at this moment.

Human Rights

Although human rights are inscribed in Belgian Law on International Cooperation as a principle and a goal, and both the Department of Foreign Affairs and Development Cooperation work on this issue, it is difficult to see how this is being implemented in practice.

From a development perspective the focus lies on children's rights, which are inscribed in the Law on International Cooperation as a cross-cutting theme meaning that they should be taken into account in every programme of Belgian development cooperation. However, up to February 2008, there had not been a specific budget for this issue. While efforts are being made to help reach MDG 2 (basic education, which is a child's right), budgetary analysis points out that finance tends to go to higher education, particularly through scholarships. The DGCD awaits extra funds, but these will only be available if the Belgian government decides to make a true effort to achieve the 0.7% goal.

Finnish Development Co-operation: Focus on Climate Change

Matti Ylönen
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Overview

- Finnish ODA in 2007 amounted to 711 million euros.¹
- Finland channels 31.5% of its ODA through bilateral aid, 28.8% via multilateral institutions, 12.6% to humanitarian aid and 11.8% to development co-operation projects carried out by CSOs.²
- Finland is seeking to focus its aid on fewer countries and sectors
- Far-reaching changes have been made to Finnish development policy by the new government elected in March 2007. The key changes are:
 - o Greater stress on issues of climate change and the environment.
 - o A stronger focus on sustainable development

New Priorities and Challenges Under a New Government

The new government (a coalition of the right-wing Centre, Coalition and Swedish Peoples' parties, together with Greens) had its new development policy programme, *Towards Sustainable and Just World Community*, ratified in October 2007.

The new programme was agreed after the first-ever plenary session in the Finnish Parliament devoted completely to development issues. Stated aims were that "Finland's development policy stresses to a greater extent the significance of climate change and environmental issues, crisis prevention and support for peace processes".

Sustainable development is the main theme. Within this, economic, ecological and social aspects are all taken into account, but the main emphasis is on ecological issues and crisis management, linking in to the process started by the 1992 United Nations Conference on Environment and Development. Compared to the previous development policy programme, the importance of sustainable development was strengthened, while poverty reduction remains as a main goal of Finnish development policy.

The new programme also contained a revised timetable for increasing ODA commitments. The target is now for ODA to reach 0.51% of GNI in 2010 and 0.7% by 2015. This is in line with UN and EU targets, but is less ambitious than the previous government's goal of reaching 0.7% by 2010. However, with aid this year (2008) predicted to be 0.44% and GNI growing steadily, Finland is unlikely to be able to meet the EU mid-target of 0.51% by 2010.

Finland

Finland is also seeking to focus its aid on fewer countries and sectors, with transition strategies for those countries where development co-operation is being phased out.

Finnish development NGOs have been happy to note that the programme is committed to key principles of complementarity, effectiveness and cohesion. They have welcomed a pledge that Finland will particularly seek to take developing countries into consideration in trade, rural (agriculture) and environment policy and they are hoping to see real change in overall development policy coherence.

Effects of the New Programme

As Finland is set to continue to concentrate ODA (generally) on three sectors in each main partner country, the new focus could make a big difference to the impact of Finnish policies on these countries. Concerns have been raised that work in some of the traditional core areas of Finnish development co-operation - such as social sector policies and support for vulnerable groups - will suffer as a result of the new priorities.

However, a big concern is that the new programme lacks both precise targets or guidelines for aid allocation- and ideas on how to increase attention to identified key cross-cutting themes such as gender equality and vulnerable groups. An exception to this is the stronger emphasis on environmental issues, natural resources and security

The lack of concrete targets and indicators - as well as being among the biggest concerns of Finnish CSOs - is also a departure from the earlier development policy programme of 2004. It remains to be seen how well human rights, aid effectiveness and democratic ownership will be taken into account and how the progress or lack of it is going to be measured.

The effect of the new programme on MFA funding decisions are still not clear. The Finnish Minister for Foreign Trade and Development, Paavo Väyrynen, has stated that social sector projects would be natural role for CSOs in the framework of sustainable development, signaling a shift away from comprehensive social policies approach. On the other hand, development research grants distributed in Autumn 2007 had focus on new environmental priorities.

On-Going Debates

- *Budget support.* Under the previous government, Finland had begun to increase the use of budget support. The new programme declared that the "role of budget support in our development co-operation will be considered in the near future." Changes seem, however, to be underway. In late 2007, the Finnish embassy in Mozambique wanted to increase the share of budget support in development aid, but the request was rejected by the MFA.³ This decision was at odds with a commitment to stress local expertise in such decisions. It remains to be seen whether this was an exception or a sign of a change in policy.
- *Outsourcing.* There has been discussion about the MFA outsourcing administration of small NGOs funding decisions. Outsourcing can be seen partly as a result of pressure to cut down the Ministry's administrative costs in line with the government's efficiency program at a time when the gross amount of ODA is increasing.
- *Peace-keeping.* Minister of Defence Jyri Häkämies proposed in 2007 that peace-keeping expenses should be included in Finland's ODA figures. This would be a major departure from Finland's good

record on this issue in OECD DAC peer reviews. Up to now the proposal has not resulted in any action.

Aid Effectiveness, Democratic Ownership and Human Rights

Finnish development policy is guided by the government programme and the development policy programme. Other important guiding documents are the UN strategy and strategy for multilateral aid. At the time of writing, both documents are being rewritten, to be published in Spring 2008.

Internal policy papers help focus work related to specific issues. Examples include policies or guidelines on: humanitarian aid (2007); the health sector (2007); HIV/Aids (2006); education (2006); ICT and information society (2005); and aid for trade (to be finalised). Currently MFA does not have a gender strategy in effect.

In preparation for the Accra high-level forum, Finland has chosen its aid effectiveness priorities to be: ecologically sustainable development and climate change; coherence and clarity between different development actors and activities; and division of labour between donors and the predictability of funding.

Approaching the mid-term review of the Paris Declaration, Finland has performed well with strengthening capacity through co-ordinated support (indicator 4), use of country procurement systems (5b), and untied aid (8).

However, two indicators show average results. These are alignment of aid flows with national priorities (indicator 3) and use of partner country public financial management systems (5a). Finland has room for improvement especially in terms of aid-predictability and use of common arrangements or procedures in aid harmonisation. It is of note, however, that - with only eight main partner countries - particularly good or bad results in a single

country can significantly affect the overall result.

In general, Finland does not attach conditions to its aid, with the exception of export credit loans. However, in its country-level programme Finland follows the conditions set by the WB and IMF. Contrary to the recommendation of the OECD peer review of 2003, Finland has continued its concessional credit scheme. Use of this scheme is in line with the OECD rules, but the OECD peer review 2007 argues that there should be a better system for monitoring its development impact.

Despite Finland's desire to focus aid on fewer countries to reduce fragmentation, the OECD peer review notes that bilateral ODA to Finland's eight main partners fell from 40% in 1999-2000 to 28% in 2004-2005. Part, but not all, of this drop was a result of Iraq debt relief. This fragmentation of aid is a challenge that has to be addressed. Furthermore, Finland is only now preparing formal country strategies for its long-term partners, for the first time. Documents are being drafted as an internal exercise by the MFA, with no outside consultation. The strategies should be ready during Spring 2008.

Finland has traditionally voiced strong support towards the UN system. This is repeated in the new programme. However, the core funding that Finland gives to UN organisations is rather small compared to other Nordic countries. Statistics for multilateral aid are fragmented; however, the general trend is that - although funding for both IFIs and UN organisations is growing in line with growth of ODA - proportional support for IFIs is growing faster. Whereas funding for IFIs and UN organisations used to be about equal, the 2008 government budget shows around 90 million euros of multilateral aid directed to IFIs, while UN institutions will receive only around 80 million. This contradicts aforementioned government policies.

Finland

Notes

- ¹ OECD DAC
- ² Finnish Development Cooperation report 2008
- ³ In Finland, it is the responsibility of Ministry for Foreign Affairs to co-ordinate development co-operation at policy level as well as in the partner countries

French Development Cooperation: Little Leadership to be Expected on the Fight Against Poverty

*Katia Herrgott and Florent Sebban
Coordination SUD*

Overview

- In 2007, France gave US\$ 9.9 billion or 7.2 billion euros - this means that, in 2007, each person in France gave US\$ 156 or 113 euros. This total amounted to 0.39% of its national wealth (GNI) in 2007 (compared with the average country effort of DAC members of 0.31%).
- From 2006 - when aid was 0.47% of GNI - to 2007, aid from France decreased by US\$ 661 million in cash terms. Because of inflation and exchange rate changes, the value of aid decreased by 16% in real terms.
- However, discounting refugee costs (434 millions €, +16%), imputed students costs (891 millions €, +7%) and spending to support French overseas territories (345 millions €, -1%), 'real' French aid has decreased from 0.24% of GNI in 2006 to 0.23% in 2007¹.
- Debt relief for Nigeria represented €1.1 billion of French ODA in 2005 and €1.6 billion in 2006. Cancellation of Iraqi debt reached up to €504 million in 2005 and €625 million in 2006.
- In 2005-2006, 61% of bilateral ODA (US\$ 4.6 billion) went to least developed and low-income countries where 3.5 billion people (60% of the global population) live on less than two dollars a day.
- In 2006, France spent: 1.1% of its bilateral aid (US\$ 87.1m) on basic education; 1.8% of its bilateral aid (US\$ 142.5m) on basic health; and 2.4% of its bilateral aid (US\$ 190.1m) on water and sanitation.

Doubts Over Future ODA Levels

In March 2002, France was the first G7 country to adopt a timetable for its development assistance to reach 0.7% of GNI by 2012. French ODA has been in fact increasing since 2002, even if it fell dramatically in 2007. However, the new President, Mr Sarkozy, went back on the calendar adopted in 2002, announcing that France would only respect the European timetable to reach 0.7% by 2015. However,

France

even this commitment seems unlikely to be met, since the ODA budget is not expected to increase in 2008.

Moreover, the growth of French ODA over the last few years did not necessarily lead to increased funding available for the MDGs. The increase in ODA is above all due to the implementation of the Highly Indebted Poor Countries Initiative (HIPC) and debt relief for Iraq and Nigeria, which had a very big impact on the figures for 2005 and 2006. Cancellation of HIPC debt is largely a matter of writing off unpayable debts - indeed, a significant share of the now cancelled debts was generated by the French export credit agency to support French companies in exporting to developing countries. Therefore, the extra resources made available in beneficiary countries are very limited.

The decrease in ODA in 2007 is due to the decline of debt relief, which decreased by 55% from 2006. In actual fact, discounting debt relief, DAC figures show a slight increase in French aid. However, this increase will not represent new expenditures for development since discounting refugee costs, imputed students costs and spending to support French overseas territories shows that 'real' French aid has decreased from 0.24% of GNI in 2006 to 0.23% in 2007.²

France must take up urgently the challenge of raising its ODA substantially, especially given the decline of debt cancellations expected for 2010- 2011. The multi-annual budget to be in the coming months by the Parliament must lead the government to clarify its commitments and adopt a binding timetable for ODA increases from 2009 to 2015. This would bring the French government in line with the European Commission demands to establish clear ODA timetables to reach 0.7% by 2015.

A failure to provide consistent leadership on ODA levels would be detrimental to France's credibility on development issues. This could potentially jeopardise the government's efforts in the

context of the French EU presidency in July-December 2008.

Doubts About the Focus of Aid

Moreover, NGOs are also concerned that France is increasingly using aid to promote its geopolitical interests. A new Ministry, bringing together migration, integration, national identity and development issues, was created in 2007 and intends to guide development policy towards the fight against migration using part of the ODA budget. This ministry co-chairs the intergovernmental committee in charge of steering French aid policy - together with the Ministry for Foreign Affairs and the Finance Ministry.

This approach to development aid as a tool in the fight against migration is dangerous and counter-productive. Migration is mainly due to the extreme poverty experienced by people in the South. The fight against poverty requires a focus on long-term solutions to economic and social exclusion. The government should use the ongoing process of reforming public policies to clarify the objectives of development policy. It needs to reaffirm the focus on the fight against poverty and inequalities, in order to meet French citizens' expectations.

Problems with Harmonization and Alignment

In 2004, France launched a reform of its aid system aimed at rationalizing the system which is divided between too many actors. That reform took place within the framework of the harmonization and coordination of aid processes³.

Framework Partnership Papers (FPP) have been drawn up to guide French aid in recipient countries, in line with the Poverty Reduction Strategy Papers (PRSP). These documents allow programming on a period of five years. They focus aid on a maximum

of three priority sectors linked to the MDGs. However, this has not yet led to a real change of approach and French aid is still lacking real focus. Furthermore, the focus on three sectors has, in certain cases, only led to essential needs being ignored by French aid. For example, in West Africa, education has been widely selected as a focal sector, meaning that health has become a marginal sector of French aid in the region, even though the needs in this sector are still huge⁴.

Coordination among donors should have improved with these papers. However a recent report on French aid in Mali from Coordination SUD and the FECONG, the Federation of Malian NGOs, demonstrates that coordination has been very limited in the elaboration of the FPP⁵.

This report also highlights the fact that harmonisation of aid led to alignment with frameworks controlled *de facto* by international financial institutions. Conditionalities imposed by the World Bank on the privatisation of the cotton sector became conditionalities to access French aid. These conditionalities were equally applied to other donors' aid programmes in Mali, specifically when aid is allocated through budget support. These examples show how harmonisation can be detrimental to real ownership. Alignment, in certain cases is not helping in addressing the structural and underlying causes of inequality.

Good Intentions But Weak Implementation in Democratic Ownership and Human Rights

In December 2006, France adopted an action plan on aid effectiveness, going beyond the Paris Declaration on certain issues. It prioritises capacity building on the elaboration and implementation of policies, it sets ambitious objectives to improve the predictability of aid and values the diversity of analysis on development. In particular, it stresses the need for adopting a programming law to guarantee predictable

aid. Nevertheless, it is difficult to assess how this plan is implemented and which resources are dedicated to its implementation.

The first multi-annual budget for the period 2009-2011, which should be discussed in the coming months, is not likely to secure aid credits for the period 2009-2011 since it will give maximum ceilings for aid policy without defining a binding minimum ceiling. Moreover, the action plan could be improved on mutual accountability and transparency, which do not address the issue of conditionality.

France adopted a comprehensive strategy on Governance in 2006. It is positive that the strategy defines governance as a process embracing human rights and gender equality, participation of all actors in development and the need for effective and transparent policies. It also stresses the importance of capacity building in this process. Nevertheless, the current trend to link migration and aid policies is not consistent with the essence of this strategy on governance. One can then wonder how the strategy is really going to apply to all aspects of French aid.

Conclusions

While nice promises are being made to improve the quality and quantity of French aid, their translation into concrete actions still needs to be seen. Certain questions remain unanswered before confirming France's potential to play a leading role in the field of development. Will the government adopt a comprehensive strategy on development cooperation? How will adequate resources be made available to the fight against poverty and inequalities? Is the French government ready to adopt a clear timetable setting out its contributions to ODA from 2009 to 2015? Will civil society organisations, parliamentarians and other stakeholders be part of the discussions on the future of French Aid?

France

Notes

- ¹ For more details, see Coordination SUD, *APD française et coopération au développement: Etat des lieux, analyses et propositions*, version actualised in February 2006, and Coordination SUD's analyses on French aid in 2007, available on its website: www.coordinationsud.org
- ² Ibid.
- ³ France plays an active role in the process of harmonisation and, among other activities, hosted the Second High-Level Forum on Joint Progress toward Enhanced Aid Effectiveness, in February 2005.

- ⁴ In 9 of 11 countries, Education is a focal sector, whereas health is a focal sector in only 2 of 11 countries.
- ⁵ On this topic, see Coordination SUD and FECONG, *Rapport conjoint FECONG / Coordination SUD sur la mise en oeuvre de l'aide française au Mali, March 2007*; available in French on Coordination SUD website: www.coordinationsud.org

First Steps Towards ODA Reform After Years of Crisis

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Development co-operation policy in Italy has suffered from a long period in crisis, characterised by the lack of any coherent, clear, shared vision as well as by limited financial resources and understaffed offices.

Key ODA Data

- Italy's ODA in 2006 was only 0.2% - this not only failed to reach the EU target of 0.33% GNI (2002 Barcelona commitment), but was a lower level than in 2005.
- In real terms, the net total of ODA in 2006 was US\$ 3,641m - 28.5% lower than in 2005
- Italian ODA net of debt relief was only 0.11% of GNI in 2006. This represented a more dramatic annual decrease from 2005 (41.1%) than any other DAC country. This was largely due to much lower replenishment - \$1,640m in 2006 against \$2,821m in 2005 - of multilateral banks (IDA in particular).
- Preliminary figures for 2007 show a slight improvement of overall ODA to between 0.21-0.23%, but still well off-track for meeting the European target of 0.51% by 2010.

Claiming Debt Cancellation as Aid

- Debt relief grant initiatives reached US\$ 1,595m in 2006, accounting for 43.8% of Italian ODA.
- Debt cancellation at 0.086% of GNI continued to be the most relevant area of intervention (in contrast, bilateral grants net of debt cancellation equalled only 0.003% of GNI)
- Another measure used was buy-back operations in Nigeria that accounted for US\$ 216m.
- This emphasis on debt reduction has affected the geographical profile of Italian aid policy with increasing concentration on the least developed countries and sub-Saharan Africa in particular
- This high level of debt relief has also dramatically reduced Italy's traditionally high percentage of tied bilateral aid.
- This massive cancellation of debt is expected to have reached a historical peak and to decrease dramatically in coming years.

Italy

Preferring Multilateral Channels for New Loans

- In 2006, 55% of total ODA resources were defined as bilateral aid, amounting to US\$ 2,001. Yet only 15% of the total was in bilateral grants net of debt relief managed by the Ministry of Foreign Affairs and the Ministry of the Economy.
- Moreover, one third of this was multi-bilateral aid (voluntary contributions to international organisations).
- Real, new, bilateral grants were just US\$385m, or 10% of total ODA. Net of negative loan-flows, the figure falls to 6%. The transaction type of interventions are basically programme/project aid (through NGOs) and technical co-operation. Bilateral grants to Italian NGO projects increased from US\$35m in 2006 euros to US\$150m in 2007.
- DAC figures for 2006 showed that only US\$ 261m (0.014% of GNI) was allocated through bilateral aid (13% of it) to the Least Developed Countries. In the same period, Sub-Saharan Africa received 50% of bilateral Italian aid. Emergency and post-conflict interventions have represented a crucial area of bilateral aid in recent years, putting Iraq, Serbia, Lebanon and Afghanistan among the top 10 recipient countries.
- Multilateral aid was 45% of Italian ODA and including multi-bilateral aid this increases to 50%. Multi-bilateral grants totalled US\$299m in 2007 (from US\$120m in 2006) with Government providing new funds in the second half of the year for replenishing multilateral banks and supporting the fight against AIDS, malaria and tuberculosis. Further resources were allocated to co-

operation initiatives linked to peace-keeping missions - supporting reconstruction in countries devastated by natural disasters or conflict.

- Obligatory payments to EU programmes constitute around a third of Italy's total ODA.

The Move to Reform

The majority of stakeholders were calling for a new law to renew the mandate and scope of Italian development policy. Public officials, political parties, NGOs, civil society and experts¹ contributed their points of view. Parliamentary debate started on a new ODA reform bill in 2006 and, after a long process, the government presented a draft law in April 2007. The main innovation was the proposed creation of an agency for development assistance, aimed at guaranteeing a more coherent and unified process. The proposed law also foresaw the complete untying of aid.

The centre-left coalition collapsed before the proposals could be passed, but not before the successful introduction of a first concrete step towards reform: nomination of a Deputy Minister for Foreign Affairs with the specific portfolio of development co-operation policy and African issues. The first incumbent of the post used the new political profile to redirect Italian cooperation policy towards these strategic priorities:

- (1) Stronger focus on reduction of poverty in Africa
- (2) Refocussing on achieving of the MDGs - Italy secured the opening of the European Office of the United Nations for the MDG's Campaign in Rome
- (3) Giving support and legitimacy to the crucial role of developmental NGOs and CSOs, both in Italy and the South

- (4) The empowerment of women.
 - (5) The enhancement of de-centralised co-operation, that is: development aid provided by sub-national authorities, with active participation of local partners².
 - (6) Increasing pressure on multilateral organisations for more co-ordination at the same time as honoring commitments made to the international community, in terms of:
 - a. financial support (starting with UN special funds such as the Global Fund to fight pandemics)
 - b. achievement of objectives (starting with external debt relief and achievement of the MDGs)
- **Geographical priorities:** Sub-Saharan Africa, and several countries in conflict or post-conflict situation (Iraq, Afghanistan³, Lebanon, Sudan, Somali, Palestinian territories) were defined as the geographic priorities for aid allocation 2007-2009⁴.
 - **Aid volume:** the government reaffirmed Italy's commitment to achieving the 0.7% ODA/GNI target, emphasising the need to bring Italy closer to the European consensus. After failing to set out a clear timetable, they eventually set out the interim targets of: 0.33% in 2008 and 0.51% by 2010.
 - **Bilateral aid and debt relief:** The law was amended to allow partial or total unilateral cancellation or conversion of debt beyond merely cases of disaster or humanitarian crisis, but also to include finance for development projects. Thus, the effect of debt relief on ODA statistics is expected to remain stable in the coming years rather than being drastically reduced. The law authorised full financial support to the implementation of the Multilateral Debt Relief Initiative (MDRI).

Other features of government policy in 2007:

- No changes were made on **tied aid**, identified as one of the main areas of policy weakness in the 2004 DAC peer-review. However, in December 2007 the General Directorate for Development Cooperation/Ministry for Foreign Affairs (DGCS) - responsible for managing bilateral grants - stated that from January 2008 project proposals have to indicate both the level of tied aid and the linkage with the MDGs. The impacts of this new approach are not yet visible and cannot be estimated.
- **Sectoral priorities:** In addition to health-care and education and strategic priorities identified above, there will be focus on environment and community assets (with particular reference to rural development, organic or conventional agriculture) and alternative and renewable resources.

Innovative Mechanisms of Finance for Development

The importance of debt relief as well as emergency and post-conflict interventions are translated into operative terms through project aid and technical assistance. So far, Direct Budget Support has been applied in only a limited way in poverty-reduction strategies. However, Italy has looked to developing some innovative funding mechanisms.

Italy participated in the *Leading Group on Solidarity Levies to Fund Development* (the so-called 46 Group), a forum for

Italy

discussing additional sources of ODA funding from specific taxation. In 2006, the Italian Ministry of Economy participated in the launch of the International Finance Facility for Immunization (IFF-Im), an instrument to issue bonds guaranteed by donors to finance ODA. At the beginning of 2007, the same Ministry was the main international promoter of Advanced Market Commitments (AMC), an instrument to provide anticipated incentives to private companies for research into vaccines. At the end of the year, Italy authorized for the first time a 40-year commitment to ODA expenditure through IFF-Im and AMC.

Within the context of the G-8, Italy reaffirmed its commitment to exploring innovative mechanisms to link ODA and workers' remittances, aimed at reducing the cost of transfers and promoting matching funds through public and private partnerships for enhancing effectiveness of remittances in development terms.

Aid Effectiveness, Democratic Ownership and Human Rights⁵

Major limitations to greater Italian aid effectiveness are:

1. the scarcity of ODA resources, which has restricted strategic bilateral aid allocations
2. the lack of a regular system of monitoring and evaluation of projects and programmes - an Inspection, Monitoring and Evaluation Unit was set up in 2002 but has never been operational, due to budget constraints. The MFA use internal experts for the identification and initial appraisal of projects. The fact that bilateral aid is managed through the project modality, rather than being mainstreamed through programmes, creates fragmentation and discourages effectiveness analysis.

Human rights and democratic ownership are not directly referred to as priorities in the main strategic MFA documents⁶. However, Italy has confirmed its strategic engagement to a poverty reduction strategy⁷ and the empowerment of local civil society has been identified as a key means of enabling a central role for local communities in this strategy. This is a democratic ownership agenda.

Generally, the approach prefers to address human rights through political commitment on other specific matters, such as food and natural resources, sovereignty, environment and rural development⁸. At the UN Human Rights Council, Italy supported the inclusion of the access to water⁹ in the criteria.

A strong commitment to gender empowerment has emerged as one of the more relevant issues. The approach is to consider women as stakeholders both in economic development and in peace processes at local level. It is considered a crucial component in addressing social tensions and conflict problems. In 2007, Italy organised a number of initiatives with international relevance on the issue, including a significant conference in Bamako with broad representation from West African Governments and Women's Associations. The Somali Women's Reconciliation Conference was organised in Rome last May. Italian commitment against Female Genital Mutilation within the Maputo Conference was reflected through the financing of UNEFPA and UNICEF initiatives.

The new priority towards countries in conflict or post-conflict situations also represents an important way to look at the Italian ODA approach to human rights issues. It is in these situations when human rights and democratic ownership are violated most powerfully. Direct involvement in Lebanon in 2006 is one of the most interesting examples, where ODA policy also proved able to translate commitment into immediate disbursements. Italian engagement in Lebanon relief and rehabilitation occurred through a

combination of bilateral, multi-bilateral and multilateral interventions spread through a huge range of different sectors from local economic empowerment and refugee assistance to health and social services. It demonstrated an approach based on multi-dimensional and multi-level interventions where human rights and democratic ownership are considered cross-cutting issues rather than simple sectoral pillars.

Some weaknesses of policy also show up in this area. Strategy is not described

operationally, and there is a high level of discretionary use of aid, without any perspective on the long-term or on sustainability. In this sense, the DAC emphasis on coherence, efficiency and effectiveness—officially assumed as the main benchmarks of Italian ODA policy—provokes questions about the best long-term approach to improving the quality of development cooperation.

Notes

- ¹ Among other stakeholders, Sbilanciamoci Report, the CGIL Report of 2006 and Actiod Aid Reports emphasized current limitation of the law 49/1987, the lack of human resources and the mismanagement by DGCS and challenges of the Italian assistance in a globalised and multifaced system of relationships.
- ² “self-development cooperation between communities promoted by decentralised cooperation programmes run by regional and local authorities, and civil society, and giving local stakeholders and partner countries an prominent role in identifying priorities and strategies” is said in MFA-DGCS (2007), *Forward Planning and Policy Paper on Development Cooperation activities in 2007*, Rome, p. 1
- ³ MFA-DGCS (2007), *Interventi umanitari della cooperazione italiana in Afghanistan 2002-2007*, Rome.
- ⁴ In the *Nota informativa sugli indirizzi di programmazione 2007-2009* (DGCS deliberation n. 23 Dipco 14/2007).
- ⁵ This section benefits from valuable opinions and inputs collected by Silvia Aprile (CeSPI researcher) through interviews with senior aid officials in the Italian government and NGOs. In particular, Silvia Aprile interviewed Luciano Carrino, Lodovica Longinotti, Giancarlo Palma and Bianca Pomeranzi (technical experts, MFA aid implementation arm), Andrea Di Vecchia (director of Movimondo, Italian NGO), and Giulietta Rak (Deputy Ministry Secretary).
- ⁶ MFA-DGCS (2007), *Forward Planning and Policy Paper on Development Cooperation activities in 2007*, and the *Nota informativa sugli indirizzi di programmazione 2007-2009*.
- ⁷ In December 2007, the DGCS in a communication stated that from 1st January 2008 project proposals had to indicate both the level of tied aid and the linking with MDGS. As far as its influence on projects and programmes approach it is not yet visible and can not be estimated.
- ⁸ At least, this information was collected in most interviews.
- ⁹ “Water is not a tradeable good”. This was the message of Mrs. Patrizia Sentinelli at the Assemblée mondiale des élus et des citoyens pour l'eau (AMECE) conference, on the 20th March 2007 at the European Parliament in Bruxelles.

Sweden Claims 1% Aid Achievement

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In September 2006, a new Swedish government consisting of four parties was elected. This centre-right alliance allocated 1% of GNI to Swedish development assistance in their first budget for 2007. Sweden is one of only five countries in the world giving 0.7 % or more.

However, in continuing the policy of the previous government, debt cancellation was once again financed with ODA resources. Sweden also includes housing refugees in the development cooperation budget. Overall, in 2007, the development cooperation budget was inflated by 10%, a record compared with the past five years.

Debts originating from export credit guarantees to the Democratic Republic of the Congo (DRC) and Liberia in the seventies were counted as ODA in 2007 and 2008. The government has introduced a new way of calculating the value of the debts as of 2007 so that the amount has actually increased. It now includes the value of non-payment of interests and principal. This means that in 2007, 1.5 billion Swedish crowns of the development cooperation budget was set aside for the cancellation of export credit debts for the DRC and Liberia. Swedish CSOs have argued that these debts ought to be defined as illegitimate since the loans were given to undemocratic regimes and did not reach the broader populations of DRC or Liberia.

However these two cancellations did not come into effect in 2007, which partly explains a decrease of the aid reported to the OECD DAC, namely down to 0.93% of GNI for 2007 compared with 1.02% in 2006. Therefore, in reality, Sweden did not meet the 1% target. Furthermore, the biggest party within the coalition (the Moderate party), has on several occasions expressed concern about the target itself. The Minister for International Development Cooperation, appointed by the Moderate party, has referred to the target as “a curse”¹, indicating that the ambitious quantitative goal is jeopardizing the quality of Swedish development cooperation. Despite the differing views within the coalition, the 1% target currently remains.

Increased Country Focus

Swedish aid spread to more bilateral partner countries in the period from 1988 to 2005. A country focus process had been discussed for some time and became a priority for the new government.

Four criteria laid the foundation for the country focus:

- 1) The extension of poverty and needs
- 2) Expectations regarding the effectiveness of aid

- 3) The direction of democratic development and the potential to influence it
- 4) Swedish comparative advantages and Swedish expertise in relation to other donors.

As a result, Sweden has reduced the number of countries it supports from 70 to 33, based on the following rationale for selecting them: In twelve countries, Sweden is identified as providing clear added value towards long-term poverty reduction and economic growth. Twelve of the chosen countries or regions are in conflict or post-conflict situations with which Sweden will conduct development cooperation. Sweden will conduct reform cooperation in nine Eastern European countries. Additionally, four countries were identified with serious deficits regarding human rights and democracy where Sweden will commit to democratic social development using alternative aid mechanisms to state-to-state development cooperation.

The country focus process does not include the co-funding of the work of CSOs, but it will have indirect consequences on it as it most likely will reduce funding possibilities because of the absence of bilateral aid in a country or region. There is however a possibility that alternative mechanisms will be set up through which aid can be channelled to CSOs. Although the country focus was welcomed by Swedish civil society, there is concern that possibilities to support valuable work for human rights and democracy will be severely curtailed where bilateral aid is phased out, particularly in several Latin American and Asian countries.

In line with the poverty reduction objective, there will be a stronger focus on Africa. The country focus mainly identifies African countries as those most appropriate for long-term development cooperation. The work of reform in countries in Eastern Europe is also a main geographic priority.

Partnerships

From 2008, Sweden will produce organization-specific strategies for the most important multilateral institutions, among which the World Bank and the EU are a priority. Sweden will also review the division of labour between Sida (the Swedish International Development Cooperation Agency) and the Ministry for Foreign Affairs.

In the coming years, the government will actively strengthen the role of the Swedish private sector in development cooperation. "Through closer cooperation with the different policy areas, the innovation skills, knowledge and resources of Swedish private sector will be used in order to improve the effects of development cooperation."² A council with representatives from the private sector and different state bodies has been created with the objective to expand the presence of Swedish private sector in development cooperation.

Swedish CSOs welcome all relevant actors in development cooperation, but have also stressed that the results, particularly of aid money spent through the private sector, must be scrutinized and measured. It should meet the same standards as other actors and align with the objectives of Swedish aid. The increased role of the private sector should not mean that Sweden moves backwards on untying aid.

Promoting Aid Effectiveness and Democratic Ownership

In the 2008 development cooperation budget, the government formulated three sectoral priorities: democracy and human rights; climate and environment; and gender equality. Democracy and human rights are at the centre of these priorities. A clear ambition is to work long term in places where democratic values are shared.

Sweden's Policy for Global Development (PGD), which was endorsed by the

Sweden

parliament in 2003, prescribes a government-wide approach to “equitable and sustainable global development”. Sweden was the first DAC member to adopt such an ambitious coherence instrument and a specific aid objective included in the PGD is to “contribute to create the necessary conditions for poor people to improve their living conditions.” Nonetheless, there are several challenges within this framework. CSOs have repeatedly criticised the fact that the overall objective of the PGD does not influence other policy areas enough, such as trade and arms exports.

The Paris Declaration is a key reference point for the 2008 development cooperation budget. The government presents the country focus and thematic priorities in areas where Swedish aid is of best use as being consistent with the declaration. The budget also draws parallels between managing for results (one of the five pillars of the Paris Declaration) and Sweden’s evaluation of how to make aid more effective and the results more measurable.

The government also aims to be actively involved in making multilateral aid more effective, particularly EC aid with the Code of Conduct on Division of labour and complementarity. One outcome during 2008 will be limiting the amount of sectors in each country in which Sweden will be present.

Civil Society Concerns

Unfortunately, Sweden’s position regarding economic policy conditionality remains

unclear. Representatives from MFA have confirmed that Sweden has raised the importance of ownership in the context of the World Bank, arguing that consultations need to include parliaments, relevant authorities, and civil society representatives and underlining the importance of strengthening local policy analysis. Nonetheless, the Swedish government has not explicitly said no to economic policy conditions; Sweden chose not to support the proposal from Norway on a common statement from the Nordic constituency against economic policy conditionality before the IMF and World Bank annual meetings in 2007.

Swedish CSOs stress that more concrete action must be taken to ensure that parliaments, civil society and relevant actors are genuinely included in policy-making. Sweden needs to push for changes in the policies of the World Bank and the IMF to end the use of economic policy conditions which override national poverty reduction plans and national democratic decision-making processes.

Furthermore, Sweden must ensure that the ambition to increase cooperation with the private sector does not undermine the core Paris principle of ownership by focusing on the interests of Swedish companies and developing supply-driven development cooperation.

Finally, CSOs stress that that Sweden should stop counting debt cancellation and refugee costs as ODA, and that it should refrain from advocating for the inclusion of security-related expenditures within the definition of ODA.

Notes

¹ Retrieved from: www.gp.se/gp/jsp/Crosslink.jsp?d=913&a=349478

² The 2008 Budget Proposition, p. 57.

Becoming A Major ODA Player

*Isabel Kreisler
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Overview

- Total Spanish ODA in 2006 was 3,038 million EUR or 0,32% of GDP, which was up 25% in real terms from 2005.
- Budget provisions for ODA are: 0,42 of GDP in 2007 and 0,5 of GDP in 2008.
- According to DAC statistics, 73,6% of the Spanish ODA 2005-06 was concessional aid.
- Tied aid increased up to 13,8% of the total Spanish ODA.
- Spain allocated 12,6% of its ODA to the least developed countries (LDC)
- ODA to essential services was 17,3%.

Advancements and Lags of the Spanish Cooperation

Spain is changing positions within the international community of donors. Traditionally trailing in the last positions of OECD rankings, Spain experienced a historic increase of its total ODA in 2006. Furthermore, "Africa" and "the United Nations" were the major topics in the international development agenda during 2006 and 2007.

Yet there are still significant challenges on the table: reform of the aid instruments generating foreign debt, such as the Development Aid Fund (*Fondo de Ayuda al Desarrollo*) and the Spanish Exports' Credit

Agency; the Spanish Agency for International Cooperation still needs to implement reforms to improve management procedures; and the influence that domestic economic and commercial interests exert on development policies should be curtailed.

The biggest increase in the history of Spanish cooperation was made in 2006, when aid was increased by 25% compared to 2005 levels. Overall, with the budget provisions made for 2007 and 2008, Spain will have more than doubled its ODA since 2004. All of the political parties with parliamentary representation have signed up a "State Pact" that aims for 0,7 of GDP for ODA in 2012.

However, the aid increase in 2006 was partially tarnished by the fact that debt relief accounted for as much as 14% of total ODA. This means that Spain needs to increase ODA still further to meet the future agreed targets. Furthermore, Spain tied 13,8% of its ODA in 2006, which is clearly bad practice. Although Spain made a substantive improvement in the amount of tied aid from 2004 to 2005, no further progress was seen in 2006.

From 2004 an "active, selective and strategic multilateralism" has become one of the main goals of Spanish cooperation. In 2006 multilateral aid experienced an increase of 47,5%. The Government has made real, in financial terms, its support to the multilateral system and especially to the

Spain

UN system. An “MDGs Fund” has been established within UNDP with an initial investment of nearly US\$ 700 million. This initiative has marked a turning point in the way Spain conceives multilateral aid, but funds will need to be accompanied by long-term sustainability of allocations and with a clear and strategic orientation of funds.

Spain Within the Aid Effectiveness Agenda

The above data shows that perhaps the biggest challenge to full aid effectiveness from Spain is to **untie ODA objectives from the economic interests of Spanish companies**. Complementary and related issues to improve the effectiveness of Spanish ODA are:

- **Reform of the Development Aid Fund (FAD)**

The Development Aid Fund (FAD) allocates credits for the internationalisation of Spanish companies that are still counted as ODA. CSOs are therefore extremely concerned about the reform of this fund. Although the weight of FAD credits decreased substantially in 2006, Spain kept using such tied aid with some least developed countries (LDC), such as Mozambique and Senegal and with some heavily indebted poor countries (HIPC), such as Honduras and Nicaragua.

There is a lack of policy coherence in Spain’s approach since, on one hand it joins debt relief initiatives and yet on the other it still contributes to generate new debts in the interests of its own companies.

- **Regional Distribution According to Geographic Targets**

The goal of contributing to a more effective aid system implies for Spain

identifying key areas where it can provide greatest added value and generate bigger impacts. This is why it is expected that regional distribution of ODA will respond to geographic targets as stated in the official master plan of Spanish international cooperation 2005-2008.

However, data from 2006 show that some criteria other than poverty indicators or Spanish added value have severely interfered with the geographic distribution of Spanish ODA. Despite the mandate to concentrate 70% of resources in “priority countries”, only 46,5% of the geographically specified bilateral aid actually went to countries prioritised by the official master plan.

Indeed, amongst the list of the ten biggest recipients of Spanish ODA, one can still find some countries like China or Turkey. It is highly questionable that these national economies are in a pressing need of ODA (China has itself become a donor to developing countries), but there is no doubt both countries have a significant commercial appeal to the Spanish economy.

- **Increasing the capacity of the Spanish Agency for International Cooperation**

In comparison to the general geographic distribution of the ODA, it is interesting to emphasize that aid directly managed by the Spanish Agency for International Cooperation has adjusted much better to the official master plan orientations: 62,5% of ODA directly distributed by the Agency did go to “priority countries”. This indicates how important an effective renovation and an increase of management capacities of the Agency are, if Spain is to comply with the principles of the Paris Declaration.

- **Prioritisation of Sectors**

Regarding sectors of activity, Spanish aid does not show a clear pattern of priorities yet. This is no surprise given how wide and unspecific the official master plan is in this regard. A recent study¹ from FRIDE (Foundation for International Relations and External Dialogue) identified in the Country Strategy Papers an average of up to ten “strategic sector priorities”. This reveals the lack of specialisation in Spanish aid, which implies a limitation to coordination opportunities with other donors.

- **New instruments and Greater Management Capacity**

Considering the high increase of ODA already committed for the next years and the need to improve aid effectiveness and countries’ ownership, Spain needs to pursue its exploration of new instruments and improve the administrative capacity to manage them in a more fluid and predictable way. In 2006, Spain provided financial support to different instruments, quite new to its aid system. Spanish contributions to the “new instruments” jumped from 1 million EUR in 2004 to 22 million EUR in 2005 and 24,3 million EUR in 2006 (equivalent to 1,5% of all bilateral aid). Budget provision for 2008 is 70 million EUR.

Most of those funds are channelled as budgetary support for the partner

country. One of the instruments Spain has privileged is the *Fast Track Initiative*. Spanish contributions increased from 5 million euros to Honduras in 2005 to 7 million for the Catalytic Fund, 5 million for Honduras and 22m for Vietnam in 2006. The 2007 provision was for 10 million for the Catalytic Fund, 2 million for Mozambique, 2 million for Vietnam and 2 million for Haiti. This significant increase of funds consolidates the stake of new instruments on the ground and should help contribute to the fulfilment of the Millennium Goal on education.

Conclusions

Firstly, to be effective, Spanish aid should be untied from the interests of Spanish companies. Then, to facilitate division of labour and thus, respond to EU Code of conduct and contribute more effectively to the Paris agenda, the future master plan (2008 and beyond) of Spanish Cooperation should be much more precise on strategic, geographic and sector priorities.

Consolidating improvements achieved in 2006 in the management of foreign debt, facing bravely the renovation of the FAD (so insistently called for by civil society and for so long postponed by different governments), successfully concluding the renovation of the Spanish Agency for International Cooperation and making decisions ensuring multilateral aid reaches a good end are all key challenges for Spanish cooperation to meet the principles of the Paris Declaration on aid effectiveness.

Note

¹ “Division of labour among European donors: allotting the pie or committing to effectiveness?”. Nils-Sjard Schulz, FRIDE, 2007.

2008: A Pivotal Year for Development Co-operation

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Overview

- Swiss ODA rose to 0.44% of GNI in 2005, fell back to 0.39% in 2006 and then fell again to 0.37% in 2007.
- The level of Switzerland's real ODA has been sinking steadily since 2003 and in 2007 reached the level of 1990 .
- Three years of public debate has put pressure on the Government over both the amount of aid and its effectiveness.
- In response, a new development co-operation strategy was announced in March 2008. It focuses on poverty-reduction, human security and the integration of advanced developing countries into the world economy.
- But the target for ODA is still set to remain at 0.4% until 2015.

2008: A Pivotal Year

In March 2008, the government decided to stabilise the allocation to ODA at 0.4% by 2015 and refused the proposal made by the Minister of Foreign Affairs to increase it to 0.5%. This latest decision has drawn criticism from development circles and beyond. That same target was set in 1991 but Switzerland only reached it in 2004 and 2005. Swiss ODA is consistently below the average for OECD countries (which, for example, was 0.46% in 2006).

In recent years the Government's Advisory Commission for Development Co-operation has repeatedly called for an increase to 0.5% by 2010. At the September 2005 UN Millennium Summit, Switzerland held out the prospect of increasing it after 2008.

Furthermore, the figures since 2003 have *included* spending on asylum seekers and the nominal values of debt write-offs. These have made-up 15-21% of all Swiss ODA.

GNI%	2001	2002	2003	2004	2005	2006	2007		
Reported aid	0.34%	0.33%	0.39%	0.41%	0.44%	0,39%	0.37%		
Real aid	0.34%	0.33%	0.38%	0.37%	0.35%	0,33%	0.31%		

Taking these amounts out puts Switzerland's real level of aid at only 0.35% for 2005 and 0.33% for 2006. That is below the level in 2002, the last year when neither asylum spending nor nominal debt relief was included. In 2007, real aid shrank to 0.31%, falling to the level of 1990.

These figures could have been even more disappointing. Last year, Parliament prevented the development budget plummeting further, by refusing to allow the Government to offset Switzerland's billion-franc "cohesion contribution" (for the new EU Member States) against the development co-operation budget. Development organisations had criticised this plan from the start, because support for EU States does not meet criteria for ODA either in the EU or the OECD. After extensive debate, Parliament accepted by clear majorities the Alliance Sud proposal that the contribution be funded from the Confederation's general budget.

The Government has decided after hesitation that Switzerland will participate in the *Multilateral Debt Relief Initiative* (MDRI). Yet it wants to find fresh funds to cover only a part of the required amount, charging roughly 40 per cent to bilateral aid. In contrast, Switzerland is reluctant to join in new financial mechanisms like global taxes (e.g. currency transaction tax or air ticket levies).

The 0.7% Campaign

Public debate on the effectiveness of development aid began in 2005 in the lead-up to the UN Millennium+5 Summit. To undermine strong calls for increases in aid from development cooperation circles, opponents launched a fierce blanket criticism of the effectiveness of aid. They also attacked the work of the Swiss Agency for Development and Co-operation (SDC). The upshot was a Parliamentary inquiry that called on the Government to come up with a harmonised development strategy.

Swiss NGOs joined the debate by stressing how aid *was* effective when correctly administered rather than used to further donor countries' own interests. They then launched the 0.7% campaign in 2007 centred on a petition calling for aid to be increased to that level of GNP by 2015. It was supported by 70 relief agencies, environmental protection bodies, youth and women's organisations, trade unions and churches. Their petition carried over 201,000 signatures and was delivered to Parliament and Government at the end of May 2008 just before Parliament began debating the new aid strategy and funding. The outcome will be pivotal to the future direction of all official development co-operation funding.

Aims of the New Strategy

The new development co-operation strategy before Parliament harmonises previous guidelines but introduces a new, controversial element. The three main pillars of the strategy are:

1. *Poverty reduction.* This has always been central to Swiss aid, but in future will be more focused on attaining the MDGs.
2. *Human Security.* Since the start of the new millennium, promoting peace and strengthening human rights have taken on greater significance in Swiss development co-operation. At the same time, the definition of human security has been broadened to include risks and conflicts conditioned by social, economic and environmental factors.
3. *Development-friendly globalisation.* Advanced developing countries to be integrated into the world economy on a sustainable basis - socially, economically and

Switzerland

environmentally. This third element is a new and controversial one given the risk that Switzerland could use aid partly to promote its foreign economic interests.

Aid Effectiveness, Democratic Ownership and Human Rights

Switzerland takes the Paris Declaration as its own work programme¹.

Participation: Both aid agencies, the SDC and SECO (State Secretariat for Economic Affairs which implements part of official aid), agreed an implementation plan in 2005 and said in a joint statement² at the time that “all the stakeholders need to participate in the endeavour of improving aid effectiveness: bilateral donors, multilateral institutions, public administrations and civil society organisations.”

However, it failed to specify how Switzerland would help to ensure this participation or to give any indication of the role of civil society. The Implementation Plan is a technical document on the different tasks within the Federal Administration; it makes no specific reference to civil society organisations among the partners to be included in the dialogue on implementing the Declaration.

Human rights: Official documents on the Paris Declaration contain no explicit mention of human rights, but the SDC's 2006 human rights policy³ does refer to the Declaration. With it, the SDC gave more weight to guidelines drawn up in the 1990s which set human rights as both a means and an end in development co-operation.

The policy stipulates that adopting a human-rights-based approach “means for example that policy goals on aid harmonisation, international partnership and aid effectiveness will take into account the human rights principles.” Human rights were included in the definition of good

governance, which became one of the SDC's priorities in all country programmes. Human rights standards are to be used to monitor and evaluate the impact of aid programmes.

Democratic ownership: The SDC has traditionally founded its work on partnerships with civil society, NGOs and the private sector as well as governments. The SDC's human rights policy promotes support for accountability and national ownership by strengthening national and local stakeholders. Its activities are to be aimed at “empowering people to participate fully in decision-making processes that affect their lives and at making state institutions capable of responding to the opinions expressed”. They are also to aim at strengthening accountability and the capacity of state actors to respect, protect and fulfil human rights.

Priorities and principles: Under SDC development policy for the coming years, the central focus of poverty-reduction will not only be on health, education, clean drinking water and agriculture, but also the promotion of democracy with special emphasis on human rights and good governance.

As key principles here, the SDC undertakes to promote transparency, non-discrimination, participation, accountability and the rule of law systematically in all its programmes and to insist on them in political dialogue with governments. This also expressly includes equal opportunities for both men and women to avail themselves of their rights and development opportunities.

Focus on democratic ownership and good governance has not led the SDC to redistribute its aid. Instead, the cooperation strategies for existing partner countries are gradually being geared towards this new focus. This means that impact studies of country programmes will cover democratic participation and the observance of human rights. In countries with problems of governance such as

Afghanistan, Pakistan or Nepal, the SDC has buttressed its support for civil society.

Problems in Practice

Swiss NGOs working in partner countries observe that alignment and harmonisation could prevent Switzerland from translating its principles into reality.

In Nicaragua, for instance, where Switzerland is among the countries providing direct budget support, civil society was not really included in the formulation of national poverty-reduction strategies and neither is it significantly involved in monitoring for development results.

Switzerland is sparing with direct budget support, but there is a growing trend toward sectoral budget support. This is making it increasingly difficult to perform the balancing act between alignment and harmonisation on the one hand, and democratic ownership and human rights on the other. This is why Swiss NGOs are urging their Government to call at the High-Level Forum in Accra for independent support of civil society, to emphasise a human-rights-based approach to implementing the Paris Declaration and to advocate a combination of instruments (budget support, programmes, projects) geared toward the needs of the poor in the individual countries.

Notes

- ¹ Paris Declaration on Aid Effectiveness: Swiss Implementation Plan. Retrieved from http://www.deza.ch/ressources/ressource_en_150617.pdf
- ² Retrieved from http://www.deza.ch/ressources/ressource_en_150616.pdf
- ³ SDC's Human Rights Policy: Towards a Life in Dignity. Retrieved from http://212.47.173.113/dezaweb/ressources/resource_en_25225.pdf

A New Government Brings New Commitments

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The Current Situation

There has been significant change in Australia's aid program since the 2006 Reality of Aid was published. In April 2006, the conservative government re-framed the Australian aid program following an aid White Paper. Significant funding for this plan was initially made available in the 2007-08 federal budget. However, in November 2007, the Australian Labor Party took office with an undertaking to make a significant medium-term increase in aid volume and to place the MDGs at the centre of aid programming. There is likely to be considerably more change in the design of the program by late 2009.

Main Developments in Australian Aid

In 2006, the Government's Aid White Paper identified four themes for the aid program:

- To accelerate economic growth
- To foster functioning and effective states
- Investing in people
- Promoting regional stability and cooperation

It also identified the following four strategies for effectiveness¹:

- Strengthening performance orientation
- Combating corruption
- Enhancing engagement in the Asia Pacific Region
- Working with partners.

Since the May 2007 federal budget, AusAID has been fully engaged in trying to implement these themes and strategies. This has included the following changes:

- Commitment to make the aid program more transparent by means of an annual report on development effectiveness to parliament (to be released in March 2008).²
- Greater coordination with other donors and harmonization with receiving country systems.
- A major decentralization of staff, with 60% to be located offshore by 2009
- Expanded and well-structured initiatives for basic and vocational education, basic health and for HIV and AIDS

Table 8. Planned levels of Australian ODA Up to 2010-11

	A\$ (current prices)	estimated ODA / GNI
2007-08	\$3155 m	0.30%
2008-09	\$3500 m	0.31%
2009-10	\$3800 m	0.32%
2010-11	\$4300 m	0.34%

Source: Forward estimates from aid budget papers 2007-08. ODA/GNI estimates after 2007-08 are by the authors and assume 3.5% average annual GNI growth, 2.5% average annual inflation.

Table 9. Sectoral Distribution of Australian Aid 2005-06 vs 2007-08 Budgets

Sectoral distribution of aid	% of total aid program 2005-06	% of total aid program 2007-08
law and justice	16.9%	5.5%
other governance	19.1%	19.5%
HIV/AIDS	3.8%	4.1%
other health	8.2%	10.4%
basic education	3.9%	4.2%
other education	10.1%	11.3%
rural development	9.0%	6.5%
infrastructure	7.0%	11.5%
emergencies and multisector	22.0%	27.0%

Source: Aid budget papers 2005-06 and 2007-08

- Expanded support for some South East Asian countries
- Improved preparedness for emergencies
- New initiatives in governance, particularly in grass roots governance with the prospect of a more substantive link to civil society in partner countries
- New small and medium enterprise support initiatives.

There has also been significant politically driven support for Afghanistan and Iraq-- particularly for debt relief in Iraq which totalled A\$668 million in 2005-06 and 2006-07 or 12% of total Australian ODA in those two years.

The last Reality of Aid was critical of the high level of Australian ODA budgeted on governance programs (36% in total in 2005-06). This dropped to only 25% in 2007-08 with a much lower proportion (5.5%, compared to 16.9% in 2005-6) going to law and justice programs. Meanwhile, support

Australia

for demand-driven governance has increased.

Aid As An Election Issue

The growth of public interest on the issue of aid has been the most notable change in the Australian aid policy landscape since the last ROA report. For the first time in Australia's history of election campaigns, aid policy was included by the major political parties in the top 25 campaign issues.

The Labor leader, Kevin Rudd, used it to differentiate his internationalist vision for Australia from that of the incumbent government and there were a series of lively, constituency-level debates among federal candidates. This change resulted from a mix of factors, but the sustained advocacy efforts over the preceding 3-4 years by such civil society groups as ACFID, the Make Poverty History campaign, and Micah Challenge were significant.

The Labor Party came to the recent election supporting much of the existing aid framework. It also stated that it would not increase aid expenditure beyond the previous government commitment for 2010. However, it promised to reach an expenditure level of 0.5% of GNI by 2015 and to make the MDGs a central part of the program. Before the election, it pledged to increase funding for: programs on water and sanitation; blindness prevention; a modest but innovative debt-for-development swap to combat TB in Indonesia; and climate change programs.

Assessment

The 2006 White Paper was seen by Australia's development NGO sector as a significant improvement on the previous program design. It included a better balancing of priorities between economic growth and the provision of basic services.

However, it failed to integrate the Millennium Development Goals (MDGs),

largely ignored climate change as an issue, and provided little scope to enhance engagement with multilateral agencies. While the scale of projected aid budget increases over the four-year plan is substantial, it remains well below that of most other OECD donors as a proportion of Gross National Income (GNI).

Considering Labor's short time in power, it is too early to assess how substantively the new government will re-shape the aid program. However, there is no doubt about their intention to implement all pre-election aid commitments in a timely way. This includes an allocation of an additional A\$300m per year for the pledges listed above. After four years of inaction on this issue by the former government, Labor has also undertaken to develop a cross-cutting disability strategy for the aid program.

While it is too early to be definitive about the Labor approach, it is clear that:

- As a first-term government, they have started to consult more actively than their predecessors with external stakeholders, including the development NGO sector
- They recognise that their practical partnership with NGOs should be enhanced. (In 2007-08 only 4.6% of Australian ODA will be distributed through NGOs compared with a most recent average of 8.2% for all DAC donors³)
- The emerging aid program will include a far more substantial role for partnership with the United Nations and relevant multilateral agencies. Agencies such as the Global Fund, GAVI, the EFA Fast Track Initiative, UNHCR and the UN's Central Emergency Response Fund are likely to receive enhanced support.
- MDGs will become a significant reference point in new program strategies

- There will be a greater focus on partnership and consultation with the people of Pacific Island countries.
- There will be a more substantial focus on Africa, mainly using partnerships with other donors.
- As part of a broader government policy response to climate change, the aid program is likely to include a comprehensive strategy for adaptation and mitigation, especially in the Pacific Island countries.
- There is an interest in examining other debt relief options, especially for non-HIPC countries.

One key weakness in the new government's policy framework for Pacific Island countries is its ambivalence about providing access to the Australian labour market for select groups of Pacific Island workers. This is despite three years considering the proposal, acute labour gaps in Australia's horticultural sector, and evidence from the World Bank and Canada that such access would have more substantial positive impacts for island countries than many other policy interventions.

The Labor Party's 2007 election campaign commitment to reach aid expenditure of 0.5% of GNI by 2015, will still leave Australia in the bottom third of OECD donors in that year. Given Australia's exceptional economic performance among OECD countries for the last 15 years, the high per capita private giving by Australian citizens through NGOs, and Labor's stated aim to re-position Australia as a more constructive player in contributing on global and regional issues, Labor will need to consider how it can become one of the group of 10-12 leading OECD donors (in terms of GNI) by 2015.

The pattern and tone of Australia's official relationships with governments and civil society groups in the Pacific Islands

and Timor Leste over the next few years will provide a clear test case of Labor's commitment to improved partnership.

Aid Effectiveness

Australia did not perform well in the 2006 OECD review of the Paris Declaration - relatively low scores were recorded for all nine indicators for the 2005 period⁴. However there has been significant action since then by AusAID to shape the program in line with the five Paris principles of ownership, alignment, harmonisation, results-based management and mutual accountability.

Australia has played an active role in improving harmonisation with other donors in several countries including Indonesia, Timor-Leste, Cambodia, Vietnam and a number of Pacific countries. In some cases this involves the allocation of sectoral responsibilities amongst donors (for example in Cambodia and Vietnam) in line with the recipient country's development plans. In others, it involves joint programs (such as with New Zealand in Samoa and the Cook Islands) or greater use of the public financial and procurement systems of partner countries (such as Vietnam).

In the last two years, Australia has increased efforts to coordinate aid with multilaterals and to provide longer term and growing levels of financial support for a number of important international initiatives. For example, the Government is now funding the Global Alliance for Vaccines and Immunisation (GAVI) and the Education for All Fast Track Initiative. It has recently announced a large increase in support for the Global Fund to fight AIDS, Tuberculosis and Malaria.

This is all expected to increase further under the new government. However, Australia still has a long way to go to match the contribution and cooperation levels of some of the European donors. Furthermore, as many CSOs have pointed out, effective aid which reduces poverty is

Australia

not just an instrumental exercise of service funding and market-friendly reform. It must involve real partnership, local control and involvement of the poorest and most marginalised people.

Decentralization of AusAID decision making, improved consultation with Australian NGOs, a new focus on assisting people with disabilities and support for

demand-led governance programs are all positive recent changes in AusAID. Nevertheless, the Australian aid program still has improvements to make in its transparency, the depth and quality of consultation with CSOs (in recipient countries and in Australia) and in increasing its focus on helping the poorest people achieve their human rights.

Notes

- ¹ AusAID 2006 Australian Aid: Promoting Growth and Stability² For more details see AusAID Annual Report 2006-07.
- ³ OECD DAC Development Cooperation Report 2006 Statistical Annex Table 18.
- ⁴ OECD DAC 2007 2006 Survey on Monitoring the Paris Declaration: Overview of the Results.

Overview: Unmet Promises and No Plans to Increase Canadian ODA

Brian Tomlinson
Canadian Council for International Cooperation (CCIC)

- Canadian ODA performance has stagnated at 0.28% of GNI in 2007 and 0.30% 2008, with no plan for increases beyond 2010.
- After three consecutive budgets, it seems clear that the current Conservative Government is not living up to its election promises on aid made in January 2006. At that time, the Conservatives promised:
 - o to honour all the commitments made by the then Liberal government (doubling Canadian aid between 2001 and 2010 with 8% annual increases to the International Assistance Envelope, and a \$500 million one-off addition to aid in 2006 and 2007)
 - o to put another one-off \$425 million into the aid program before 2010.
 - o to improve Canada's ODA performance ratio to reach the average of OECD DAC countries, which according to the OECD DAC was 0.45% of GNI in 2007.
- However, in the past two years, it has announced no plan for growing aid in the medium term, beyond the 8% increases up to 2010.
- For 2008/09, Canadian ODA is estimated at CDN\$4.6 billion, up from a projected CDN\$4.4 billion for 2007/08.
- CCIC is projecting that by 2010 Canadian aid may have doubled in dollar terms from 2001, but its performance is likely to be no better than 0.31% - a long way from the DAC average.
- CCIC and the Canadian *Make Poverty History* campaign has been seeking a ten-year timetable for aid to reach the UN target of 0.7%. This call was supported by the 2007 DAC Peer Review which commended the 8% aid increases while suggesting that Canada "draw up a timetable for achieving the UN 0.7% ODA/GNI target".¹ However, this government has never publicly acknowledged Canada's long-standing commitment to this target.

Part One: Aid Priorities

A commitment to double aid to Africa by 2008 uncertain

At the Gleneagles G7 meeting, the former Liberal government pledged to double aid to

Canada

Africa between Canadian fiscal years 2003/04 and 2008/09 as its contribution to the G7 undertaking to increase aid to Sub-Saharan Africa by \$25 billion by 2010. The 2007 Peer Review confirmed the government's claim to be on track to meet this commitment. Unfortunately, there is no published evidence to assess this claim independently, since as of May 2008 CIDA had produced no public *Statistical Report on Canadian ODA* since fiscal year 2005/06.

In correspondence with CCIC, CIDA has confirmed that the government is interpreting its commitment as "international assistance", which allows them to include non-ODA items such as its contributions to the Africa Union peacekeeping efforts in the Sudan. The latter are considered military-related expenditures under the DAC rules for aid to which all donors subscribe, and while they may be important contributions, they are not to be included in ODA.

Foreign policy security interests and aid allocations

Canadian foreign policy interests seem to be a strong determinant of new aid allocations by the Conservative government. The DAC Peer Review expressly worried that the government is moving to make development cooperation policy more consistent with foreign policy goals and points to the 2004 National Security Policy which considers development assistance to be an element of counter-terrorism.²

Afghanistan has been by far Canada's largest country recipient of aid over the past two years and significant amounts of the new aid resources provided through the 8% increases since 2001 have gone there. With an additional \$650 million announced since the February 2008 budget for 2008/09, Canada has a ten-year CDN\$1.9 billion aid commitment to the country from 2001 to 2011. For fiscal year 2006/07, CIDA reports that it disbursed CDN\$179 million,

with CDN\$49 million directed to aid programs in Kandahar Province where Canada has 2,500 combat troops as part of the NATO ISAF mission in Southern Afghanistan. In 2008/09 Afghan aid disbursements are expected to reach CDN\$280 million.

Meanwhile, the stated cost of Canada's military ISAF mission since 2001 is CDN\$7.5 billion, which overwhelms the aid budget for the country. For 2007/08 alone, the government's original estimate of the mission's incremental costs to the defence budget was CDN\$846 million. Latest newspaper reports suggest overspending of over CDN\$1 billion,³ which means the total cost for this fiscal year will be nearly CDN\$2 billion. In March 2008 the Conservatives and Liberals joined forces in parliament to extend the mission until 2011, with greater emphasis on training Afghan police and military as well as development assistance.

According to DAC figures, Canada allocated more than US\$500 million in aid to Afghanistan and Iraq from 2000 to 2006 (not including debt relief grants). These two country programs (but mainly Afghanistan) account for about 20% of all the new aid resources since 2000. In addition, Canada granted US\$353 million in debt relief for Iraq, which was included in ODA for 2005.

Trade interests influencing aid allocations

At the same time, it seems clear that Canada's trade and investment interests are encouraging it to increase aid allocations in the Americas. In July 2007 the Prime Minister announced that "Canada is committed to playing a bigger role in the Americas", with three key objectives: "to promote basic democratic values, to strengthen economic linkages and to meet new security challenges." The government has completed negotiations for a free-trade agreement with Colombia, an agreement which has been challenged by both human

rights and development CSOs in Canada and Colombia.

Haiti is Canada's largest aid recipient in the Americas, where there is a five-year undertaking to allocate CDN\$555 million (2006-2011) to reconstruction and development. This makes Haiti the second-highest priority country for CIDA (only exceeded by the program for Afghanistan). At this point, there is no way to assess the implications that the renewed focus on the Americas will have on other regions.

Increases for health-related projects

In both the 2006/07 and 2007/08 budgets the government also targeted special aid increases for high-profile health-related funding. These included one-off increases for Canada's pledge to the Global Fund to Fight AIDS, Tuberculosis and Malaria (CDN\$250 million), the Global Polio Eradication Initiative (CDN\$45 million) and the Advanced Market Commitment to create the pneumococcal vaccine. These special increases are not taken into account when the government determines the annual 8% aid increases. In the February 2008 budget, the government indicated a CDN\$450 million pledge to the Global Fund, but, unlike the added CDN\$100 million for Afghanistan, this money is to come from existing aid resources over the next three years.

Part two: Strengthening Canadian Aid Effectiveness

The 2007 DAC Peer Review acknowledged the aid reforms Canada has initiated since 2002, consistent with the principles of the *Paris Declaration on Aid Effectiveness*. These reforms have included:

- Stronger emphasis on program-based approaches and co-ordination of its aid with other

donors (approximately 30% of Canadian bilateral programs in 2007).

- Progress in untying Canadian aid (eliminating aid-tying for food aid in May 2008).
- Increased sector focus (much higher priority for basic education and democratic governance for example).
- Increased country concentration (higher disbursements to the top 20 bilateral aid recipients).

Yet much more is needed to ensure Canadian aid effectiveness.

Recognising CSO voices

Since January 2007, CIDA has chaired an Advisory Group on Civil Society and Aid Effectiveness aimed at strengthening the recognition and voice of civil society as development actors in their own right. It advises on the applicability and contributions of CSOs in the implementation of the Paris Declaration and sets out good practices in CSO aid effectiveness.⁴

It is expected that CIDA will push for a fuller inclusion of CSO voices and positions in the multi-stakeholder dialogue at the Third High Level Forum in Accra in September 2008. It should also lead in following up the Forum's outcomes over the next two years to enrich and deepen the aid-effectiveness agenda.

At the same time CIDA has been developing its own policy perspectives on the role of CSOs in development and their implications for renewing its partnerships with the voluntary sector. Canadian CSOs will be looking for renewed relationships with CIDA consistent with the conclusions of the Advisory Group's work and which facilitate unique and independent roles for civil society as development actors.

Canada

A new legal mandate for improved effectiveness and accountability for Canadian aid

The DAC Peer Review proposed that Canada's development assistance programs "be given a stronger foundation, whether through legislation or other means" and called for "a development co-operation policy that puts poverty reduction at the heart of [Canada's] international co-operation programs."⁵ In early May, the Official Development Assistance Accountability Act, the "Better Aid Bill", was unanimously passed in the House of Commons. This Bill directs the government to allocate aid only if it can assure Parliament that it "*contributes to poverty reduction...takes into account the perspectives of the poor... and is consistent with international human rights standards.*"⁶ CSOs have argued globally that aid effectiveness must be measured by the degree to which the means to deliver aid contributes to these goals.

The Bill also provides for annual reports to parliament, including detailed statistical reports on disbursements. Urgent and substantial improvements are needed in timely and systematic accounting transparency as a foundation for strengthening Canada's aid effectiveness. CIDA *has* undertaken reform, as the Peer Review points out, but without transparency there can be little public awareness of the impact of these reforms.

In recent years, details on recent Canadian aid transactions have been completely inaccessible. As noted above, CIDA had not published its record of official aid statistics for 2006/07 as of May 2008. There is therefore no timely aid data from CIDA in the form of verifiable time-series statistics which independent analysts can use to assess Canadian aid over the past three years. Requests for specific sector or program information are sometimes granted, but more often lately, analysts have been referred to a Freedom of Information Act process, which is seldom

timely and often produces no useful information.⁷ Interestingly, up-to-date aid statistics are available on CIDA's web-site for the program in Afghanistan, which is high profile and has been subject to public criticism.

Calls for reform of CIDA

Notwithstanding several aid reforms since 2002, CIDA has been the target of strong criticisms in recent years.⁸ Critics have cited failures of accountability, failures to deliver aid effectively, and lack of demonstrable impacts on poverty in Africa.

Remedies suggested are various, but include the prospect of structural changes—the abolition of CIDA as a stand-alone development agency and (by implication) the integration of international co-operation policy-making within Canada's Department of Foreign Affairs.

The DAC 2007 Peer Review of Canada acknowledged reforms underway within CIDA to strengthen the internal coherence of the Agency and called for strengthening CIDA as a single point of reference for Canadian development assistance.

Nevertheless, there are important issues under discussion by the government, with almost no public debate. Country focus is one such issue. The government proposed in its 2007 Budget that aid would be focused only on countries where Canada ranked greater than 5th largest donor, with the rationale that scale alone produces impact. CSOs have appreciated the need to focus, but have proposed criteria that relate to the purpose of Canadian aid, its role and synergy with other development actors, and the country's obligations to meet human development needs in a range of developing countries.⁹

The need and growing appetite for public discussion on these issues and the passage of the ODA Accountability Bill has led the Canadian Council for International Co-operation to propose public

consultations on implementing the Bill and reform of Canadian aid policies and practices that deepen the effectiveness of aid in reducing poverty.

It would provide recommendations and a rationale that takes account of the conclusions of the DAC Peer Review as well as proposals from Canadians with a rich

experience in four decades of development co-operation. It should also offer advice on the guidelines needed to implement the Accountability Act, which itself includes a requirement for consultations on how the government is implementing the purposes of Canadian ODA as defined by the Act.

Notes

- ¹ OECD DAC, Canada, Peer Review, OECD Paris, October 2007, accessible at <http://www.oecd.org/dataoecd/48/61/39515510.pdf>. See CCIC's summary of the highlights of this review at http://www.ccic.ca/e/docs/002_aid_2007-10_dac_peer_review_hilites.pdf.
- ² OECD DAC, *op.cit.*, page 30.
- ³ "Tories don't deny Afghan mission \$1 billion over budget", Toronto Star, March 11, 2007.
- ⁴ Background documents and a synthesis of the outcomes of the work of the Advisory Group can be found on CCIC's web site (<http://ccic.ca/e/002/aid.shtml>) or at CIDA's civil society extranet site (by registration) (<http://web.acdi-cida.gc.ca/cs>). CCIC is one of six CSO members of the Advisory Group.
- ⁵ OECD DAC, *op.cit.*, page 11.⁶ House of Commons of Canada, Official Development Assistance Accountability Act, Bill C-293, accessible at <http://www2.parl.gc.ca/HousePublications/Publication.aspx?pub=bill&doc=C-293&parl=39&ses=1&language=E&File=24>.
- ⁷ Aid analysts must now rely on Canada's annual reports to the DAC, which sometimes distort Canadian aid commitments stated in Canadian fiscal terms because DAC statistics are reported on a calendar year basis, can be incomplete because they are voluntary, and are subject to reporting rules that sometimes mask true aid allocations (for example sector purposes must be 100% to be included).
- ⁸ See Africa Canada Forum (CCIC). "Issues Raised by the Senate Committee Report: Overcoming 40 years of Failure: A New Road Map for Sub-Saharan Africa", March 2007 and more recent, Toronto Sun, "Controversy swirls around CIDA", February 20, 2008.
- ⁹ The Peer Review acknowledged that Canada has improved its focus of bilateral aid on 20 countries, raising this proportion from 60% in 1999 to 68% in 2005 (page 36). While several donors have greater concentration in the top 20 recipients, CCIC has calculated that Canada's current concentration is similar to that of Norway (70%), Sweden (68%) and the Netherlands (70%), all donors with whom Canada has strongly collaborated in the past.

Good Intent Must Be Balanced With Financial Commitment

Rae Julian
Council for International Development (CID)

Overview

- Much of New Zealand's aid programme during the past two years reflects a response to the OECD and Ministerial Reviews carried out in 2005¹.
- ODA has increased from 0.23% of GNI in 2004, to 0.27% in 2005 and 0.30% in 2007-8, following campaigning by CSOs.
- The government has pledged to increase ODA to 0.35% of GNI by 2010
- There has been an increased focus on fewer countries, mainly in the Pacific and Southeast Asia, and NZAID's field presence in those countries has been increased markedly.
- The primary focus on poverty eradication has been maintained, despite some political comment on the need to consider New Zealand's strategic interests when distributing ODA.
- In general, NZAID's progress could be described as steady and dependable.

Developments in New Zealand's aid commitments

A Ministerial Review of NZAID carried out by Dr Marilyn Waring in 2005 and released in 2006 made a number of recommendations similar to those of the OECD.

One of the major concerns of both reviews was the New Zealand government's lack of progress in meeting the United Nations target of allocating 0.7% of Gross National Income (GNI) to Official Development Assistance (ODA) by 2015 and the lack of commitment to interim targets. "New Zealand Governments have continued to support the target, but have made it clear they were not willing to fund ODA increases just to meet an international target, and they would not commit to any specific plan."²

More positively, the ODA level does not include any support for debt relief since the country has no external debtors. New Zealand has also seen a steady decline in tied aid since the establishment of NZAID. In 2002, 24% of ODA was tied aid; this figure has dropped to 9.8%.³

However, New Zealand civil society organisations (CSOs) were very disappointed that there was no percentage increase in ODA between the 2005 and the 2006 Budgets, especially as the level remained at only 0.27%. The increase in 2005, from the

New Zealand

2004 level of 0.23%, had largely been due to the government response to the Indian Ocean tsunami in late 2004.

The lack of commitment to aid increases has been the subject of a major campaign currently known as the Point Seven campaign. It has been coordinated by the NZ Council for International Development (CID) since 1985. CID also participates in the local Make Poverty History coalition of CSOs, which has included the Point Seven goal among its many advocacy events since its formation in 2005.

In 2006, the government pledged to increase the level of ODA in 2007, but only to 0.28%. Following intensive campaigning and some significant support from the New Zealand Parliamentarians Group on Population and Development - a cross-party group that endorsed and lobbied among their colleagues for the Point Seven goal - the Budget level was increased to 0.30% for 2007-08. Furthermore, the Government pledged to reach 0.35% by 2010.

Further findings of and responses to the Waring Review

Waring stressed the importance of policy coherence, noting that NZAID's focus on the Millennium Development Goal of providing basic education was being undermined by the Ministry of Education. NZAID funds a number of short-term training awards to provide the opportunity for individuals from participating developing countries to undertake short-term, skills-based training in New Zealand when there is no appropriate training institution within their region. This is intended to meet high priority human resource development needs of the participating country.

At the same time, the Ministry of Education planned a scholarship programme for postgraduate students from Pacific Island countries to take effect from 2007. The goal of the scheme is "to attract top international postgraduate and undergraduate students to study and carry

out research in New Zealand".⁴

Furthermore, the scholarship students are encouraged to remain in New Zealand after graduation. Two hundred of these scholarships were available by 2007. Not only is this tied aid, but it also threatens to contribute to the "brain drain" in their own countries.

Waring reports that NZAID was unaware of the scheme, prior to its announcement by the Ministry of Education. Since that time an arrangement has been made to liaise on the outcome of the annual selection process for scholarships administered through the Ministry of Education. NZAID reports that "currently, there is no policy coherence problem with scholarships to the Pacific Island region."⁵

The Waring review drew attention to other examples of policy incoherence between NZ government agencies, notably around trade policy issues. NZAID's policy promotes labour rights, support for trade capacity building and good governance in this and other areas. On the other hand, Oxfam NZ's submission to the review reports that the Ministry of Foreign Affairs and Trade is working in an atmosphere of secrecy to promote accession to the WTO in the Pacific, for example⁶.

The third major area of concern from the Ministerial Review was the large number of developing countries (over one hundred) receiving ODA from New Zealand. In response, NZAID now focuses on 17 core bilateral partners, 11 in the Pacific, and six in Southeast Asia and Afghanistan. However, NZ ODA scholarships go to about 40 countries. The Commonwealth Scholarship Scheme includes an additional 34 countries, bringing the total number of countries eligible to 74.

NZAID funding also goes to CSOs in New Zealand as subsidies for their development assistance work with partner CSOs in developing countries. The policy of not restricting CSO funding to countries where NZAID has a bilateral relationship is valued by the CSOs. Most are working with long-term partners at community level and the

New Zealand

effectiveness of their programmes is reviewed regularly.

Outlook for aid

2008 is election year in New Zealand and polling trends have indicate that a change of government is possible. The current major opposition party, the National Party, has produced a discussion paper on Foreign Affairs, Defence and Trade.⁷ This document states that "we will maintain current aid levels set out in the 2007 Budget". It goes on to express concerns about delivery mechanisms and the impact of expenditure and the lack of follow-up of problems identified in the Ministerial review. It stresses the need to place even greater focus on the South Pacific. "We will not renew certain aid projects in distant regions that are not grounded in any realistic appraisal of New Zealand's interests or our capacity to make a difference". The report urges fresh thinking to add political and economic sustainability as key principles along with poverty elimination.

If aid effectiveness principles are fully applied, they should contribute to both economic and social stability. The civil society agenda to be discussed during the election period includes the importance of human rights (especially women's rights), environmental issues (especially the impact of climate change) and fair trade.

Unfortunately, the only political parties to openly support the Point Seven goal with interim targets are minor parties. The Point Seven campaign will be necessary regardless of the election's outcome.

New Zealand and aid effectiveness

Both NZAID and CSOs have endorsed the principles of the Paris Declaration. There are few differences between government and CSOs in the interpretation of the principles and both acknowledge the

importance of civil society as essential elements of the process. There have been regular opportunities for discussion of their differences and the dialogue is likely to continue up to and after the meeting in Accra in September 2008.

In May 2007, NZAID and CID participated in three regional meetings around New Zealand. Presentations on the Paris Declaration and aid effectiveness were made by both agencies, with one CSO in each centre also contributing relevant experience from the field.

NZAID was one of the countries that volunteered to participate in the DAC-coordinated evaluation of implementation of the Paris Declaration, to be released in 2008. The field work for this exercise was carried out in 2007 and CID was represented on the advisory committee for the survey. Civil society views expressed at the meetings were reflected in the draft document.

Since its establishment in 2002, NZAID has been working in line with a number of the principles of the Paris Declaration. In its annual report for 2006-07, NZAID affirms its commitment to "ensuring the effectiveness of the funding it provides".⁸ It goes on to state that: "To make these (Paris Declaration) principles work, donors must work more closely with each other and there has been a shift towards funding the implementation of long-term sectoral strategies. These approaches create more sustainable results and more mutual accountability, and also strengthen partners' capacity to manage their own development processes."⁹

The Pacific Island countries through their regional body, the Pacific Forum, have developed their own seven aid effectiveness principles, based on the Paris Declaration, but with a strong regional focus¹⁰. Some individual Pacific countries are also reported to be developing their own principles as well.

Ownership

- NZAID's first and overarching policy statement states as a core value that they "are responsive to people and communities in developing countries".¹¹
- The ownership principle is further illustrated through the involvement of partner governments and developing country CSOs in the development of bilateral policies and strategies.
- NZAID has set up a number of CSO funding schemes in Pacific Island countries¹², either wholly or partly managed by local CSO representatives and the partner government.
- Some countries are also encouraged to organise technical assistance through their own sources as needed.

Alignment

- An example of alignment is the move towards multi-year appropriations, which correspond with the partner country's financial year.
- Alignment with the development plan of the partner country can be more problematic, especially when the development plan has been drawn up with no consultation with civil society within the country or if there is little emphasis on meeting Millennium Development Goals.
- Gender issues are a key concern when considering the Pacific, which has the second lowest representation of women in

parliaments (after the Arab countries). The statistics for women in decision-making roles, women and violence, maternal mortality, and female literacy are similarly problematic. In Papua New Guinea, for example, women over 15 are almost twice as likely as men to be illiterate.¹³

- Some Pacific governments also take a short-term view of environmental issues, such as deforestation. Both the Solomon Islands and Papua New Guinea practice massive deforestation, far above sustainable levels. Most of this is carried out by international companies who have been sold the logging rights by the respective governments for short-term gain.
- NZAID therefore faces challenges in balancing the Paris principles of alignment and ownership with its own core values that include human rights, gender equality and environmental sustainability. They must choose those aspects of national development plans that they can align with their own overarching policy statement.
- However, there is a danger of attempting to influence partner governments without understanding the long-term impacts of economic policies in a specific developing country. NZAID should "avoid offering the standard policy prescriptions that have been widely discredited in the past. The priority should be to support partner governments to undertake their own analysis, preferably with the participation of those most affected, conduct broad consultations and follow democratic processes in policy formulation and approval."¹⁴

New Zealand

Harmonisation

- "NZAID believes that donors must coordinate their development assistance in ways that allow developing nations to own, control and achieve their development goals".¹⁵
- NZAID leads an education SWAP in the Solomon Islands, working closely with the local Ministry of Education and focusing on meeting the needs for basic education so that all children can at least complete primary education.
- NZAID is a founding partner in a health SWAP in Papua New Guinea, which includes AusAID, WHO, UNFPA, UNICEF, ADB and the World Bank. NZAID also manages AusAID's programme in the Cook Islands on its behalf.
- There are further examples of harmonisation with the Asia Development Bank and AusAID in Samoa.

Managing for Results

- Management for results and outcome reporting is an area that needs greater clarity and agreement between developing and developed countries. If partner countries are to take ownership of all aspects of their development programmes, they must have rigorous systems for assessing the results.
- The validity of many Pacific Island country poverty statistics has been open to question over many years. It is notable that, in the UN Development Index 2007-08, a number of Pacific countries either have gaps in the tables, or include statistics that are likely to be

invalid since they do not cover the same years as the other countries in the tables. Six are not even included in the main index, due to the dearth of statistical information available.

- Capacity building in this area is an ongoing need.
- There are concerns about the indicators for the Paris Declaration. To state that aid is effective if a country has an operational development strategy without any consideration of the contents of that strategy, for example, is ludicrous.
- Additionally, New Zealand CSOs find the differentiation between aid effectiveness indicators and development effectiveness measures, such as the targets in the MDGs, very artificial. Issues such as human rights, gender equality and environmental sustainability must be intrinsic to aid effectiveness.

Mutual Accountability

- Mutual accountability is another challenging area for NZAID. Their commitment is stated as recognition that "sustainable development is achieved only through effective partnerships... that are based on trust, openness, respect and mutual accountability".¹⁶ They are developing robust systems to feed back results and also to provide more security of funding through multi-year appropriations.
- There are a number of mechanisms for accountability to the wider New Zealand public. An annual Budget statement, with an

opportunity for comment to a Parliamentary Committee, is published each year. The annual Budget estimates and an annual NZAID report are also tabled in Parliament and publicly available.

- NZAID is audited annually. Some consideration is also being given to forms of reporting, with civil society consultation as part of the process.
- Unfortunately, some partner governments are not as transparent with their systems of accountability. Many CSOs in the Pacific, for example, report that they do not have the same opportunities to comment on aid and development issues in their countries. Some Pacific countries also lack similar reporting systems to those in New Zealand.

Conclusions

New Zealand is still a long way from meeting its commitment to the goal of allocating 0.7% of GNI to ODA by 2015. Although the current government has set an interim target of 0.35% by 2010, there are no commitments to further interim targets or to the goal in parties' policies in the run up to the next election. Should there be a change of government in late 2008, the major opposition party shows no current inclination to support the goal. Civil society has a major challenge, regardless of the result of the election.

Although the report of the review of NZAID's compliance with the Paris Declaration is not yet publicly available, it is clear that it is likely to be mainly positive. Many of the aid effectiveness principles were incorporated into NZAID's core philosophy from its establishment in 2002. NZAID is also aware of the concerns of civil society about aspects of the Paris Declaration and CSOs look to them to support these issues at official meetings on the road to Accra and at the meeting in Ghana in September 2008.

Notes

¹ Refer *Reality of Aid 2006*, p. 313-314.

² Retrieved from <http://www.nzaid.govt.nz/library/docs/nzaid-waring-review-full-report.pdf>, p. 15

³ Retrieved from <http://www.oecd.org/dac/statsdac/dcrannex>, Table 23

⁴ Retrieved from http://www.educationcounts.govt.nz/publications/international/student_trends_reports

⁵ Personal communication, 18 January 2008.

⁶ Retrieved from <http://www.nzaid.govt.nz/library/docs/nzaid-waring-review-full-report.pdf>, p.63

⁷ Retrieved from <http://www.national.org.nz/files/ForeignAffairs.pdf>

⁸ NZAID Annual Review 2006/07, p. 29.

⁹ Ibid, p.29

¹⁰ Pacific Islands Forum Secretariat, *Pacific aid effectiveness principles*, adopted Koror Palau, 13 July 2007.

¹¹ NZAID policy statement towards a safe and just world free of poverty (undated), p.7.

¹² I have confined my examples to Pacific Island countries since these include many of NZAID's core bilateral partners.

¹³ UNDP Human Development Report 2007-08.

¹⁴ OxfamNZ submission on NZAID Policy on Growth and Livelihoods, 2007.

¹⁵ NZAID policy statement towards a safe and just world free of poverty (undated), p. 14.

¹⁶ NZAID policy statement as above, p.13.

Targeting State 'Transformation', Not Poverty Reduction

*Cheri Waters
Interaction*

Overview of ODA

- In 2006, the US gave US\$22.9 billion in aid, meaning that each person in the US gave US\$76.
- From 2005 to 2006 ODA from the US fell by US\$5 billion in cash terms (from \$27.9 million), or by 18.2% in real terms. Nearly half of the difference is attributable to a decrease in debt forgiveness from \$4.2 million in 2005 to \$1.7 in 2006.
- The US gave 0.18% of its national wealth in 2006, compared with the average DAC country effort of 0.46%, the US' own 2005 figure of 0.23% and its own previous high point of 0.58% in 1965.
- While the US continues to provide the largest absolute amount of ODA, Greece alone has a lower ODA/GNI ratio.¹

US ODA Does Not Go Primarily To Poor Countries Or Most Directly To Poverty Reduction

According to the 2006 DAC Peer Review, the US has *not* had a tradition of targeting assistance based on a country's poverty level. Instead, USAID has used a poverty

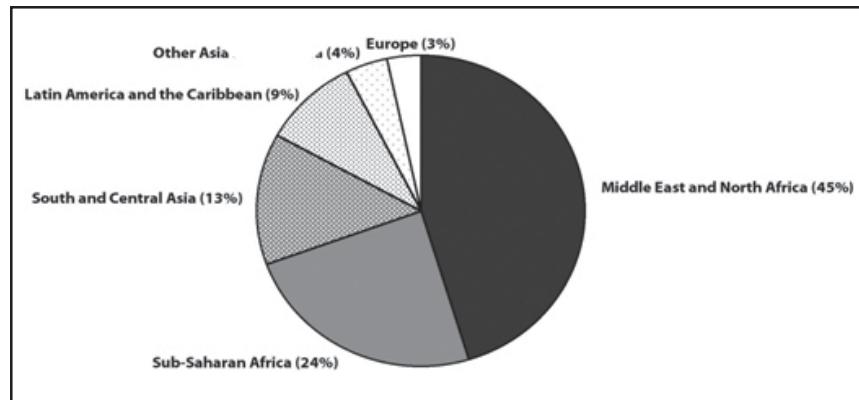
index as one of several tools in country screening.²

In 2006, only 28.9% of bilateral ODA went to least developed countries and 9.3% to other low-income countries, compared to 59.6% to lower-middle-income countries and 2.2% to upper-middle-income countries.³ In 2006, the top ten receipts of total gross disbursements received more than half of USAID. The top three were Iraq (30.0%), Afghanistan (5.1%) and Sudan (2.8%).

The *World Development Report 2008* points out that economic growth originating in agriculture benefits the poorest half of the population in developing countries.⁴ However, less than 2% of total bilateral assistance commitments in 2006 went to agriculture, forestry, and fishing. Moreover, although investments in basic education, basic health, and water and sanitation are vital to poverty reduction and human well-being, the US provided less than 10 % of total bilateral commitments to these sectors in 2006:

- 4.9% (US\$1,185.3 million) on basic health
- 1.1% (US\$275.5 million) on basic education
- 3.4% (US\$817.8 million) on water supply and sanitation

Figure 15. U.S. ODA by Region



US Foreign Assistance As A Security Tool

Since the last publication of *Reality of Aid*, the US government has made profound changes in official development assistance. Indeed, the Bush Administration has used the term “transformation” to describe both their intent and the results obtained. The process of change began when the administration named the global war on terrorism the top foreign aid priority in its 2002 *National Security Strategy of the United States* (NSS).⁵

The NSS articulated a policy that included global development as one of three US national security pillars for the first time - alongside defense and diplomacy. The US development community’s question was whether the three would be equal and there was a concern that development would become subordinate to the others. The most substantial policy change has come following the stated intent by the Secretary of State⁶ in January 2006 to “reform and restructure” US foreign assistance. The overarching aim was to craft US aid as an *instrument of national security through “transformational diplomacy”* - not just engaging with other countries, but transforming them. The new model was to

ensure that foreign assistance was used effectively to meet the administration’s broad foreign policy objectives and to align operations of the two major agencies responsible for aid activities: the US Agency for International Development (USAID) and State Department.⁷

The Secretary of State created a new position, the Director of Foreign Assistance (DFA), to serve concurrently as a Deputy Secretary in the State Department and as USAID Administrator. The DFA would be responsible for “transformational development” and would lead the process of reforming US aid.

Over the following months, the State Department’s Office of Foreign Assistance (OFA) developed a new comprehensive framework for US foreign assistance with the following overarching goal: “*To help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system.*”

To accomplish this goal, the framework set out five strategic objectives: (1) peace and security, (2) governing justly and democratically, (3) investing in people, (4) economic growth, and (5) humanitarian assistance.

The United States

The framework also created five country categories:

- **Rebuilding** countries are in, or emerging from, internal or external conflicts.
- **Developing** countries are low- and lower-middle-income countries that are not yet meeting performance criteria.
- **Transforming** countries are low- and lower-middle-income countries that meet certain performance criteria based on good governance and sound economic policies.
- **Sustaining partnership** countries are upper-middle-income countries with which the United States maintains economic, trade, and security relationships beyond foreign aid.
- **Restrictive** countries are authoritarian regimes - most ineligible for US aid - with significant issues around freedom and human rights.

Each of the recipients of US foreign assistance (over 130) has been assigned to *one* category⁸ with some surprising results. For example, Bolivia is in the same 'transforming' category as Brazil although it has twice as many people living in poverty and only one-third the GNI per capita. Equatorial Guinea, Taiwan, and Portugal are in the same 'sustaining partnership' category.

The OFA has produced a matrix which sets out the different programs for each type of country under each objective. Since the new purpose of US foreign aid is to *move* a country from one category to the next (e.g. from rebuilding to developing), the framework sets end goals for US assistance and establishes a corresponding "graduation trajectory".

Evaluating the Changes: Transformation and Aid Effectiveness

Examined from the perspective of aid effectiveness and democratic ownership, the reform process and its results have been extremely troubling. The following three points demonstrate why.

1. The reform process itself was the antithesis of both "country ownership," as defined in the Paris Declaration, and "democratic ownership."

In a system driven by US interests and security concerns, all major decisions are to be decided by Washington because it has a "better, more comprehensive vision of US strategic interests in any particular country." Allowing the USAID missions in developing countries to make strategic decisions might be "biased by 'country-capture'." ⁹ Thus, the DFA leads small groups in Washington in using the DFA-developed matrix to develop a strategy for each country and allocate resources. There is *no* consultation with USAID in-country missions or US-based implementing partners, let alone with recipient governments or civil society.¹⁰

A nine-country study of the immediate effects of the reform process by *InterAction* found that the vast majority of the field staff of USAID had not even been informed of the nature of the reforms being made. US-based and local NGO staff were in the same position.¹¹ In one country, a recently completed strategy written in consultation with the national government had had to be thrown out in favour of a new strategy provided by Washington. Thus, "the ... reform [process had] affected the mission's ability to be predictable to the [national] government."

The United States

There is one notable exception to this top-down approach to US assistance: the Millennium Challenge Corporation (MCC). This is a US government corporation whose mission is to provide assistance to support economic growth and poverty reduction. To be eligible for MCC funding, low- and lower-middle-income countries must meet specific selection criteria. A country that meets all criteria is eligible to negotiate a multi-year "compact" with the MCC to implement a plan for poverty reduction and economic growth programs. The law establishing the MCC requires that each plan be *developed by the national government in consultation with civil society, including women, NGOs, and the private sector*.¹²

2. The framework sets prescriptive and inflexible mandates that effectively tie the hands of those responsible for implementation.

The new foreign assistance framework is extremely explicit and fixed in terms of what activities can be funded with US aid. The framework establishes a certain number of specific program areas under each objective for each category of country. For each program area, there are multiple program elements and sub-elements. For example, the objective "Investing in People" has three program areas. One of these, health, has eight program elements (e.g. malaria) and seventy-nine

sub-elements (e.g. insecticide-treated nets).¹³

No activity can be funded if it does not appear in the matrix in the correct place for each country. To make sure this is the case, OFA staff have developed a 108-page compilation of *Standardized Program Structure and Definitions* listing the programs that can be funded.

Under this arrangement, the US will provide assistance to attain five objectives, twenty-four program areas, ninety-six program elements, and about four hundred sub-elements, all precisely defined in Washington without consultation. The only decision left to be made on the ground - with or without democratic ownership - is at the sub-element level.

3. OFA took decision-making regarding indicators of aid performance away from recipients

As one respondent to our study put it, OFA has developed a "cookie cutter approach to development indicators" divorced from realities on the ground. In fact, OFA has developed a set of "standard performance indicators," with literally hundreds of indicators that focus primarily on outputs rather than outcomes. This means that, for example, the output of the number of classrooms built is seen as more important than the outcome of educating children.

Notes

¹ DAC Online. Retrieved March 26, 2008 from <http://www.oecd.org/dataoecd/50/17/5037721.htm>

² Development Assistance Committee. (2006). *DAC Peer Review of the United States*, (Paris: Organization for Economic Cooperation and Development. p. 34. Retrieved from http://www.oecd.org/document/27/0,3343,en_2649_34603_37829787_1_1_1_1,00.html.

³ DAC Online. Retrieved March 26, 2008 from <http://www.oecd.org/dataoecd/50/17/5037721.htm>

⁴ World Bank. (2008). *World Development Report 2008: Agriculture and Development* (Washington: The World Bank. p. 6. Retrieved from <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/EXTWDR2008/0,,contentMDK:21410054-menuPK:3149676->

The United States

pagePK:64167689-piPK:64167673-
theSitePK:2795143,00.html.

- ⁵ White House. (2002). *The national security strategy of the United States of America*. Washington: White House. Retrieved from <http://www.whitehouse.gov/nsc/nss.html>
- ⁶ Condoleeza Rice.
- ⁷ Condoleeza Rice. (2007). *Remarks on foreign assistance*. Washington: US Department of State. Retrieved from <http://www.state.gov/secretary/rm/2006/59408.htm>
- ⁸ For the original list of countries by category. In InterAction. (2007). *US contributions to reducing global poverty: An assessment of the US and the millennium development goals*. Washington. p. 20. Retrieved from <http://interaction.org/library/detail.php?id=6035>
- ⁹ Hyman. G. (2008). Assessing Secretary of State Rice's reform of US foreign assistance. *Carnegie Paper No. 90*. Washington: Carnegie Endowment for International Peace. p. 14. Retrieved from <http://www.carnegieendowment.org/publications/index.cfm?fa=view&id=19906&prog=zgp&proj=zdr1>
- ¹⁰ *Ibid.*, p. 7.
- ¹¹ The principal investigator, Carolyn Long, worked with a team of researchers in: Ghana; Honduras; Kenya; Nepal; and Vietnam. InterAction staff conducted supplementary interviews in: El Salvador, Nicaragua, Tanzania and Zambia. In all, the research team conducted interviews with 270 people in nine countries from May to December 2007.
- ¹² For an in-depth description of MCC selection criteria and operations, go to <http://www.mcc.gov/index.php>
- ¹³ The document can be accessed at <http://www.state.gov/f/c24132.htm>

Silver Clouds and Dark Linings

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Networkers SouthNorth

Aid and Environmental Policy in Norway

In 2007, the Norwegian minister for Development co-operation was appointed Minister for Environment and Development. The two ministries, however, remain separate. This step of creating top-level coordination was a signal of the government's commitment to face the grave environmental challenges ahead.

Expectations were high. A centre-left majority in the electorate guaranteed strong support for aid, as it has since inception of aid in the 1950s, regardless of government colour. Huge national financial surpluses added to the expectations. The so-called Soria Moria government policy paper had feasible goals like: turning away from the World Bank and its economic policies; heralding debt cancellation; fighting neoliberal tendencies abroad and at home; and turning our high CO²-consuming life into an environmentally sustainable one. Radical but feasible.

With a record high aid budget presented in October 2007, promises to make Norway carbon-emission free, and an ethical investment plan for our huge oil-fund revenues, applause was expected from a proud government. After all, the Minister had even quoted Berthold Brecht: *"hunger doesn't merely emerge, it is organised by grain-dealers. Poverty isn't coincidental. It is a product of international power structures. Caused by bad policies in many*

*countries, as well as weak, corrupt and incompetent, and a product passed on from hundreds of years of history."*¹

Civil Society Unimpressed

However, to the astonishment of the outside world, civil society did not applaud. In fact, they saw little evidence of any new direction in 2007. On the contrary, the Minister for environment and development underlined that he would continue the business of his predecessors: We know what the world needs, he summed up: peace, good governance for sharing resources, a market-based economy, education and raising necessary resources through investment and development aid. The market-based economy had become a corner stone for socialist-led environmentalism in Norway!

For Norway he identified obvious tasks: "We need to do what we are good at: energy, peace and reconciliation, women's and environmental issues."² As late as May 2008 the Prime Minister assured that co-operation between government and big business "is a good thing"³. Warnings of mixing Norway's strategic interests in the oil, gas, shipping, fish and fertiliser business sectors with development aid cannot just be brushed away with assurances of anti-corruption ambitions. Add military engagements in Afghanistan and other

Norway

trouble spots, and one sees a potential minefield of great proportions.

The national press across the political spectrum also had a clearly negative verdict when the budget was presented: the steps taken were too small – and not really in the right direction. The influential conservative newspaper *Aftenposten*⁴ stated with disappointment that the entire climate effort was covered by less than a month's surplus from our hugely polluting oil and gas revenues. The government-supportive newspaper *Nationen*⁵ stated that private consumption had increased ten times more than the environmental budget increase. Vaart Land⁶ bluntly stated that the budget was “built on greed.”

The government's environment policies have also been strongly criticised. A large majority of Norwegians have always supported the targeted 1% of GDP for development, and also the idea that funds for environmental targets should come in *addition to this*, and not taken from what is already allocated for the poor. The Prime Minister's speech on Norway's dedication to fight climate change by becoming a zero-emission country was hailed as groundbreaking. An extra multi-billion investment in environmental programmes initially soothed the environmentalists who would otherwise have focused on the many environmentally dubious projects emanating from oil- and gas-extractive industries. But shortly it became evident that large parts of our reductions actually meant using Norway's oil-based wealth to buy the right to pollute abroad through carbon shares.

Failing to Match All the Rhetoric With Reality on Aid Effectiveness

The World Bank and conditionalities

World Bank- critical groups have applauded Norway's new and groundbreaking initiative to support the renegotiations of deals forced upon African governments under

World Bank efforts to privatise extractive & mining industries in the 1980s and 1990s. The realisation that privatisation of historically money-making sectors had resulted in little if any income to governments in spite of currently booming prices, led to Norwegian initiatives, first in Zambia and DRC and likely also in Tanzania.

This was more than an indirect Norwegian criticism of the World Bank's conditionality policies. In spite of reportedly harsh, though unofficial, reactions from World Bank representatives, the renegotiations supported by Norwegian money for litigation and expert support have so far reportedly been a considerable success. How much remains to be seen.⁷

However, many meetings between the Minister for Development Cooperation and the World Bank, together with promises of joint cooperation between the two, were treacherous signals to Bank-critical government supporters. Minor reductions by Norway to parts of the funding of the Bank did little to correct this impression. A similar double message was sent out on Norway's policies on *privatisation*.

The Bank was urged to stop conditioning loans with privatisation. But at the same time, privatisation-driving trust funds at the World Bank received Norwegian support in crucial sectors like health and education.⁸ In the water sector, however, privatisation fighter FIVAS was successfully pressuring to withdraw Bank-support⁹. A conference on conditionality in the fall of 2006 actually left an impression that research allegedly showed that the Bank was improving its conditionality policies (“fewer conditions are imposed” as if numbers were the issue!), and due to “successful” Norwegian pressure, at that. Norway is safely back on the World Bank track.

Debt cancellation

A much applauded debt reduction step was Norway's partial admission of guilt in a series of lending operation in the 1970s.

Loans to ship builders in the 1970s were labelled illegitimate by NGOs since they were in reality support to Norwegian shipyards in times of trouble, rather than benefiting the end user in the developing world. Norwegian debt campaigner SLUG¹⁰ eventually saw the fruition of its long fight. Globally unprecedented, Norway decided to cancel the remaining parts of loans under the relevant ship builder's contracts. It is to be welcomed that no funds were taken from aid budgets to carry out this cancellation of remaining debt, nor was it included in the Norwegian DAC figures. However, the government did not pursue the issue to include returning the down payments already processed from the debtor countries. This, undeniably, would have been a logical and moral consequence of admitting guilt in the first place.

Brain drain

In the spring of 2007 Norwegians woke up to shocking news, as the minister for development co-operation announced plans to improve Norway's (sic) looming health personnel shortage by mass import of African health personnel. The damaging impression of completely lacking in understanding the consequences of such deliberate brain-drain policies was not really ameliorated by next-day clarification of what had "really" been meant: a win-win for Norway and Africa, since "many of them" would return to nurse- and doctor-starved Africa after having served in Norway.¹¹ The final outcome of this initiative remains to be seen.

Medical research

Norway has been arguing strongly for a reduction in the number of aid agents for a more manageable and coordinated aid field, and has also proclaimed increased support for the UN. It made little sense then, critics claimed, to set up an entirely new body, GAVI, to administer a renewed effort

in vaccination and medical research. The GAVI project came under attack by a former Reagan economist, Princeton professor Donald W. Light, for being little more than support for American pharmaceutical companies.¹² GAVI is about to receive a considerable 6 billion NOK over 5 years. This criticism came on top of NGO claims that GAVI was designed by Bill Gates and suspiciously well timed to subtly underpin an embattled global patent regime, a move that would strongly benefit Gate's own company Microsoft. The Prime Minister's office had already assured critics that the patent-based market system would lead to reduced cost of medicines and thus benefit the poor and sick. Many were surprised that a left-green government this way would trust outdated market arguments this way.¹³

Militarisation of aid

It would not be correct to leave the Norwegian scene without referring to the applause Paul Collier's book "Bottom Billion" received from the Norwegian Minister for Environment and Development Cooperation. Many were surprised that this former head of research at the World Bank got away with so many undocumented assumptions and arguing for *de facto* militarisation of the aid sector. Collier falls in line with American assumptions that "responsibility to protect" as a genocide preventive measure should include *early military intervention*. This is seen by many as another attempt to expand the US war-on-terror into the field of development assistance, and is strongly resisted by EU¹⁴.

Collier's unsubstantiated criticism of Christian Aid's research methods led to a reversed focus on Collier's own track record and the scathing criticism by the Deaton commission on research under Collier's leadership at the World Bank.¹⁵ That Norway could declare it has anything at all to learn from the author of *Bottom Billion* is at best incomprehensible.

Norway

Openness and watchdogs

Norway's dedication to openness in aid policy and action was highlighted when the Extractive industries transparency initiative, EITI secretariat was located to Oslo, in line with the Minister's concern to fight corruption.

It should be noted that after the government had stopped reporting regularly to the Parliament on aid, the Committee on Foreign Affairs' meeting with NGOs on budget issues has become increasingly more important. The committee subsequently poses questions publicly to the government.¹⁶ Organisations are also offered 4-year government support

programmes by Norad¹⁷ to carry out information and development education on North-South issues, and are also encouraged to act as government watchdogs in their respective fields of interest. This is a much acclaimed democracy and transparency enhancing investment on the government's side.¹⁸ Development and environment NGOs are organised and coordinate their efforts in a similar umbrella, ForUM¹⁹. The Minister for Foreign Affairs is prolifically publishing the minister's speeches on the Internet, but for some reason the Environment and Development Minister has not adopted the same standard.

Notes

¹ See <http://www.rorg.no/Artikler/1571.html>, June 11, 2007.

² See <http://www.rorg.no/Artikler/1290.html>

³ Norwegian Broadcasting Corporation, NRK, News 4. (2008, May).

⁴ *Aftenposten*. (2007, October 5). Oslo.

⁵ *Nationen*. (2007), October 6). Oslo.

⁶ *Vaart Land*. (2007, October 6). Oslo.

⁷ Retrieved from <http://www.bicusa.org/en/Article.3396.aspx>

⁸ Retrieved from <http://siteresources.worldbank.org/EXTNTFPSI/Resources/NTFPSIframework0115.pdf>

⁹ See <http://www.rorg.no/Artikler/1511.html>, February 23, 2008.

¹⁰ Retrieved from <http://www.slettgjelda.no>

¹¹ Norwegian Broadcasting Corporation. (2007, March 27).

¹² *Aftenposten*. (2008, March 3). Oslo.

¹³ *Ny Tid*. (2007, January). Oslo.

¹⁴ The Madariaga Foundation in Brussels in its conference on this topic 13 March 2008, will issue a report on this mid 2008 (see <http://www.madariaga.org>).

¹⁵ Deaton, A. (). An evaluation of World Bank research, 1998 - 2005. World Bank.

¹⁶ Retrieved from http://www.regjeringen.no/nb/dep/ud/dok/andre/Brev/Brev_til_Stortinget/2006/Statsbudsjettet-2007-Svar-pa-sporsmal-fra-Utenrikskomiteen.html?id=429604

¹⁷ Norad. (). Norwegian Agency for Development Cooperation. See <http://www.norad.no/english>

¹⁸ For more on the RORG-frame agreements, see <http://www.rorg.no>

¹⁹ Retrieved from <http://www.forumfor.no>

Increasing Budget Support, But Slow on Participation

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Overview

- In 2006, the EC's aid disbursements amounted to US\$ 9.9 billion - this means that, each person in the EU gave US\$ 21.4 in aid which was channelled through the EC.¹
- The 2006 figure represents an increase of US\$ 0.9 billion from its 2005 level. Taking into account inflation and exchange rate changes, the value of EC aid increased by 6.2% in real terms.
- In 2006, DAC EU Member States gave 0.43% of their combined GNI. This was lower than the average country effort of 0.46% and a decrease from DAC EU Member States' level of 0.44% in 2005.

- In 2006, the EC gave US\$ 4.3 billion (43%) of its total aid to least developed and other low-income countries.
- In 2006, the EC spent US\$ 302 million (3%) of its aid on basic health, US\$ 259 million (3%) on basic education and US\$ 375 million (4%) on water supply and sanitation.

Lisbon Treaty

In December 2007, the heads of state and government of the 27 EU Member-States finally signed the Lisbon Treaty. The new treaty clearly states that the EU's external actions will be guided by the following principles: democracy, the rule of law, the

In this section:

- 'EC aid' refers to the development aid programme which is financed by the Member States but managed by the European Commission.
- 'EU aid' denotes the combined aid from both the European Commission and the EU Member States.

All figures cited are gross disbursements at current prices.

Source: OECD/DAC Creditor Reporting System online database

European Union/European Commission

universality and indivisibility of human rights and fundamental freedoms, respect for human dignity, equality and solidarity, and respect for the principles of the United Nations Charter and international law.

In addition to highlighting the importance of human rights to the EU's external relations, the Lisbon Treaty both clarifies and strengthens the legal basis for the EU's development cooperation policy.

It sets out development cooperation as a specific policy area which is independent of all other elements of the EU's external relations and clearly identifies poverty eradication as the overarching objective of this policy. In addition, it maintains the principle of 'coherence' by which all EU policies that may have an impact on developing countries must take into account the objectives of EU development cooperation.

The Lisbon Treaty needs to be ratified by all 27 EU Member States. By 1 July 2008, 18 countries had given their approval but Ireland's rejection of the Treaty in a referendum on 12 June means that it is unclear if or when the process will be completed. The ratification process is continuing in other EU Member States with a view to its eventual completion, possibly through the adoption of additional measures to address Ireland's concerns.²

Aid Effectiveness

Alongside the process of ratifying the Lisbon Treaty, the European aid agenda in 2008 will be dominated by the issue of aid effectiveness, including the ongoing preparations for the review of the Paris Declaration at the Third High Level Forum on Aid Effectiveness (HLF 3) which will take place in September in Accra, Ghana. HLF 3 will take place midway through France's Presidency of the Council of the EU.

The European Commission (EC) will play a central role in the EU's contribution to the Paris Declaration review process. In the first half of 2008, it published a set of

communications on aid effectiveness, the MDGs, financing for development, policy coherence for development and aid for trade.³ This package was discussed by EU Development Ministers when they met in May 2008 and the outcomes of these discussions formed the basis of European Council (heads of state and government) conclusions in June 2008.⁴

Tenth European Development Fund (EDF 10)

The European Development fund (EDF) is the main channel for the EU's development aid to countries in the African, Caribbean and Pacific (ACP) Group of States. The current EDF, (EDF 10) will cover the period 2008 - 2013.

Throughout 2007, European NGOs were highly critical of the processes through which the EC was preparing its EDF 10 aid programmes for ACP countries. Concerns were raised about the EC's diminishing focus on social sector funding and the dramatic increase in the use of general budget support (GBS) as a means of delivering EC aid.⁵

In addition to the above-mentioned issues, NGOs were also critical of the lack of consultation which had taken place with civil society in the EC's partner countries in the South⁶ and the almost complete lack of parliamentary scrutiny over the EC's country aid programmes (known as country strategy papers (CSPs)) for ACP countries. The fact that the European Parliament has so far been virtually excluded from the ACP programming process received particularly strong criticism as the EC had previously conceded that, as the EU's only directly-elected body, the European Parliament had a democratic right to scrutinise EC development aid programmes for countries in Asia, Latin America and the EU's neighbouring countries.⁷

This criticism derives from the fact that the EC Treaty does not distinguish between regions and NGOs have repeatedly argued

that democratic scrutiny is especially important for the EC's aid programmes in Africa given the increased levels of GBS which are being allocated there.

General Budget Support (GBS)

In December 2007, the EC stated that approximately 47% of the funding available under EDF would be provided as budget support.⁸ It also appears likely that GBS will be prioritised over sector budget support (SBS).

The EC has repeatedly used its increased reliance on GBS to justify the decrease in its direct support to the sectors of health and education. However, the measurement of the contribution of EC GBS to social sectors has been brought into question.⁹

The details of the EC's GBS programmes are set out in so-called "financing agreements" (budget support contracts between the EC and its partner countries). Despite their clearly stated poverty reduction objectives, these documents reveal a disturbing lack of indicators for measuring the impact of GBS on poverty.¹⁰ Furthermore, the content of certain financing agreements indicates that results-orientation towards the promotion of women's rights and gender equality is absent from the EC's GBS programmes.¹¹

The content of certain financing agreements also raises questions about the degree of ownership which the governments of the EC's partner countries are able to exercise over their own national development strategies when those strategies are partly financed by EC GBS. The EC consistently presents budget support as the aid modality which is best suited to upholding the principle of 'ownership' as set out in the Paris Declaration. However, the EC's standard requirement for its partner countries to have an IMF-approved macroeconomic policy can limit the fiscal space available to governments, for instance to fund additional

teachers and health workers. This conditionality can seriously hinder governments' abilities to implement their national development strategies. It thus reduces their ownership of their countries' development.

In autumn 2007, the EC informally agreed to publish its budget support financing agreements. This constituted a small step on the path to increasing the transparency of its GBS programmes. However, this can in no way be seen as redress for the fact that these programmes are still devoid of democratic control from parliaments either in the EC's partner countries or in Europe. A selection of financing agreements can currently be viewed on Eurostep's aid programming websites.¹²

In July 2007, the EC published a proposal for a new form of long-term, predictable budget support aimed at improving results in social sectors by financing long-term, recurrent costs.¹³ The proposal for these so-called "MDG contracts" was initially applauded by NGOs as it appeared to offer the potential for the EC's partner governments to finance recurrent costs such as those involved in paying the salaries of teachers and health workers. However, since the EC unveiled its proposal, questions have been raised about the limited number of MDG contracts which will be available and about the continued existence of IMF-based conditionalities.¹⁴

Conclusions

The agreement on the Lisbon Treaty marks an important step in clarifying and strengthening the legal basis for the EU's development cooperation policy. Once it is ratified and comes into force, it is essential that the Lisbon Treaty is translated into an administrative structure which fully reflects this reality.

Despite a legal obligation to involve civil society in its aid programming

European Union/European Commission

processes, civil society was, to all intents and purposes, excluded from the negotiations over the EC's aid plans for countries in the ACP Group of States under EDF 10. This has major implications for the issue of partner country ownership.

The EC's aid programmes for ACP countries have also been devoid of effective parliamentary scrutiny either in those countries or within the EU. This is despite continued calls in Europe for the European Parliament to scrutinise the EC's aid to Africa as it does with the EC's aid to developing countries in other regions.

Seventy percent of the world's poorest people are women. It is, therefore, essential that gender issues are concretely operationalised in all of the EC's aid modalities, especially budget support.

If the EC is to be taken seriously in its stated aim to increase its partner countries' ownership of their own development plans, it should desist from making its GBS conditional on the existence of an agreement with the IMF. It should be up to partner governments and not the EC to decide if those countries engage with the IMF.

Under EDF10, the EC should aim to ensure long-term predictable aid which is not tied to IMF-based conditionality. This will enable it to assist the governments of its partner countries to finance recurrent costs, including paying the salaries of teachers and health workers, which are central to the achievement of the MDGs.

Notes

- ¹ This calculation is based on Eurostat data on the population of the EU on 1 January 2006.
- ² For more information about the implications of the Lisbon Treaty for EU development cooperation, see <http://www.lisbon-treaty.org>
- ³ See http://ec.europa.eu/development/icenter/repository/COMM_PDF_COM_2008_0177_F_EN_ACTE.pdf
- ⁴ See http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/101346.pdf
- ⁵ Action for Global Health. (2007), *An unhealthy prognosis? The EC's development funding for health* Alliance2015; (2007). *The EU's contribution to the millennium development goals - halfway to 2015: Mid-term review.*
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- ⁷ Alliance2015. (2007). *2015-Watch Scorecard.*
- ⁸ Eurostep. (2007). *Assessing EU cooperation with ACP countries 2008-2013.*
- ⁹ Alliance2015. (2007). *Expert meeting: Measuring the contribution of general budget support.*
- ¹⁰ EEPA. (2008). *Administering aid differently: A review of the European Commission's general budget support.*
- ¹¹ EEPA. (2007). *Briefing Paper 8: Gender and sexual and reproductive health and rights Indicators in EU development aid.*
- ¹² See <http://www.developmentportal.eu/wcm/subsite/acp/content/section/4/27/>
- ¹³ EEPA. (2007). *Briefing Paper 1: MDG contracting.*
- ¹⁴ EEPA. (2007). *Report of MDG contracting meeting.*



Part II
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Glossary of Aid Terms

- 20/20** An Initiative proposed at the Copenhagen Social Summit (WSSD) for bilateral agreements between donor and recipient governments, whereby donors would agree to allocate 20% of their ODA to Basic Social Services (BSS) if recipients agreed to allocate 20% of public expenditure to enable universal access to BSS.
- ACP** African, Caribbean and Pacific States (see Lomé Convention).
- ADB** Asian Development Bank
- AECI** Spanish Agency for International Cooperation
- AfDB** African Development Bank
- Aid** see ODA Official Development Assistance
- AIDS** Acquired Immune Deficiency Syndrome
- APEC** Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.
- APEC** is the only inter governmental grouping in the world operating on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis.
- APEC** has 21 members - referred to as "Member Economies" - which account for more than 2.5 billion people, a combined GDP of 19 trillion US dollars and 47% of world trade. It also proudly represents the most economically dynamic region in the world having generated nearly 70% of global economic growth in its first ten years.
- APEC's 21 Member Economies** are Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; Vietnam.
- Purpose and Goals:**
- APEC was established in 1989 to further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community.
- ASEAN** Association of South East Asian Nations
- Associated Financing** is the combination of Official Development Assistance, whether grants or loans, with any other funding to form finance packages. Associated Financing packages are subject to the same criteria of concessionality, developmental relevance and recipient country eligibility as *Tied Aid Credits*.
- African Union (AU)** Formed following the September 1999 Sirte Declaration by African Heads of State and Government, the AU succeeds

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	the Organisation of African Unity (OAU) as the premier vehicle for accelerating integration in Africa, ensuring an appropriate role for Africa in the global economy, while addressing multifaceted social, economic and political problems compounded by certain negative aspects of globalisation. See http://www.africa-union.org		sanitation) defined for the purposes of the 20/20 Initiative
Bangladesh Aid Group	was formed in October 1974 under the direct supervision of the World Bank, comprising 26 donor agencies as well as countries that made the commitment of providing support to the country for its development.	BSWG	Budget Support Working Group
Bilateral Aid	is provided to developing countries and countries on Part II of the DAC List on a country-to-country basis, and to institutions, normally in Britain, working in fields related to these countries.	Budgetary Aid	is general financial assistance given in certain cases to dependent territories to cover a recurrent budget deficit.
Bilateral portfolio investment	includes bank lending, and the purchase of shares, bonds and real estate.	CAP	The Consolidated Appeal Process for complex humanitarian emergencies managed by UNOCHA
Bond Lending	refers to net completed international bonds issued by countries on the DAC List of Aid Recipients.	CAP	Common Agricultural Policy (EU)
BoP	Balance of payments	CAS	Country Assistance Strategy
BOOT	Build, Operate, Own and Transfer	CBSC	Capacity Building Service Centre
BPC	Bangladesh Petroleum Corporation	CDF	Comprehensive Development Framework used by The World Bank
BSS	Basic Social Services (Basic Education, basic health and nutrition, safe water and	CEC	Commission of the European Community
		CEE/CA	Countries of Central and Eastern Europe and Central Asia
		CGAP	Compensatory Financing Facility
		CGI	Consultative Group to Assist the Poorest. A micro-lending arm launched by the WB in 1995. A recent report prepared by the Washington DC-based Institute for Policy Studies, found that 46 percent of CGAP's expenditures in its first year of operation was spent on policy reforms which may benefit lenders but end up hurting poor borrowers, particularly women.
		CIS	Consultative Group on Indonesia
			Commonwealth of Independent States

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- Commitment** a firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation. Bilateral commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of disbursements.
- Concessional Level** is a measure of the 'softness' of a credit reflecting the benefit to the borrower compared to a loan at market rate (cf *Grant Element*).
- Conditionality** is a concept in international development, political economy and international relations and describes the use of conditions attached to a loan, debt relief, bilateral aid or membership of international organisations, typically by the international financial institutions, regional organisations or donor countries.
- Constant Prices** Prices adjusted to take inflation and exchange rates into account and so make a 'like with like' comparison over time.
- Cotonou Partnership Agreement** Signed in Cotonou, Benin, on 23 June 2000, the agreement replaces the Lomé Convention, as the framework for trade and cooperation between the EU and its Member States and African, Caribbean and Pacific (ACP) States. For more information, go to: http://europa.eu.int/comm/development/body/cotonou/index_en.htm
- Country-owned ownership** implies that all sectors of the country should be involved in determining whether an aid is needed or not, how it is used and in monitoring the implementation of the projects and programs supported by the aid (grants or loans). Although governments represent partner countries, they can no longer act independently, but have to be accountable to the country as a whole, comprising the citizens, parliament, business sectors and civil society.
- CPIA** Country Policy and Institutional Assessment
- Current (cash) prices** are prices not adjusted for inflation.
- DAC** Development Assistance Committee the DAC of the Organisation for Economic Cooperation and Development (OECD) is a forum for consultation among 21 donor countries, together with the European Commission, on how to increase the level and effectiveness of aid flows to all aid recipient countries. The member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and USA. DAC sets the definitions and criteria for aid statistics internationally.
- Debt Relief** may take the form of cancellation, rescheduling, refinancing or re-organisation of debt.

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a. Debt cancellation is relief from the burden of repaying both the principal and interest on past loans.

b. Debt rescheduling is a form of relief by which the dates on which principal or interest payments are due are delayed or re-arranged.

c. Debt refinancing is a form of relief in which a new loan or grant is arranged to enable the debtor country to meet the service payments on an earlier loan.

d. Official bilateral debts are re-organised in the Paris club of official bilateral creditors. The Paris Club has devised the following arrangements for reducing and rescheduling the debt of the poorest, most indebted countries.

Toronto Terms agreed by the Paris Club in 1988 provided up to 33% debt relief on rescheduled official bilateral debt owed by the poorest, most indebted countries pursuing internationally agreed economic reform programmes.

Trinidad Terms agreed by the Paris Club in 1990 superseded Toronto Terms and provided up to 50% debt relief.

Naples Terms agreed by the Paris Club in 1994 superseded Trinidad Terms and provide up to 67% debt relief. They also introduced the option of a one-off reduction of 67% in the stock of official bilateral debt owed by the poorest, most indebted countries with an established

track record of economic reform and debt servicing.

Enhanced Naples Terms Under the Heavily-Indebted Poor Countries (HIPC) debt initiative, Paris Club members have agreed to increase the amount of debt relief to eligible countries to up to 80%.

Democratic ownership - one of the five principles of Paris Declaration. It implies the participation of the people from the very first stages of any project or program to be funded by foreign aid. The project and program implementation should similarly be transparent and directly or indirectly accountable to the people.

Developing Country The DAC defines a list of developing countries eligible to receive ODA. In 1996 a number of countries, including Israel, ceased to be eligible for ODA. A second group of countries, 'Countries and Territories in Transition' including Central and Eastern Europe are eligible for 'Official Aid' not to be confused with 'Official Development Assistance'. OA has the same terms and conditions as ODA, but it does not count towards the 0.7% target, because it is not going to developing countries

Developing Countries Developing countries are all countries and territories in Africa; in America (except the United States, Canada, Bahamas, Bermuda, Cayman Islands and Falkland Islands); in Asia (except Japan, Brunei, Hong Kong, Israel, Kuwait, Qatar, Singapore, Taiwan and United Arab Emirates); in the Pacific (except Australia and New Zealand); and Albania, Armenia,

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	Azerbaijan, Georgia, Gibraltar, Malta, Moldova, Turkey and the states of ex-Yugoslavia in Europe.		
DFID	Department for International Development (UK)	ECOWAS	Economic Community of West African States, described at: http://www.ecowas.int/
DGCS	Directorate General for Development Cooperation	EDF	European Development Fund see Lomé Convention and Cotonou Partnership Agreement.
Disbursement	Disbursements record the actual international transfer of financial resources, or of goods or services valued at the cost to the donor. In the case of activities carried out in donor countries, such as training, administration or public awareness programmes, disbursement is taken to have occurred when the funds have been transferred to the service provider or the recipient. They may be recorded <i>gross</i> (the total amount disbursed over a given accounting period) or <i>net</i> (less any repayments of loan principal during the same period).	EFA	Education for All
DPL	Development Policy Loan	EFF	Extended Fund Facility
DSF	Decentralization Support Facility	EIB	European Investment Bank
DWASA	Dhaka Water Supply and Sewerage Authority. One of ADB's privatization project of the water distribution system in Bangladesh.	EMU	Economic and Monetary Union
EBRD	European Bank for Reconstruction and Development	EPC	Engineering Procurement Construction
EC	European Commission	ESAF (E/SaI/F)	Enhanced Structural Adjustment (Loan)/Facility
ECHO	European Community Humanitarian Office	Export Credits	are loans for the purpose of trade extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.
ECOSOC	Economic and Social Council (UN)	FAO	Food and Agricultural Organisation (UN)
		G24	Group of 24 developed nations meeting to coordinate assistance to Central and Eastern Europe
		GATT	General Agreement on Tariffs and Trade
		GDP	Gross Domestic Product
		GEF	Global Environment Facility
		Gini coefficient	is an indicator of income distribution, where 0 represents perfect equality and 1 perfect inequality.

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GNI	Gross National Income. Most OECD countries have introduced a new system of national accounts which has replaced Gross National Product (GNP) with GNI. As GNI has generally been higher than GNP, ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.	HIPC	Highly Indebted Poor Country (Debt Initiative)
GNP	Gross National Product	HIV	Human Immunodeficiency Virus
Grant element	reflects the <i>financial terms</i> of a commitment: interest rate, <i>maturity</i> and <i>grace period</i> (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100 per cent for a grant; and it lies between these two limits for a loan at less than 10% interest. If the face value of a loan is multiplied by its grant element, the result is referred to as the <i>grant equivalent</i> of that loan (cf <i>concessionality level</i>) (Note: the grant element concept is not applied to the market-based non-concessional operations of the multilateral development banks.)	IADB	InterAmerican Development Bank
GSP	General System of Preferences	IASC	Inter-Agency Standing Committee (Committee responsible to ECOSOC for overseeing humanitarian affairs, the work of OCHA and the CAP).
HIC	High Income Countries those with an annual per capita income of more than US\$ 9385 in 1995.	IDA	International Development Association (World Bank)
		IDPs	Internationally displaced persons
		IDT	International Development Targets (for 2015) as outlined in the DAC document 'Shaping the 21 st Century' also known as International Development Goals
		IFAD	International Fund for Agricultural Development
		IFC	International Finance Corporation
		IFIs	International Financial Institutions
		IMF	International Monetary Fund
		INGOs	International Non-governmental Organisations
		Internal Bank Lending	is net lending to countries on the List of Aid Recipients by commercial banks in the Bank of International Settlements reporting area, ie most OECD countries and most offshore financial centres (Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore), net of lending to banks in the same offshore financial centres. Loans from central monetary authorities are excluded. Guaranteed bank

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	loans and bonds are included under <i>other private or bond lending</i> .		
IsDB	Islamic Development Bank	MADCT	More Advanced Developing Countries and Territories, comprising those that have been transferred to Part II of the DAC List of Aid Recipients.
ISG	International Steering Group	MDGs or Millennium Development Goals	are the international goals for poverty reduction and development agreed by the United Nations in the year 2000. These include the IDTs.
JANIC	Japanese NGO Centre for International Cooperation	MTDS	Medium-Term Development Strategies
JAS	Joint Assistance Strategies	Multilateral Agencies	are international institutions with governmental membership, which conduct all or a significant part of their activities in favour of development and aid recipient countries. They include multilateral development banks (eg The World Bank, regional development banks), United Nations agencies, and regional groupings (eg certain European Union and Arab agencies). A contribution by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency. Unless otherwise indicated, capital subscriptions to multilateral development banks are recorded on a <i>deposit</i> basis, ie in the amount and as at the date of lodgement of the relevant letter of credit or other negotiable instrument. Limited data are available on an encashment basis, ie at the date and in the amount of each drawing made by the agency on letters or other instruments.
JBIC	Japan Bank for International Cooperation		
JCPR	Joint Country Programme Review		
JICA	Japan International Cooperation Agency		
LIC	Low Income Countries those with an annual per capita income of less than US\$765 in 1995		
LDC (or sometimes LLDC)	Least Developed Country 48 poor and vulnerable countries are so defined by the United Nations, with an annual per capita income of less than US\$765 in 1995		
LMIC	Lower Middle Income Countries those with an annual per capita income of between US\$766 and US\$3035 in 1995		
Lomé Convention	Multi annual framework agreement covering development cooperation between the EU members and African, Caribbean and Pacific (ACP) States. Funding for Lomé came from the EDF. Lomé has now been replaced by the Cotonou Partnership Agreement.		

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Multilateral aid is aid channeled through international bodies for use in or on behalf of aid recipient countries. Aid channeled through multilateral agencies is regarded as bilateral where the donor controls the use and destination of the funds.	NIPs	National Indicative Programmes (EU)
Multilateral portfolio investment covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.	NPV	Net Present Value
NABARD National Bank for Rural Development	OA Official Assistance (Aid) is government assistance with the same terms and conditions as ODA, but which goes to Countries and Territories in Transition which include former aid recipients and Central and Eastern European Countries and the Newly Independent States. It does not count towards the 0.7% target.	
National Program on People's Empowerment (known as PNPMP) sets out the details of operational plans for poverty reduction through promoting capacities of the local communities and providing funds for development.	OAU	Organisation of African Unity now succeeded by African Union.
NBR National Board of Revenue	OCHA	(See UNOCHA)
NEDA National Economic and Development Authority, the economic planning agency in the Philippines	ODA	Official Development Assistance (often referred to as 'aid') of which at least 25% must be a grant. The promotion of economic development or welfare must be the main objective. It must go to a developing country as defined by the DAC
NEPAD New Partnership for Africa's Development. For information, go to http://www.nepad.org/ and see also African Union.	ODF Official Development Finance is used in measuring the inflow of resources to recipient countries; includes [a] bilateral ODA, [b] grants and concessional and non-concessional development lending by multilateral financial institutions, and [c] Other Official Flows that are considered developmental (including refinancing loans) which have too low a <i>grant element</i> to qualify as ODA.	
NGDO Non Governmental Development Organisation	OECD	Organisation for Economic Cooperation and Development (see DAC)
NGO (PVO) Non-Governmental Organisations (Private Voluntary Organisations) also referred to as Voluntary Agencies. They are private non-profit-making bodies that are active in development work.		
NIC Newly industrialised countries		

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- OHCHR** Office of the UN High Commissioner for Human Rights
- OOF** Other Official Flows defined as flows to aid recipient countries by the official sector that do not satisfy both the criteria necessary for ODA or OA.
- PARIS21** Partnership in Statistics for Development capacity programme for statistical development
- Paris Declaration on Aid Effectiveness** is a commitment to make aid more effective towards the goal of poverty reduction and better quality of life. Aside from institutional and structural reforms, it also raises concerns about the effectiveness of the aid regime for sustainable development. The Paris Declaration commits signatories to five principles:
- Ownership:** Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions
- Alignment:** Donors base their overall support on partner countries' national development strategies, institutions and procedures
- Harmonisation:** Donors' actions are more harmonised, transparent and collectively effective
- Managing for Results:** Managing resources and improving decision-making for results
- Mutual Accountability:** Donors and partners are accountable for development results"
- Partially Untied Aid** is *Official Development Assistance* (or Official Aid) for which the associated goods and services must be procured in the donor country or a restricted group of other countries, which must however include substantially all recipient countries. Partially untied aid is subject to the same disciplines as *Tied Aid* and *Associated Financing*.
- PDF** Philippines Development Forum
- PEFA** Public Expenditure and Financial Assistance. A partnership established in December 2001 involving the World Bank, IMF, European Commission, Strategic Partnership with Africa, and several bilateral donors (France, Norway, Switzerland, and the United Kingdom). Its mandate is to support integrated, harmonized approaches to the assessment and reform of public expenditure, procurement, and financial accountability, focusing on the use of diagnostic instruments.
- Performance-based aid** is a system of benchmarks which, once reached, trigger additional funding packages.
- PFM** Public Finance Management
- Power privatization model** imposed by the United States and United Kingdom on Chile and India in the 1990's which is claimed to be contrary to the principle of democratic ownership.
- PRGF** the Poverty Reduction and Growth Facility, which replaces the ESAF and is the name given

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to IMF Loan Facilities to developing countries. (See also *PRSP*).

Private Flows are long-term (more than one year) capital transactions by OECD residents (as defined for balance of payment purposes) with aid recipient countries, or through multilateral agencies for the benefit of such countries. They include all forms of investment, including *international bank lending* and *Export Credits* where the original maturity exceeds one year. Private flows are reported to DAC separately for *Direct Investment*, *Export Credits* and *International Bank Lending*, *Bond Lending* and *Other Private* (lending).

Programme Aid is financial assistance specifically to fund (i) a range of general imports, or (ii) an integrated programme of support for a particular sector, or (iii) discrete elements of a recipient's budgetary expenditure. In each case, support is provided as part of a World Bank/IMF coordinated structural adjustment programme.

PRSP Poverty Reduction Strategy Papers

Real Terms A figure adjusted to take account of exchange rates and inflation, allowing a 'real' comparison over time see *Constant Prices*

Recipient Countries and Territories is the current DAC list of Aid Recipients see *LDC*, *LIC*, *LMIC*, *UMIC*, *HIC*.

SAPs Structural Adjustment Programmes, a program imposed by the WB for providing its loan to recipient countries

Soft Loan A loan of which the terms are more favourable to the borrower than those currently attached to commercial market terms. It is described as concessional and the degree of concessionality is expressed as its grant element.

SPA Special Programme of Assistance for Africa (World Bank)

SPADA Support for Poor and Disadvantaged Areas

SSA Sub-Saharan Africa

SWA (SWAp) Sector Wide Approach

TA or TC Technical Assistance/Cooperation includes both [a] grants to nationals of aid recipient countries receiving education or training at home or abroad, and [b] payments to consultants, advisers, and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and is omitted from technical cooperation in statistics of aggregate flows.

Tied Aid is Aid given on the condition that it can only be spent on goods and services from the donor country. Tied aid credits are subject to certain disciplines concerning their concessionality levels, the countries to which they may be

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	directed, and their development relevance designed to try to avoid using aid funds on projects that would be commercially viable with market finance, and to ensure that recipient countries receive good value.		
TNC	Transnational Corporation	UNESCO	United Nations Educational, Scientific and Cultural Organisation
UMIC	Upper Middle Income Countries those with an annual per capita income of between US\$3036 and US\$9385 in 1995	UNFPA	United Nations Fund for Population Activities
UN	United Nations	UNHCR	Office of the United Nations High Commissioner for Refugees
UNAIDS	Joint United Nations Programme on HIV/AIDS	UNICEF	United Nations Children's Fund
UNCED	United Nations Conference on Environment and Development, Rio de Janeiro 1992	UNIDO	United Nations Industrial Development Organisation
UNCHS	United Nations Centre for Human Settlements, Habitat	UNIFEM	United Nations Development Fund for Women
UNCTAD	United Nations Conference on Trade and Development	UNITAR	United Nations Institute for Training and Research
UNDCF	United Nations Capital Development Fund	UNOCHA	UN Office for the Coordination of Humanitarian Assistance
UNDAC	United Nations Disaster Assessment and Coordination	UNRISD	United Nations Research Institute for Social Development
UNDAF	United Nations Development Assistance Framework	Untied Aid	- <i>Official Development Assistance</i> for which the associated goods and services may be fully and freely procured in substantially all countries.
UNDCP	United Nations Drugs Control Programmes	UNV	United Nations Volunteers
UNDP	United Nations Development Programme	Uruguay Round	Last round of multilateral trade negotiations under the GATT
UNEP	United Nations Environment Programme	USAID	United States Agency for International Development
		WB	World Bank
		WFP	World Food Programme
		WHIP	Wider Harmonization in Practice
		WHO	World Health Organisation

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WID Women in Development

WSSD World Summit for Social Development, Copenhagen 1995. See 20/20 Initiative.

Sources consulted include: Reality of Aid, Annual Development Cooperation Report of the DAC

WTO World Trade Organisation



Part III
Directories





List of Participating Agencies

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LATIN AMERICA

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Aid is a global public good, representing a moral obligation of wealthy countries towards the people of developing countries; it is a catalyst, which should be used to complement and reinforce efforts by developing countries and peoples themselves towards collective development and the progressive realization of the human rights of poor and marginalised groups.

CSOs have long had cause to criticise the reality of aid policies and practices. They raise issues around the impact of donors' political and economic motives on the actual use of aid and they point to the lack of demonstrated effectiveness of aid in making progress on sustainable development, poverty reduction and women's rights. Powerful donor countries have long seen political and economic advantages in using aid to promote their interests by strengthening market systems in other parts of the world.

This 2008 Reality of Aid Report presents evidence and opinions from organisations operating on the front lines of development policies around the world about the current reality of aid policies and their outcomes. The reality of aid in 2008 is that it continues to fail to promote human development for the eradication of poverty based on the core values of human rights, democracy, gender equality and environmental sustainability. This is despite the appearance of progress in the form of high-profile debt cancellations, new aid pledges, and the signing of the Paris Declaration on aid effectiveness. The authors also make clear and explicit calls for what is needed for aid to make a genuine and positive contribution to promoting human development in the poorest countries of the world.