The Reality of Aid
2002

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An Independent Review of Poverty Reduction and International Development Assistance

The Reality of Aid Project

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The Reality of Aid Project

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

Established in 1993, the Reality of Aid is a collaborative, not-for-profit initiative, involving non-governmental organisations 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 annual *Reality of Aid* reports and more recently, two *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.

Several Reality of Aid reports have been published in Spanish. For details of the latest reports in Spanish email Intermon in Spain or email ALOP in Costa Rica.

Reality of Aid materials and reports have also been published in French, German, Japanese and Vietnamese.

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Part I
The Reality of Aid, Conditionality and Ownership

Introduction

Since 11 September 2001 the world has changed. A global coalition against terrorism has been assembled. Huge military and logistical resources have been marshalled. Politicians have been tireless in their efforts to build public and political support for concerted national and international action. Governments have found the money for a range of new needs – not least propping up airlines – for which the USA alone has offered US$5 billion in cash and a further US$10 billion in loan guarantees.[1]

But will this changed world be any different for the billion people living in poverty?[2] Can the money and the political commitment so quickly brought together to fight terror and prop up business and OECD economies, also be harnessed for the fight against poverty? Will new alliances and fresh thinking on security translate into a more effective North-South partnership that will see real global progress on human rights and poverty reduction?

In this report, written by NGOs from every continent, the promises of Presidents and Prime Ministers to redress the inequities in the current global order are set against the impact of actual approaches to global finance, political interest and human need.

From the perspective of NGOs, many orthodoxies need to be challenged, and an international order based substantially on short-termism and profit-seeking, shifting alliances and self-interest, needs to be replaced by long-term partnerships that respect self-determination and promote a rights-based approach to global equity and solidarity.

At a time when long-standing assumptions about the global order are being reassessed, the position and potential of international development cooperation needs to be reviewed. Arrested development and the vast economic disparities that separate us all on the planet do not cause events like 11 September – but they set the stage for more than 40 conflicts on the planet today. Global peace will remain out of reach for everyone unless everyone has a share in the common future – and something to protect. Fundamental institutional reforms are needed to ensure that international organisations reflect the financial, political and security interests of all, not just those who are already rich and powerful.

Elin Enge
Chair of The Reality of Aid

The Reality of Aid, Conditionality and Ownership

***'Donors want countries in the driver's seat, but want to keep the road map.'*[1]**

The Global System: failing those living in poverty

On the eve of the UN Special Conference on Financing for Development, there is no doubt that the global system has failed the poorest countries and people wherever they reside. At least 1.2 billion people, mostly women and children, live on less than US$1 a day. More than two million African infants die annually before their first birthday[2]. Gross inequalities remain. The world's 25 richest people have income and assets worth US$474 billion – more than the entire GNP of Sub-Saharan Africa.[3]

Not only do the poorest countries remain burdened by debt. They are also increasingly exposed to financial instability in a globalised market whose rules favour rich countries and corporations. The WTO Ministerial in November 2001 kick-started new trade negotiations that will no doubt further marginalise poor countries and people living in poverty, who saw few benefits from the agreements emerging from the Uruguay Round.

The strategies and resources required for significant progress on an agenda to bridge the widening chasm between a rich global minority and growing poor majority remain in rhetorical limbo.

In the months since 11 September 2001, new coalitions have been formed and considerable new resources found to combat terrorism against the US and its allies. But the everyday terror experienced by communities devastated in conflict, mothers dying in childbirth, infants succumbing to malnutrition and diarrhoea, young people dying of AIDS, families with no livelihood is a human tragedy on an almost unthinkable scale. Ever-deepening poverty, which robs parents of their children, which leaves AIDS orphans, which denies whole communities basic rights, is a deeply rooted crisis that requires urgent and radical action on the part of the international community.

Following the attacks on New York and Washington, many governments 9have spoken of the link between a peaceful global order, inequality and poverty. In the words of Clare Short, UK International Development Secretary,

> *'To tackle the underlying roots of violence and conflict, we need a massive international effort to reduce poverty and injustice, and to promote development, democracy and human rights.'* [4]

The changed world situation provides an opportunity for thinking beyond new money for aid, deeper debt relief and innovative approaches to poverty reduction - although these tools are essential.

More fundamentally, when heads-of-state and government gather in Monterrey, Mexico, for the Conference on Financing for Development (FfD, they must address the urgent need to achieve the International Development Targets and Action Plans of the 1990s (agreed by world leaders only 18 months ago in the UN's Millennium Session) and significant systemic reforms of the global economic order, and the international institutions that govern this order.

Double standards and increasing inequity

Over recent years, public scepticism about the willingness and capacity of governments to make

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meaningful progress in international negotiations on social, economic and environmental challenges, has grown. North-South resource transfers are declining and *northern-dominated global institutions are consolidating a system of highly unequal relations between countries.*

NGOs have been increasingly angered by the cynical exercise of power by northern governments promoting 'good governance' and 'aid effectiveness', while defending narrow political and economic self-interests. *Industrialised countries devoted US$353 billion (seven times total ODA spending) to protecting agriculture in 1998, according to UNDP.* [5] *At the same time, the policy choices available to governments in poorer countries are narrowed by conditionalities imposed by international financial institutions and bilateral donors.* As reports from NGOs in Asia illustrate, southern governments are forced to privatise and liberalise,[6] while OECD restrictive practices, tariff and non-tariff barriers cost developing countries US$160 billion a year.[7] This translates into real human suffering, which the World Bank recently quantified as 'welfare losses of US$19.8 billion'.[8]

Against the background of such double standards, hundreds of thousands of citizens' organisations are demanding renewed energetic leadership from governments, North and South, collaborating in reformed and fairly constituted international organisations. Appealing not only to governments but also to global public opinion, they gather at global and regional inter-governmental meetings to challenge acquiescence to policies that perpetuate a form of globalisation whose rules benefit the few.

While representing sometimes-divergent interests and differing viewpoints, this global convergence of citizens' organisations is united in a commitment to initiatives that construct democratic alternatives to the inexorable global expansion of the market into every facet of human life. They debate and propose alternatives to address structural, socio-economic, gender, ecological and financial barriers to overcoming absolute poverty.

Modest progress on reducing the burden of debt for the poorest countries in 2000 demonstrates the *potential* for citizens to demand action from governments. But if the aspirations embodied in the Millennium International Development Targets for 2015 (IDTs) and Action Plans are to be fulfilled, governments at the FfD will have to translate their renewed commitment for "a massive international effort to reduce poverty and injustice" into a new consensus on the importance of expanding human solidarity for global peace[9].

Using aid to shift power

Official Development Assistance (ODA), particularly for the poorest countries, should be a critical resource for implementing strategies to overcome poverty. Yet NGOs active in Reality of Aid for the past decade have witnessed and documented a widening gulf between donor policy rhetoric and the actual purposes, practices and consequences of donor programmes as experienced in the South.[10] The practices of imposing policy and project conditionalities, through which donors exercise their power, are the focus of this 2002 *Reality of Aid Report.*

Contributions from more than 35 NGOs around the world highlight the substantial links between a highly conditional *aid regime* and the impact of these policies on inequality and increasing poverty. Broadening the scope and depth of donor conditionalities and policy 'undertakings' by aid recipients seems to belie recent donor rhetoric favouring developing country 'ownership' of policies and strategies for reducing poverty.

In this report, NGOs highlight some of the major obstacles in the way of a real shift of power towards those who are marginalised, to enable them to take control of their own development. Changing aid relationships alone will not reduce inequality and overcome poverty. These goals require wider reforms, beyond foreign aid, in the rules that govern the global economy and its major institutions, as well as in leadership by government and civil organisations representing the interests of those living in poverty. De-linking aid from policy conditions can create political space for these more fundamental changes.

Are donors addicted to conditions?

While conditions are not inherent in the idea of aid, from the Marshall Plan for Europe through early development assistance in the 1950s and 1960s, conditionality, either explicit or implicit, has always been around. The notion of 'partnership' in the relationship between rich and poor countries goes back at least to the 1969 Pearson Commission report Partners in Development.[11] During the 1960s and 1970s, some developing countries achieved significant progress in social indicators by pursuing assertive, autonomous development strategies.

Donors such as Norway adopted approaches that emphasised partnership and 'recipient responsibility'. Many of the gains highlighted today were the product of these decades. Aid can claim to have made a significant contribution. Proactive southern-owned development strategies were accompanied by demands in the 1970s for a New International Economic Order (NIEO), with more equitable global economic and political relationships laying the foundation for a truly global partnership for development.

But the 'new global order' that emerged was diametrically at odds with the one envisaged for the NIEO. Dramatic rises in world interest rates, the dominance of neo-liberal market ideology in governments in the United States and the UK, and faltering state-led industrialisation in the South were accompanied by the explosion of debt for middle-income developing countries such as Brazil and Mexico, and later among more than 50 of the poorest countries. The economic traumas of the 'lost decades' of the 1980s and 1990s deepened inequality and poverty for many millions and accentuated ecological crises.

In the early 1980s, as interests rates in the North climbed to more than 20%, developing country debt grew exponentially and quickly undermined the capacity of governments to manage their development strategies. The prospect that defaulting southern debtors would impair industrial economies in the North, just emerging from a deep recession, brought a quick end to any potential for a wider North-South dialogue based on an NIEO.

Rather what emerged was an era of debt restructuring, loans tied to IMF/World Bank imposed structural adjustment and macro-economic conditionality. The latter provided northern-based transnational corporations with tremendous opportunities. Structural Adjustment Programmes (SAPs) dramatically reduced the role of the state, particularly in the social sectors and agriculture. They led to the privatisation of important sectors of the economy, and liberalisation of trade and banking regulations for export-led growth, often to the detriment of local industry and environments.

There is no need to retrace the evolution of the debt crisis, with massive multilateral and bilateral 'aid loans' tied to debt repayments and structural adjustment policies. While it was adamantly disputed by the International Financial Institutions (IFIs) and northern donors at the time, these loans and policies were in fact pressed upon developing country governments by hundreds of missions led by IMF/World Bank 'experts', so that they might service their debts to northern creditors at the expense of meeting extreme and expanding social needs.

By the late1990s, it was widely acknowledged that these prescriptions inspired by the Washington Consensus and imposed upon so many developing countries were deeply flawed.

Box 1: The Washington Consensus

The World Bank 2000 Poverty Report lists the ten objectives of the 'Washington Consensus'[12]

1. Fiscal discipline
2. Redirection of public expenditure toward education, health and infrastructure investment
3. Tax reform – broadening the tax base and cutting marginal tax rates
4. Interest rates that are market determined and positive (but moderate) in real terms
5. Competitive exchange rates
6. Trade liberalisation – replacement of quantitative restrictions with low and uniform tariffs
7. Openness to foreign direct investment
8. Privatisation of state enterprises

9. Deregulation – abolition of regulations that impede entry or restrict competition, except or those justified on safety , environmental and consumer protection grounds, and prudential oversight of financial institutions
10. Legal security for property rights

For much of the last two decades, the Washington Consensus has fed through into a doctrinaire insistence by the IFIs that developing countries should elevate economic orthodoxy above human need.

'The IMF starts with the truth that budget deficits should remain small in order to preserve macroeconomic stability. Then it demands budget austerity of impoverished countries to the point where those countries can't even keep their people alive – so depleted are the budget resources for public health, food transfers to the poor, and the like. In addition, the IMF has repeatedly insisted on debt servicing that exceeds the combined spending of the health and education ministries.' [13]

The number of Africans living below the poverty line has increased from 217 million in 1987 to 291 million in 1998 and primary school enrolment has fallen by 1%. [14]

'In 1998, the IMF, the World Bank and other international agencies loaned Indonesia more than US$50 billion. But with the bailout came stringent restrictions….the IMF-imposed austerity measures exacerbated the mushrooming social crisis……Between 1997 and 1998, according to the World Bank, the number of Indonesians living in poverty doubled.' [15]

Most donors now accept the positive relationship between greater equality and poverty reduction. But has the Washington Consensus promoted greater equality? The World Bank itself says 'cross country evidence suggest[s] that macroeconomic reforms on average have had little effect on income distribution'. [16]

'The distributional impact of reforms is at best unclear, but early claims that reform would improve distribution appear to have been unfounded…. The macro level evidence shows Africa to have high levels of income inequality, and it has worsened in the last decade.'[17]

When defending reforms against the charge that economic goals were being pursued at the expense of people living in poverty, the IFIs have traditionally pointed to 'the importance of social policies to ease the burdens that reforms impose'. But examining whether people in poverty have been adequately protected during adjustment, the Bank sponsored *African Poverty at the Millennium* report is clear. 'Have the poor been protected?– the answer must be no.'

Reforming conditionalities: tighter controls on developing countries?

Too concerned with compliance; not enough focus on the quality or legitimacy of the advice

The Washington Consensus emerges from institutions monopolised by the global élite. Making the link between persistent poverty and the lack of democracy in international institutions, Professor Jeffery Sachs comments:

'I do not believe in global governance by the rich countries, or international voting weighted by money as in the IMF and World Bank today, or permanent government by entrenched bureaucracies unencumbered by external review as has been true of the IMF, or governance by conditionality set by rich countries and imposed on the desperately poor.'

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> ***Box 2: The Cost of IMF advice***
>
> A June 2001 speech by IMF Deputy Managing Director Shigemitsu Sugisaki refers obliquely to poor advice it has offered: 'At times, both our capacity to give advice, and the countries' capacity to implement reforms may have been stretched too thin.' Mr Sugisaki argues that the IMF is showing a new sensitivity on conditionality, quoting the case of Mozambique, where an earlier structural benchmark on the protection of the domestic cashew nut processing industry (judged by the IMF to hamper exports and lower the incomes of farmers and agricultural workers) has been abandoned. But Mr Sugisaki does not mention the 10,000 people who lost their jobs when competition caused cashew-processing factories to close down[18]. The IMF betrays little regret at the human cost of its advice. And while acknowledging that 'very broad and detailed conditionality may have the unintended effect of galvanising opposition to needed reforms' and asserting that 'national authorities must take the lead in the design of policies', Mr Sugisaki still manages to note that the cashew policy for Mozambique was abandoned because 'we judged that this was not critical to the program's macroeconomic objectives'. 'We judged' is the telling phrase, which seems to betray a certain reflex for control.

From the point of view of the IFIs, the concern was, with few exceptions, *compliance* with policy 'advice', never the quality of that advice.

Undermining domestic accountability

By definition, aid conditions are *donor-initiated* policies or mechanisms intended to ensure that resources from donors, and related resources provided by *developing country partners*, are used as the *donor* intended. They are often applied to effect (unrelated) policy and/or institutional changes to which, as Tony Tujan from IBON points out (See page 49) the recipient would not otherwise have agreed.

Conditionality relates not only to donor goals but also the process for achieving these goals. *The experience of NGOs in Uganda quoted in this report (See page 23) illustrates how even when countries have developed their own national strategies for addressing poverty, donors insist on additional processes, which undermine the very ownership and accountability that donors are claiming to promote.*

Donors were reluctant, except in the most extreme circumstances, to cut off aid, due to institutional imperatives to spend budgets as well as pressure from domestic commercial and political constituencies. *The issue for IFIs and bilateral donors was to ensure 'ownership' by developing country governments and partners of the policies that IFIs and donors declared would assure sustainable growth and poverty reduction. In the words of one donor informant, "ownership exists when they do what we want them to do but they do so voluntarily"[19].*

In the 1990s, aid conditions expanded both in scope and ambition, not only to influence macro-economic policy, but also to micro-manage a wide range of developing country policies and institutions. From 1995 to 2000, there was an average of 41 conditions per IMF loan. They ranged from fiscal policy, exchange rate policy, pricing and marketing, privatisation, financial sector regulation and systemic reforms, to social safety nets and the social security system.[20] As Nancy Alexander points out, the IMF attached an average of 114 conditions to loans to countries in Sub-Saharan Africa in 1999. (See page 129)

> *Far from abandoning aid conditionality, IFIs and bilateral donors are collaborating in an unprecedented consensus to retool the aid regime, under the rubric of 'ownership' and aid effectiveness. This consensus has several components:*
>
> 1) *a new regime of IMF benchmarks, standards and codes to which developing countries must demonstrate prior compliance;*

2) *a trend towards 'selectivity' – choosing to work with governments who have adopted 'the right policies';*
3) *bilateral and multilateral aid disbursements tied to Poverty Reduction Strategy Papers, and*
4) *the expansion of the purposes for development assistance to include international cooperation for 'global public goods'.*

With the trend towards selectivity, compliance with individual conditions becomes less important. The more important questions are, 'what are the international norms for 'good policy', and, 'who sets them'. It is therefore very worrying that the donor-inspired consensus for these 'new' policies, approaches and targets barely acknowledges the impact of the past 20 years of failed policies of IFIs.

Recognising international problems

Most of the fundamental prescriptions of the IFIs remain embedded in policies that IFIs and donors promote for poverty reduction through what DAC chair Jean-Claude Faure has referred to as the necessity of integrating developing partners into the global economy.[21] This fails to acknowledge that, as Third World Network points out, the international financial system itself is part of the problem: 'The IFIs have continued to recommend, and where they can insist on, conditions which have the net effect of exposing developing countries to global competition while curtailing the scope for national measures that can promote social inclusion and poverty reduction. Developing countries need to seek strategic integration, rather then full integration, into the international financial system, establishing mechanisms designed to regulate and control international capital flows in order to reduce instability.'

Southern NGO case studies in this volume demonstrate the degree to which aid seems to be evolving into a sophisticated camouflage for fault lines produced by a globalisation, "in which power and expertise are delinked from more accountability, instrumental and financial values override life values, and what is expedient and profitable takes precedence over what is nurturing and responsible."[22] So profound are the contradictions between the theory of aid and its practice–and so gross is the widening gulf between rich and poor–that some NGOs cannot see a role for aid that goes beyond the simple humanitarian objectives of responding to acute need.

But most NGOs still acknowledge the importance of aid as an essential financial instrument for international cooperation, with a potential to fight poverty and promote sustainable development in the South, where blind faith in private flows or markets cannot achieve these ends. [23]

Donors give priority to economic and commercial interests

Rather than a seeming consensus for tackling global poverty, the *Reality of Aid* global network reveals deep scepticism on the part of civil society about the underlying motives for aid, to which donor conditions remain firmly attached. The average Filipino, argues Rosario Guzman of IBON, (See page 68) sees aid as a tool that serves the interests of the donor country, its transnational corporations, products and capital. *After 50 years of changing donor rationales and approaches, aid is widely viewed and resented as a means of advancing the commercial, political and diplomatic interests of the North.*

According to the World Bank, 'donors have apparently not used recipient governments' revealed commitment to tackling poverty as a basis for aid allocations. Econometric analysis of aid shows that "donor interest variables" capturing commercial and political considerations are a major determining factor for bilateral aid allocations.' [24]

The treatment of gender illustrates the selective approach of donors - where economic conditionality is strictly applied. These conditions take little account of the gender dimension, limiting gender considerations to the 'soft' issues of social development.

> *'Agencies find it hard to ensure that a gender perspective is a major factor determining the overall approach to the development framework. Women's roles, capacities, needs and aspirations are seen*

> *as being relevant to social development – but not so relevant in shaping fundamental economic, social and political processes.'* [25]

NGOs from Canada support this view, reporting that 'evaluations of the implementation of gender equality policy by CIDA and other donors, on the whole, reveal a marginalisation of gender concerns; at best women/girl beneficiaries are seen as add-ons for sectoral-wide social programmes and are invisible in most socio-economic projects….For recipient governments, implementing institutions and donors alike, policy commitments to gender equality issues seem to 'evaporate' when resources are allocated.'

But is conditionality the way forward to accelerate progress on such social indicators? While aid officials will often impose targets and policy undertakings, the evidence suggests that these have only a marginal impact and that other changes in practice can bridge the inherent tension between respecting ownership and making policy prescriptions. [26]

What do we propose?

1. Delink all forms of aid and debt cancellation for the poorest countries from all types of conditions, unilaterally imposed by outside donors and creditors. The IMF and the World Bank, controlled and governed by the United States, the EU, and Japan, should no longer be the 'gatekeepers' for international assistance.

NGOs in developing countries understand that the eradication of poverty requires international cooperation based on flexibility and appreciation of the unique circumstances facing people in poverty in each country. Ending poverty is an inherently political process specific to local economic, social, cultural, ecological and gender equality circumstances. *Donors and developing country partners need to negotiate conditions for resource transfers based on shared values and commitment to directing resources for the benefit of those who are socially or economically excluded. Fundamental to determining a fair and equitable process for such negotiations is who decides, shifting the highly unequal power relations in current aid decision-making.* Too often, secret missions from the IFIs or intense day-to-day donor management of sectoral programmes with Ministries of Health or Education supersede and undermine fragile democratic institutions and marginalise community organisations.

Where human rights violations and political relationships with national governments preclude such negotiations, *donors should find means to support organisations representing and fighting for the interests of people affected by poverty and marginalisation.*

The *Reality of Aid* is deeply concerned about donor discussions of conditionality at recent meetings of the IMF and World Bank Boards of Directors. These discussions purportedly aimed to reduce the number of formal conditions attached to loan agreements. But NGO analysis demonstrates that these moves are not attempts to reform these institutions. Rather, they appear to consolidate long-standing macro-economic conditions, within a harsher regime of policy changes for which developing countries will be 'certified'.

Using the rationale of developing country ownership and recognising the importance of governance in effective management of an economy, the IMF will streamline the areas in which conditionality will be applied, relying on 'prior actions' and the achievement of 'structural benchmarks' to demonstrate government 'ownership of policies'. Prior actions are a particularly harsh form of conditionality, since they must be taken *before* money is provided regardless of factors beyond the control of developing countries, such as prices and access to international commodity markets.

The IMF will also be sharpening its governance conditionality, focusing on budget management, anti-corruption measures, support for private property rights and open-door 'trade-related conditionalities'. According to analysis by the UK-based Bretton Woods Project, the World Bank intends to coordinate better with the IMF and assure compliance in the 'soft' areas of social policy and privatisation[27]. The much-debated initiative to support developing countries to produce Poverty Reduction Strategy Papers (PRSPs) is intended to facilitate this collaboration.

2. Rather than impose externally motivated PRSPs, donors must give unconditional support to developing country governments

committed to developing, with full participation by civil society,* their own *national development strategies and poverty reduction plans.
Authentic ownership of these strategies depends not only on the quality of national efforts to consult and reach social consensus on appropriate poverty reduction goals and socio-economic policy, but also requires donors to open the political space in which such efforts will evolve, perhaps over several years.

Uganda, as noted in this edition of *Reality of Aid*, is among the few developing countries with a home-grown strategy for reducing poverty. Other countries have undertaken domestic processes, often with the support of the UNDP, to pursue medium-term development goals. *Whatever their flaws in terms of broad-based participation, these efforts strengthen accountability of developing country governments to their citizens. Their motivation is rooted in domestic political processes and popular pressures.* They do not have stringent external financing conditionality hanging over them. They serve as a blueprint for both government and society setting out goals and specific plans to reduce poverty. They are an essential foundation for engaging donors on a more equal footing.

By contrast it appears that for many donors 'ownership' is largely rhetorical and their real concerns continue to revolve around how they can get developing country governments to implement donors' preferred policies and programmes.

Largely focused on technical aspects of national development plans and their adherence to preconceived notions of 'national poverty strategies', donors depoliticise the role of aid in meeting poverty goals by ignoring the more complex accountability owed to the supposed beneficiaries. Ownership of development options at the level of impoverished communities requires the freedom and capacity of people to express their rights, notwithstanding the particular constraints faced by women, children, indigenous peoples and marginalised minorities.[28]

As Box 3 makes clear, the PRS process, mandated and directed by the Bank and the Fund, is the antithesis of domestically rooted and owned national poverty strategies. With few exceptions, the development of PRSPs has been facilitated by the Bank and northern donors, and rooted in a timetable and process set outside the country. 'Foreign Aid has undermined decades of collectively negotiated governance processes in Africa, destroying the values that held societies together in favour of outsider definitions of leadership style'.[29]

Despite rhetorical intentions, civil society participants have documented the severe limitations of the PRS process and the absence of authentic participatory consultations.[30] Indeed, Joseph Stiglitz, former Chief Economist of the World Bank, suggested in Canada recently that much of what is needed to fight poverty is beyond the core competencies of the IFIs. These institutions are run for the most part by economists committed to a neo-liberal economic paradigm, which many have argued has accentuated poverty. They are profoundly ill-suited to continue to play a leading role on behalf of the international community for achieving the IDTs. Flexibility and respect for a multiplicity of views is essential for tackling poverty successfully. Professor Stiglitz encouraged bilateral development agencies such as CIDA to increase the independence, from the Bank and the Fund, of their strategies to reduce poverty.[31] *Positive efforts by bilateral donors to coordinate their aid must relate in the first instance to the expressed priorities of developing countries and not policy prescriptions emanating from the Bank and the Fund.*

3. Donors must cease tying approval of IMF/ World Bank-inspired PRSPs for the poorest countries to agreements for (very limited) debt cancellation and credits from the IMF Poverty Reduction and Growth Facility and from the World Bank's IDA (International Development Assistance) window, and allocations from bilateral programmes.
Full cancellation of the external debt owed by the poorest countries to northern donors and the international financial institutions is a litmus test of donor commitment to economic justice and the elimination of poverty. But as essential as debt cancellation is, for sustainable economies that can then devote resources to reducing poverty, it is neither a panacea for poverty nor a substitute for aid. Mexican President Ernesto

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Box 3 **PRSPs: Ownership, or conditionality by stealth?**

'The institutions claim that they encourage "ownership" of homegrown poverty reduction strategies. However, extensive involvement by creditors and donors in the PRS preparation diminishes the chances for country ownership. Furthermore, the practice of attaching conditions to loan operations militates against ownership.

'One high-level Bank official said that the PRS is a "compulsory program, so that those with the money can tell those without the money what they need in order to get the money".

'If the PRS were a government-led process, why would the Bank and Fund send numerous missions to the country to develop the PRS? Why would the first mission be developed in order to ensure "client commitment" to the PRS? Why would the Bank develop one 1000-page Sourcebook to tell developing country groups how to create a PRS and another Sourcebook to describe how to develop acceptable trade policies?'

'The process by which the PRS is developed ensures that borrowing country constituencies will be side-lined. Government authorities are encouraged to draft a PRS prior to consultation with civil society groups. The Boards of the IMF and Bank will provide oversight of the PRS development. The power of their veto over the PRS will have a decisive influence on the process.

'If a government wants to obtain resources, its PRS must meet the approval of IMF and World Bank Boards of Executive Directors. If a PRS conforms to the standards of these Boards, then the borrowing government will qualify for assistance from the IMF and World Bank as well as from other creditors and donors. In other words, there are high stakes for low-income countries. The quality of a PRSP will either open or shut the flow of international aid, trade and finance.

'There could be dire consequences for those governments that take an independent "line" and don't tell the IMF or World Bank what they want to hear[1]. If the IMF and World Bank reject a government's PRS, the government would lose access to trade credits, aid and finance and probably default on its debt obligations. Ultimately, its domestic economy could collapse. If the IMF and World Bank retain power and authority over programs, while the government merely implements programs, then the PRS is nothing more than a smoke screen to obfuscate the results of their operations. The concept of "ownership" has little meaning in this context.'

Extract from Charles Abugre, 'Still Sapping the Poor: A Critique of IMF Poverty Reduction Strategies', June 2000 (Updated January 2001), World Development Movement (UK) and Integrated Social Development Centre (Ghana).

[1] The obvious example of this is Malaysia – where taking an independent line cut them off from support but assured better recovery during the Asia crisis.

Zedillo's High Level Panel on Financing for Development, as a policy backdrop to the UN's FfD Conference, pushed donors to recognise the continued desperation of many of the highly indebted poor countries and to take actions beyond recent HIPC agreements. The Panel also strongly urged mechanisms for financing debt cancellation beyond ODA, to avoid merely redistributing aid among poor countries.[32]

The notion that even full debt cancellation completely tied to a country's PRSP could assure financing to achieve the IDTs is debunked by recent research by the Canada-based North South Institute. In a study of five HIPC countries, researchers calculated that less than a 10% drop in aid levels for these countries would negate the net financial flow effect of current debt relief. *Detailed examination of poverty* *strategies for each country demonstrates a significant gap in financing for activities that would put the country on a path to sustained poverty reduction. Uganda, for example, has had a 'model policy environment' for poverty reduction in the eyes of many donors, but with only modest growth levels and current rates of ODA receipts (not an unrealistic scenario), will face a poverty funding gap of US$660 million after five years and US$190 million after ten years.*[33] Because of growth and improved government revenues, and the impact of poverty reduction investments in early years, and because of lower debt-servicing requirements in later years, the financial gap between government resources available for the poverty programme and the expenditure needs will narrow in later years.

4. Develop fair and equitable mechanisms for determining priorities in promoting and financing 'Global Public Goods' that do not divert resources from poverty elimination.

During the past two decades, increased international efforts have been brought to bear on inter-governmental cooperation to deal with issues that affect all countries and people – such as infectious disease, financial stability, climate change and pollution, narcotics trafficking, peace and security. The UNDP calculates that some 15% of ODA resources are already being devoted to managing these 'global public goods'.

Expanding discussion and resources to finance global public goods as ends in themselves is both urgent and vital to our common future. But these initiatives are neither a substitute nor a pre-condition, for policies and programmes to end poverty. Indeed, creating a local environment where citizens can exercise their rights to health, education and a sustainable livelihood, is often a precondition to achieving global goals.

Setting priorities and policy options for dealing with global public goods within the multilateral system has been largely the prerogative of northern governments and institutions. The interests of many developing countries find little resonance in the international fora for determining global public goods – in discussions of international financial architecture for example – and yet they are called upon to participate as 'full' members of the international community. Without substantial and deeply rooted' reform of the mandates and governance of multilateral institutions, particularly the IFIs, but also the WTO and the UN, there will be no fair and just approach to concerns that potentially bind all humanity. Rich governments have already determined their priorities, thereby often reducing their global public goods to those most likely to maintain the stability of a global economy and eco-system that preserve the current advantages of their own populations. Such arrangements will be increasingly challenged by both governments and civil society in the South.

Financing for global public goods comes largely from declining aid resources. There is an in-built bias in the direction of middle-income countries that have capacity for and growing interest in fuller participation in the global economy, but *away from* the poorest people with fewer current global interests. The Experts Panel for the Financing for Development Conference estimated full funding requirements for their list of global public goods at US$20 billion, which is 40% of aid funds disbursed in 2000.

The UNDP framed global public goods as those *other things* that needed doing that could only be achieved through international cooperation, financed through relevant *domestic* departments and ministries. It would give a bitter edge to renewed international cooperation for global public goods if their pursuit generates a structural bias, and trend, in aid spending *away from those living in poverty*, at the very moment when re-investment in the fight against poverty has at least rhetorical support among donors.

There is no lack of proposals for alternative sources of substantial revenue to finance global public goods. The Experts Panel encouraged the Financing for Development Conference to consider "the desirability of establishing an appropriate source of funds."[34] They propose a carbon tax on the consumption of various fossil fuels, while others have suggested a tax on the transmission of electronic bits through cyberspace, on the use of the global commons, or a Tobin Tax on capital transactions. The latter, named after the Nobel Prize Laureate James Tobin, has received strong support from civil society organisations around the world, including many participants in the *Reality of Aid*, and was recently endorsed by French Premier Lionel Jospin.

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These mechanisms might not be the most appropriate. Growing public concern for a global issue often begets a high-profile global 'fix' that has as much to do with the perception of action, as it does with real solutions. Much attention has been given to the Global HIV/AIDS and Health Fund, financed with US$1 billion with much fanfare at the Genoa meeting of the G7 industrial countries in July 2001. The UK-based Christian Aid suggests that 'a global fund is a distraction from the real issue' and is 'inherently flawed'.[35] Discussion on the competing merits of different 'solutions' risks diverting attention from the need for action on all fronts – not least the need for major, long-term investment in public health. On the ground experience of several NGOs tells them that real emphasis for progress in the fight against AIDS, malaria and TB is with low-tech work in communities across Africa, with strengthening local health systems and with access to basic health care by people living in poverty. In Africa, where per capita spending on health is just US$10 a year, strengthening national health systems would assure a sustained attack on disease and would be closer to those affected. If the resources of the Global Fund are not oriented towards these investments it may prove to be counter-productive. Action on the AIDS and other disease pandemics in the South needs concerted efforts for poverty reduction, debt cancellation, affordable drugs, fair terms of trade, *and* government and donor direct support to community-based care.

5. To make ownership a central organising principle of aid, bilateral donors, individually and collectively, must fundamentally change aid procedures and practices.

If southern ownership in aid relationships is to be realised, the political will of donors *and their respective governments* is central. To date, the evidence is unconvincing. *Many bilateral donors have adopted the right policy language; they hire consultants and participate among themselves in seemingly endless discussion; but with few exceptions, real change, evidenced in institutional practice, is still very elusive. Moving beyond a rhetorical respect for ownership will require significant change in several key areas:*

a. reducing the reliance on donor country technical assistance;
b. untying aid;
c. unconditional cancellation of remaining bilateral debt for the poorest countries;
d. transparency and more flexible programme management;
e. public and political commitment to increasing resources for international cooperation.

a) Technical Assistance

Aid has become increasingly technocratic, with an overwhelming reliance on donor systems of aid management and accountability, implemented by a host of consultants and advisors. Technical cooperation (TC) currently makes up a third of all bilateral aid expenditures, tied almost exclusively to donor country consultants. The UNDP estimates technical assistance at US$14 billion in 1999, about one quarter of total development aid. The World Bank reports that 'some 100,000 foreign technical experts are currently employed in Africa, tending to displace local experts' and 'probably weaken capacity in Africa'.[36]

To its credit, the Dutch government is the first donor to untie technical assistance; recipient governments are free to procure services relating to Dutch development programmes without choosing Dutch experts. The UNDP is conducting a much-needed study of technical assistance – Reforming Technical Cooperation for Capacity Development. While certainly not the first study of TC, the UNDP is likely to reiterate serious shortcomings in TC practices that undermine local capacity and ownership of the development process. These include:

- an overwhelming reliance on expatriate consultants, who often fail to reflect local realities and whose interests are strongly attached to donor country approaches and priorities;
- the poaching of local skills from national institutions, for donor programmes and projects, at salary scales and benefits unavailable in national bodies;
- the imposition on local institutions of high-cost externally conceived TC approaches that give

local government little opportunity to exercise real oversight or choice over how available resources are utilised.

These choices can have real consequences for poverty reduction. The former Minister of Finance of Mozambique, Abdul Magid Osman, for example, recalled at a recent UNDP Roundtable that he had declined a provincial governor's request for US$50,000 for 100 additional primary teachers, only to see an expatriate consultant hired for US$150,000, paid out of a technical cooperation budget.[37]

Several reports in this *Reality of Aid* report, including those from Australia and Indonesia, point to how *high cost imported technical cooperation capacity gives developing countries a bad deal and costly often inappropriate advice which leaves countries paying for poorly designed projects and programmes long after the consultants have left*. Japan comes in for particular criticism in this year's report, for example for the fact that Nepal is obliged to enter into contracts in Japanese yen with Japanese nationals for the purchase of products and services - with Japanese nationals being exempt from Nepali customs duties, internal taxes and other fiscal levies.

Undoubtedly developing country institutions, particularly in the poorest countries, require assistance for improving their capacity to manage their own development processes. Indeed, the fragility of government ministries in many countries is often a result of two decades of cuts, reorganisations and privatisations initiated by IMF-imposed conditions for structural adjustment loans. Rebuilding, or creating and sustaining the requisite capacities in southern development institutions necessitates long-term engagement initiated by these institutions, not one-off donor-initiated 'capacity-building' exercises or a substitution of foreign consultants to produce results and reports on a donor-prescribed timetable. *Above all, recipient countries and partners need to be able to decide for themselves the terms and use of technical cooperation.*

The Reality of Aid calls on the donors to untie bilateral technical assistance, allowing developing country partners to choose the technical assistance they deem appropriate to meet their development objectives.

Often the assistance most appropriate to local circumstances (and at a fraction of the cost) can be found locally or from other developing countries. Developing country institutions may make these determinations with the same potential for political bias, inappropriate skills or lack of interest in improving conditions for beneficiaries, as reflected in critiques of donor practice. But rather than impose rigid rules and conditions, donors should rely on the complex web of local accountability to hold these distortions in check. Key is strengthening the role of beneficiaries, who are usually marginalised from decision-making about appropriate resources and skills to support local projects. Where technical assistance is called upon from donor countries, it should be driven as much by the values inherent in solidarity as by technical skill and should be viewed as a two-way process of knowledge exchange and mutual learning.

b) Untying aid

Donors have at long last acknowledged that aid given on condition that the resources are spent on donor country goods and services represents poor value for money (increasing costs by 15-30%) and often distorts the content of aid programmes away from the intentions of the beneficiaries. Donors agreed, after prolonged debate, to partially untie aid to the LDCs (with major exceptions for technical assistance among other components of aid transfers) starting January 2001. To its credit, from April 2001, the British Government untied all its aid with the exception of grants to UK NGOs and universities. The largest proportion of tied aid is directed to the poorest countries (because of the high proportion of food aid and technical assistance), countries that can least afford to challenge the terms for this aid.

It is not only formal tying that is the problem; it is the 'less direct conditions, which explicitly or informally tie developing countries into procurement relationships that benefit the donor', for instance the use of donor country consultants for feasibility studies naturally results in specifications that tend to give an advantage to donor country suppliers.[38] The New Zealand chapter notes that while NZODA is technically untied, the vast majority of contractors are New Zealand based

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individuals or firms. But much the same point can be made about informal tying by most DAC donors.

Untying aid alone will not necessarily enable developing countries to capture the socio-economic benefits of untied resources. Donors must fulfil their agreement at the LDC III Conference to 'enhance the value of their development assistance by increasing the proportion of goods and services sourced in the recipient LDC or from other LDCs or developing countries to help boost pro-poor economic growth'.[39] The implementation and procurement for donor programmes is currently monopolised by a northern development industry. Liberalising the aid procurement regime so that these firms may bid on contracts throughout the North may improve *cost* effectiveness of aid without materially affecting developing country resources and capacities for tackling poverty.

The Reality of Aid recommends that the donors initiate discussions with developing countries towards untying aid to all developing countries without restriction, inclusive of food aid and technical cooperation. As a matter of priority, donors must support procurement policies that give priority to developing country small and medium-scale enterprises.

c) Unconditional cancellation of remaining bilateral debt of the poorest countries

Aid allocations and an increasing debt burden for the poorest countries have been inexorably linked for the past 30 years. IMF and World Bank loans have been extended merely to keep the pretence of 'sustainable' loan portfolios, while dabbling in rescheduling, partial write-offs and conditionalities that perpetuate indebtedness. An OXFAM analysis of the latest 'improved' HIPC Initiative to reduce multilateral debt burdens for the poorest countries demonstrates irrefutably that this approach is no answer to unpayable debt and its impact on poverty. Tanzania, for example, even on revised HIPC criteria, will remain with unsustainable debt after the latest debt reduction, even on exaggerated economic projections by the World Bank's and IMF's own economists. Two thirds of countries now receiving debt relief still spend more on debt servicing payments than on health and half spend more on debt than primary education and health combined![40]

Debt cancellation is affordable. The entire debt of the 52 poorest countries could be wiped out at a total cost of US$71 billion.[41] With financial assets of the advanced countries of the OECD estimated at US$53 trillion, it is difficult to avoid the conclusion that it suits industrialised countries to keep developing countries in debt. According to African contributor to *Reality of Aid,* Warren Nyamugasira, 'indebtedness is a political agenda, a tool of manipulation'.

The Reality of Aid recommends the unconditional cancellation of all debts of the world's poorest countries. It is an acid test of the commitment of donor countries to economic justice and the elimination of poverty. Accountability for the use of the resources released is the responsibility of citizens in developing countries, not donor governments. Civil society organisations should be facilitated by donors to hold their governments accountable. New loan agreements must be the result of transparent negotiations, with meaningful parliamentary oversight in the respective developing country.

The Reality of Aid further recommends that the international community launch a process at the 2002 Financing for Development Conference to establish international mechanisms (e.g. debt arbitration panels) for assessing unsustainable debt of middle-income countries, including: criteria for judging 'illegitimate debt'; the achievement of the IDTs; and the environmental impacts of current policies for realising the financial resources to repay debt.

d) Transparency and more flexible programme management

Transformation from within, on the part of northern participants in the aid regime (including northern NGOs), is a critically important precondition for equitable and just aid relationships. Donor *governments* must exercise the political will to give priority to the necessary changes within their aid ministries and domestic systems. In the *Reality of Aid* 1994, Debapriya Bhattacharya, from the Bangladesh Institute of Development Studies argued that local policy processes were disempowered by the better prepared, well-informed, globally articulate donors who could not resist stepping into the policy vacuum.[42] Donors need to 'back off' and leave space for developing country ownership.

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Aside from technical cooperation, donors operate a wide array of policies and procedures, covering everything from gender equality, to primary health, to procurement, approval and reporting regulations, that shape thousands of development projects and programmes. Despite investment by donors in their own learning, there is none the less strong resistance to change in day-to-day practice.

This edition of *Reality of Aid* points to several areas where change is urgently needed:

(i) Sector Wide Approaches

Positively, donors are giving less priority to a myriad of individual donor-managed projects and more attention to programme funding for government ministries in sector-wide approaches (SWAps) for basic education, agriculture or primary health. SWAps, at least in theory, place greater reliance on donor coordination with government-led strategies and comprehensive programmes. SWAps rightly recognise the prime responsibility of government in delivering universally accessible social programmes.

But it seems not accidental that SWAps have been attempted with donor programmes in the poorest countries, primarily in Sub-Saharan Africa. Donor practices, highly resistant to change, often continue to impose strict pre-conditions or 'critical success factors' and extend donor oversight and intervention into a ministry's total programme and operational budget. Progress on relatively simple and technical changes in donor procedures has been arthritically slow. For at least 15 years the DAC has been calling for coordinated procedures and for developing country governments to be at the heart of the decision-making process.[43]

While recognising that SWAps are a more coherent means to enhance government capacity and increasing developing country ownership, the *Reality of Aid* encourages donors to assure significant and timely participation of people living in poverty, through their representative organisations, local governments and NGOs, to address specific context and needs so that sector programmes will contribute to poverty reduction. Broad civic political engagement (and often political conflict) is essential. Too often SWAps have depoliticised development by isolating policy debate between largely unaccountable external bilateral and multilateral civil servants and like-minded counterparts in national governments. Moreover, the guise of improved donor coordination may mask reduced bargaining room for aid-dependent poor countries with limited capacity to respond to joint donor management of an unequal aid relationship.

(ii) Where do projects fit?

Many donors and aid commentators have become highly critical of the project approach. The most salient criticisms focus on how developing country governments are forced to respond to different donor priorities and requirements. Pooling resources and harmonising donor procedures is an appropriate and urgently needed response. But projects should not be abandoned entirely; they can be a very appropriate tool for particular development interventions.

Projects, often developed and carried out by NGOs and other civil society actors in North/South partnerships, allow for significant risk-taking and innovation, with low political fall-out for domestic governments or official aid agencies. Projects allow donors and partners to 'hedge their bets' as to development outcomes. Projects can intervene directly in social processes, strengthen excluded social actors, and thereby have both intended and often unpredictable impacts.

NGO projects, funded most often in line with the priorities of northern NGOs in sometimes less than ideal relationships with southern counterparts, have not escaped criticism. Mariano Valderrama, from ALOP, in this volume addresses the implications of a 'policy of conditions' that has 'become a frequent practice between public and private international cooperation and southern NGOs', whereby 'the margin left to southern NGOs to contribute strategies and formulate projects is …greatly reduced'. Southern civil society analysts raise concern that northern counterparts have adopted a project-based rationale for cooperation, replacing opportunities for solidarity and sharing of common concerns for social change.[44] Based on regional research in Peru that demonstrated a lack of northern NGO transparency and basic coordination, Valderrama urges more systematic coordination at a regional level based on collectively

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owned regional development strategies. Kumi Naidoo, Executive Director of CIVICUS, has challenged NGOs to give priority to horizontal and downward accountability, to the people in whose name we harness resources.[45]

(iii) Transparency and Accountability
Ownership is dependent on transparency. How can developing country partners own and coordinate their development efforts if donors are unwilling to share information on their programme and aid financing?

There is an accountability deficit both to taxpayers in the North and citizens in the South. Donors increasingly stress the power of knowledge in effecting change but pay little attention to the importance of people affected by change knowing about the services to which they are entitled and the funding that has been allocated in their name. The Ugandan government, for example, has recently demonstrated the importance of advertising the transfer of allocations for basic education to the district level, to ensure that these resources are devoted to meeting these needs. *But even at a macro level, with the exception of circumstances that might put a project partner in jeopardy, donors could do much more to make their aid transactions transparent, providing predictable and reliable public finance.* Currently in many countries ministries of finance are not even informed of aid transfers after they have happened

(iv) Aid Contracting
Aid contracting has tended to transform complex development processes that require long-term commitment and local knowledge into 'biddable' projects and consultancies. Compliance-oriented accountability becomes a form of conditionality as aid recipients report almost exclusively to respective donor agencies. For instance, as NGOs in Nepal point out, the opposition of the Nepali government to the Arun Dam was met with intransigence by the Bank, but the project was scrapped after a negative report from their own inspection panel.[46] *The Reality of Aid* NGOs call upon the donor community to systematically review their procedural practices, with the full participation of developing country partners, against the donor-endorsed principles in the DAC's Shaping the 21st Century.

Donor practices, consistent with Shaping the 21st Century principles, must take account of the need for transparent long-term collaboration, based on dialogue and the humility that comes from listening. Donor timetables and development programmes must rely much more on local knowledge, participation, and local level decision-making. Flexible modalities for contracts are essential to strike a balance in aid relationships between the need for parliamentary accountability in the North and new forms of accountability to those living in poverty in the South.

e) Public and political commitment to increasing resources

Changing donor attitudes and approaches that strengthen developing country ownership for poverty reduction will be empty rhetoric for the poorest countries, in the absence of long-term stable and predictable resource commitments. *Efforts by aid donors to focus on goals intended to halve poverty by 2015 are welcome. But even if successful, these approaches will leave more than a billion people in poverty by 2015. A major additional financial and political commitment must be made now, to reverse the decline in aid seen in the 1990s, and ensure that not only are the 2015 targets exceeded, but that poverty is eliminated.*

In analysing aid volatility for highly aid-dependent LDCs over several decades, UNCTAD reports that *aid receipts have varied much more than government revenue and even more than export revenue for the majority of the LDCs examined*. After 1994, official flows to the LDCs fell steadily; by the end of the 1990s they were 25% below their peak earlier in the decade and 10% below levels in 1988-89.[47] The macro trend is even more revealing – between 1960 and 2000, incomes in the OECD have increased by US$16,500 per person in real terms, while aid has gone down by US$5 per person.[48]

Not only has aid for long-term development diminished in the 1990s, donors have agreed to expand the definition of aid – to include expenditures on refugees in the donor country, imputed costs of students studying in the donor country and debt relief . Kunibert Raffer suggests this has artificially increased 'aid' by more than 40% from 1992 to 1994.[49] The graph on **page YY** gives some idea of how little aid is really available –

a mere 31% of bilateral aid in 1998 – to pursue local priorities for poverty reduction.

The Experts Panel for the UN Financing for Development aggregates the real resource needs to meet existing OECD donor commitments at an additional US$68 billion:[50]

- US$50 billion to achieve the IDGs:
- an additional US$US3 billion for a sustaining fund for humanitarian assistance (totalling US$9 billion); and
- an additional US$US15 billion for global public goods (totalling US$20 billion).

These are affordable. The Experts Panel pointed out that achieving the 0.7% of GNP target for ODA would provide an additional US$100 billion. The declining trends of the 1990s must be reversed. Aid efforts by countries that can most afford to do so have been declining – the G7 country average has dropped to 0.19% of their GNP in 2000, while those outside the G7 contribute 0.46%! A global economic recession, at the time of writing, portends even more reduced aid allocations as donor governments balance their budgets, often after significant tax cuts for the richest, on the backs of the poorest countries.

For the past 20 years, donors have pressed developing countries to undertake cuts in already inadequate public services and other policy changes with extraordinary political cost. At the same time, northern donor governments have proved unwilling to take even tiny amounts of political pain or risk at home to enhance their contribution to development cooperation globally.[51] *The Reality of Aid* calls on donor governments to invest in vigorous public engagement to build political will and citizen pressure to meet the UN target of 0.7%.

Aid alone, in the absence of leadership to restructure global financial, trade and environmental relations, will never achieve the goal of poverty eradication. Yet resources that reach people living in poverty will be a crucial backdrop for enhancing the poorest countries' capacity to participate in a more equitable global order. Turning the rhetoric of aid – ownership, empowerment, participation, gender equality, basic human needs – into action is a litmus test for the global community. *Unless there is major reform in international governance, and a delinking of aid from vested interest and conditionality, aid will be seen as increasingly irrelevant – just part of an established order that tolerates poverty rather than a key element which can contribute to prosperity and security for all.*

Notes

1 Participant, OECD Development Partnership Forum 2000, Paris, December 2000

2 African Poverty at the Millennium, World Bank, Washington DC, 2001.

3 Data from Forbes, GNP of Sub-Saharan Africa was US$315 billion in 1999.

4 Clare Short, UK International Development Secretary, Speech to Labour Party Conference, Brighton UK, October 2001.

5 Overcoming Human Poverty, UNDP, New York, 2000.

6 See for example Goh Chien Yen's chapter on conditionalities and financial liberalisation in the Asia section of this volume.

7 Informal World Bank estimates quoted in UK Africa Partnership Initiative report, October 2000.

8 World Development Report 2000/2001, World Bank, Washington, September 2000.

9 Already many experts think that the goal of reducing by half the proportion of people living in absolute poverty by 2015 – a goal that would still leave close to a billion people in absolute poverty – has slipped out of reach.

10 See for example in this report, Sugeng Bahagijo on Japanese ODA and the section on Aid Motivation from NGOs in Africa.

11 This is the report which first suggested linking donor foreign aid to GNP (the 0.7% target).

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Part II
Africa

Retracing the path to sustainability

African Network on Debt and Development (AFRODAD),
in collaboration with
Uganda Debt Network, Zambia Association for Research and Development, Partnership – Cameroon,
Tanzania Social and Economic Trust,
Mozambique Debt Group,
Zimbabwe Coalition on Debt and Development, and
Zimbabwe Women Resource Centre and Network

Orthodox approaches treat international aid as a critical factor for redressing capital deficiencies (financial, physical and human) in poor nations, boosting local demand and supply and, through positive multiplier effects, establishing conditions for sustainable long-term growth. However, the reasons for providing aid are varied and complex. And the impacts and consequences are often unpredictable and unwanted. Donors expect aid to induce governments to adopt policies and programmes that lead to improved economic performance as well as facilitate the implementation of such programmes. The reality, however, is that aid is driven by other motivations.

- International aid is integral to donor countries' development cooperation policies, which in turn are defined by their foreign and security policies. 'Motivating factors' affect the administration and impact of international aid by undermining the ownership, and therefore the sustainability of the African development process.
- Donors use aid to create and foster the impression among recipient countries that it can help them but it has failed to improve the situation of people living in poverty; it has rather promoted the interests of donors.
- African countries are compelled to accept aid because of their continued weakness and economic vulnerability, and their urgent short-term needs.
- The economic justification for aid is based on a perceived inherent lack of capacity of the African continent to rescue itself from the quagmire of poverty and crisis.
- International aid and the conditions attached to it have undermined decades of collectively negotiated governance processes in Africa, destroying the values that held societies together in favour of outsider definitions of leadership and development. Aid is not, therefore, the appropriate vehicle to enforce 'good governance' on the continent.
- Measures introduced by the IMF and WB, such as Structural Adjustment Programmes (SAPs), the Enhanced Structural Adjustment Facility (ESAF) of 1987, the Heavily Indebted Poor Countries (HIPC) Initiative, the Poverty Reduction and Growth Facility (1999) and recently the Poverty Reduction Strategy Papers (PRSPs) have failed to achieve their objectives. The impoverishment of the majority of the world's inhabitants has continued apace. There is growing consensus on the failure of the policies of the IMF and the World Bank to reduce poverty and on the need for alternative policies that make a real difference to the lives of people living in poverty.
- Both aid and debt are working as instruments of control and domination of African countries by

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developed countries. Debt servicing continues to drain public budgets, leaving aid investments without adequate support in the form of counterpart funds and additional domestic resources to operate and maintain facilities.

- Unsustainable debt and aid are the products of an aid regime that is driven by imbalances of global power. Debtor countries need to take more proactive positions and demand that donor countries use all aid to write off all loans to poor nations. We need a zero-debt-crisis development option: 'No Aid, No Debt'.

Motivations for Aid

In theory, international aid should redress capital deficiencies (financial, physical and human) in poor nations as well as boost local demand and supply. In reality, however, aid has a multiplicity of motivations. Some politicians and business people in donor countries promote it out of self-interest, in terms of securing foreign policy influence, constituency support or commercial benefits. Some aid officials and NGOs are also self-interested, in terms of career and financial opportunities. Some are guided by genuine humanitarian instincts or solidarity. The public who pay the taxes that fund aid often express their wish that it should be directed at poverty reduction and self determination. Civil society organisations (CSOs) in the recipient countries also expect donor aid to alleviate poverty and lead to sustainable development. In this paper, we explore the motives behind aid and the aid modalities that result – such as tied aid, conditionality – which undermine ownership and, therefore, sustainability of the African development process.

More than 30 years ago, the Pearson report stated that the purpose of international aid id was 'to help poorer countries move forward in their own way into the industrial technological age so that the world will not become more and more starkly divided into the haves and have-nots, the privileged and the less privileged.'[1] The use of the phrase 'poorer countries' means that donors were more concerned with the poverty status of *countries* than that of the *people*. As one commentator put it, 'Helping countries to raise their overall level of economic development' was the primary aim of aid. Countries first, and the peoples of those countries only indirectly, was the hallmark of bilateral aid. By 1975, the emphasis of donors had gradually shifted from assisting countries to helping their people. This was reflected in a British Government White Paper entitled *More Help for the Poorest*, which argued that British aid would 'give an increasing emphasis to the poorest countries (and, furthermore) the government accepts that more should be done to ensure that a higher proportion of British aid should directly benefit not only the poorest countries but the poorest people in those countries.'[2]

Yet, today, the evidence shows that 'Much of the aid spent in Africa in the last three decades has not demonstrably reduced poverty'[3]. For instance, export-led growth policies under SAPs may enable countries to earn foreign currency to repay their debts by promoting cash crops at the expense of food crop production. Thus, such policies benefit donors or lenders but contribute to domestic food insecurity and poverty.

Trade liberalisation opens up the markets of developing countries to international competition and, particularly, to imports from developed countries. Meanwhile, the devaluation of local currencies, which is an important requirement of SAPs, reduces the international purchasing power of developing countries and thereby limits their ability to buy from rich countries and increases their indebtedness.

Tied aid

Aid tying is widespread, with donor governments tying the goods and services of many private companies in their countries to the aid given to developing countries. Thus, aid tying is an important tool for corporate interests to pursue, establish, or consolidate markets in developing countries, in addition to insulating procurement procedures in recipient countries and national markets against competitive forces. In 1997, more than 50% of the US$26 billion provided in global overseas development assistance by European Union member states was tied to goods and services from donor country companies.

Technical Cooperation, which falls within the 'services' aspect of aid tying and involves the use of technical experts and consultants from donor countries, is based on a perceived shortage of expertise in recipient countries. It often results in 'solutions' being prescribed by these experts that fail to recognise local expertise and resources or take account of social, cultural and technical factors. The deployment of foreigners in development not only reduces the employment of local consultants but does little to foster the development capacity that so many donors talk about. The insistence on Technical Cooperation explains the failure of many development programmes on the continent and adds to the vicious cycles of econo-mic and technological dependency. In 1996, more than 25% of donor aid from OECD countries was given in the form of Technical Cooperation.[4] While aid tying violates European Commission (EC) law, member states have been slow to eliminate the practice.

Aid and unequal trade

Despite the claims of conventional theories, trade has failed as an effective tool for improving the economic performance of developing countries, even in terms of the facilitation of better access to the industrialised countries' markets. The policies regulating international trade are dictated by donor countries through the World Trade Organisation (WTO).[5] These policies continue to frustrate the attempts of developing countries to fully participate in and benefit from free trade. An analysis of the characteristics of world trade shows that it is unjust because industrialised countries impose measures that obstruct the entry of products from developing countries onto their markets,[6] resulting in unequal competition. Agricultural protectionism, for instance, which takes the form of tariffs, quotas and non-tariff barriers, such as sanitary laws regulating food and fibre imports, have devastating effects on developing countries. The Common Agricultural Policy of the EU, for instance, is much more discriminatory against food imports from LDCs than policies that had formerly prevailed in the individual member countries.[6] Global trade has also witnessed the continued deterioration in the terms of trade for raw materials, which are the main source of foreign currency earnings for African countries. Todaro (1997) estimated that the extra costs placed on the economies of the Less Developed Countries due to deteriorating terms of trade were more than US$1 billion per year during the period between 1955 and 1996. As a result, developing countries' world merchandise trade balances deteriorated steadily from a positive balance of US$55.8 billion to a negative balance of US$42.9 billion in 1994. Because developed countries benefit from this, they are not interested in changing the relationship whereby developing countries provide raw materials and rich countries concentrate on high-value manufacturing. Consequently, developed countries have put in place comprehensive barriers to frustrate the efforts of developing countries to break into the market of exporting value-added manufactured goods and services. This makes it more and more difficult to maintain sufficiently high levels of imports to sustain economic growth.[7]

Within the context of the exploitative arrangements fostered by current international trade regimes, international aid becomes an important instrument ostensibly for global redistributive justice, as it is hoped developing countries use aid to cover for trade losses. External factors such as unfair trade relations encourage African countries to use aid to close the trade gap. In this context, aid should lead to transformation, with developing countries achieving the capacity to transform from being raw material producers to being finished goods manufacturers. However, it is clearly not an objective of aid to contribute to the transformation of the economies of developing countries – and the external dependence that international aid engenders obliges African countries to continue importing manufactured products from donor countries. Thus, aid has helped to create conditions that perpetuate the uneven relation-ships and donors continue to maintain or extend their influence in recipient countries. The creditors have 'infiltrated' most African countries' policy-making systems, gaining enormous influence over their policy options. For instance, donor aid finances more than 50% of the annual budgets of Mozambique, Tanzania, Uganda and Zambia. Conditional aid, on the other hand, reduces the volume of regional trade among the underdeveloped countries[8] as they become dependent on donors and stop trading among themselves. In these different contexts, international aid has become an instrument of domination of African countries by creditors.

Aid and politics

During the Cold War, the political motivations for international aid were clearer. It was to fulfil political rather than transformational aims. Western countries conditioned their aid to African countries that espoused the principles of capitalism. Aid was generally used as a political tool to entice African countries to ally themselves to either of two divergent world views. For example, the US only responded to Mozambique's requests for concessional food aid after it had satisfied itself that Mozambique no longer had close links with the Soviet Union. Some years later, a US State department official explained his government's change of attitude when he said: "We have made it clear to the Government of Mozambique that our aid…is political. There are always conditions, although these are frequently not explicit. To improve its relations with us, Mozambique has…to show its independence from the USSR."[9] US support enabled Mozambique to negotiate World Bank membership.

France has successfully used aid to keep its former colonies within its sphere of influence.[10] This explains why it channels most of its aid to Francophone African countries. In 1990, for example, Francophone countries received 61% of France's total development assistance (Claus op. cit). Similar motives guide Britain's aid policies, which focus on Anglophone countries; Belgium also concentrates on its former colonies – Burundi, Rwanda and the Democratic Republic of Congo. The former colonial powers grant aid to influence the political and economic policies of their former colonies and to bring them in line with their own interests, and not necessarily to assist them transform and become independent, equal partners. At issue here is the quality and effectiveness of this aid rather than the quantity; it has largely enhanced the interests of the former colonialists and not those of the recipient countries.

With the end of the Cold War, political issues were relegated to second place behind economic issues; though political factors are still being felt at a different level as donor countries add new conditionalities, including good governance, transparency, participation, and respect for human rights. These conditionalities are now seen by critics as attempts by developed countries to impose their own subjective interpretations of these concepts to advance further their political interests.[11]

It is increasingly clear that the motives of international aid are not to promote growth and development in African countries. As Rudolfo (1998) puts it, 'Aid as a simple philanthropy does not exist, there is always some interest, although this does not seem to be explicit'.[12] In fact, the political motives for aid are related to the possible negative consequences 'of political, ideological and economic inequalities between African and developed countries for world peace and security'. Rodolfo stresses that because of globalisation political and social instability due to economic factors in one country easily spills over into other countries.

Conditionality

The period in which aid to Africa reached its peak coincides with the time when commercial banks in the rich countries recorded large deposits of money, mostly from the Organisation of Petroleum Exporting Countries (OPEC). At the time, 'OPEC was more interested in lending to countries than they wished to develop themselves' (Brighenti, 2000: 12). The countries providing aid looked at it as an investment opportunity, while the African countries that borrowed were happy to get the money at very low interest rates then prevailing. African countries were also encouraged to borrow by the high prices their mineral and agricultural exports were fetching on international markets.

Until the beginning of the 1980s, western commercial banks continued to provide huge loans to African countries. But the debtor countries were not achieving levels of economic growth sufficient to enable them to repay the loans. It was in this decade that African countries, including Mozambique, declared their inability to pay their debts (Abrahamsson 1994). This marked the beginning of the debt crisis. To save their banks from bankruptcy, western governments focused attention on making African countries pay their debts. The IMF and World Bank played a critical role in facilitating this process by attaching conditionalities to their loans (Hanlon B, 1997:24). For instance, major bilateral donors could only provide aid to developing countries by agreement with the IMF and World Bank. These agreements presupposed that the country was implementing a SAP to stabilise its economy. It was hoped that once the economy was stable, the African countries would be able to generate sufficient money to pay off their debts.

In recent years, bilateral donors have ceded much of their decision-making power on programme assistance for low-income countries to the IMF. The IMF has become the 'gatekeeper' that certifies that a country's macroeconomic management policies are sound and that it deserves support. Without the IMF seal of approval, a developing country will not get any assistance from other donors. Controversy over IMF influence is not so much about its concern for effective macroeconomic management but over such matters as the pace of change, the sequencing of policy reforms, the degree of reliance upon the market, the distributional impact of changes, effects of exogenous shocks, political feasibility and continued or increased poverty.

While donors can guarantee markets for uncompetitive products, through tied aid, recipient countries cannot make the best use of financial resources they receive as tied aid forbids them from sourcing goods from markets other than those of the donor.[13] Even tighter limits are being set for the use of grants (Mende, 1974:69). A negative aspect about tied aid is that, recipients are obliged to buy spare parts from the donor country, even when the prices are not competitive. This continues even after the concessional funding through which the equipment was acquired has expired.

Equally, donors effectively use food aid to promote their interests. For example, when donors receive requests for emergency food aid, instead of providing the staple food of that country, they sometimes respond by donating food that is not produced or even consumed in the recipient country (Rodolfo, 1998:4). This depresses demand for local goods, while increasing import dependency.

This situation benefits donors as it opens up and guarantees markets for their products. Thus, donors achieve what was probably their principal objective when they responded to the request for food aid. For the products of the recipient country this could mean a reduction of traditional markets (Arnold, 1985: 167). Food aid can become an effective disincentive for national agricultural production, leading to negative consequences for food secuirty. Food aid can also destroy the viability of local farmers producing the same products, as they cannot compete with food donations dumped on their markets. They therefore experience a sharp decline in the value of their sales.

Undermining ownership, deepening the aid/debt trap

Since the advent of the African debt crisis in the 1980s and the onset of various debt relief initiatives, development aid has had a strong link with debt. Over the past 20 years, international aid has been diverted from activities that could have assisted in building the capacity of indebted countries to grow and develop to the repayment of their loans. Aid has become a tool of primitive accumulation on the part of the donor countries. Push and pull factors have created and strengthened the conditionality regimes of SAPs, leading to the deepening and intensification of both the debt and aid traps for Africa. Although debt and aid issues are generally treated separately, the two have strong underlying synergies that undermine Africa's development in the long term. As acknowledged in the New African Initiative, the limit of donor driven debt relief initiatives has now been reached. A new partnership in the international community is required to ensure that Africa removes itself from the dependency syndrome that the aid regime imposes.

There has been unwillingness by the donor countries to solve the African debt crisis in a meaningful, comprehensive and definitive way. The HIPC Initiative continues to be totally inadequate and unable to solve the problem. HIPC itself indicates that countries will be deeper in debt one year after the so-called completion point.

The Third United Nations Conference for Least Developed Countries held in Brussels in May 2001 made clear this point.[14] The open call made by the representatives of the Least Developed Countries (LDCs) for debt cancellation met only with some promise for more aid. This was in spite of the fact that the

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Conference had already accepted that the external debt overhang in the majority of the LDCs (the majority of which are in Africa), continues to constitute a serious obstacle to their development efforts and economic growth prospects. Scheduled debt service takes up a large part of scarce budgetary resources (more than 40% in the case of Zambia and Tanzania) that could be directed to productive and social areas, and harms the internal and external investment climate. The Conference also noted that the situation is aggravated by external financial turbulence, volatility of export earnings, and increases in the price of essential imports. The inability of the donors to address the debt crisis of the LDCs was a clear testimony to their unwillingness to find a solution:

(a) Over the years, Sub-Saharan Africa's debt has grown to be graver than that of other regions of the world in three aspects. Firstly, the ratio of Africa's total debt to total export earnings has been rising more rapidly than those of other regions, becoming the highest in 1987. Secondly, the ratio of Africa's total debt to Gross National Product (GNP) has grown rapidly, becoming the highest in 1986. Thirdly, despite incurring the highest growth rates of borrowing, African economies have grown more slowly than those in other developing countries.[15]

The long-term viability of Africa lies not so much in increasing its access to more development aid or loans, but in using the external financial resources towards creating and enhancing productive capacity.

(b) Although there has been significant debt forgiveness under the Paris Club, the rescheduling and capitalisation of the debt in this group has instead contributed to an increase in the debt burden. Some estimates put this at US$31 billion for Africa. Apart from the very undemocratic nature of the Paris Club (donors in one group against one single African country) debt relief initiatives under the Club have not solved the debt crisis.

The Toronto Terms, intended to restructure at least US$6 billion of debt, only managed to restructure that of Zaire and left behind more problems than solutions. The entire debt of a country could not be rescheduled in a single round of negotiations. The overall debt burden was extended and increased, and negotiations were time-consuming, without benefiting the debtor country. Attempts to improve the Toronto Terms at the G7 Summit of September 1991 were not successful. They were undermined by the unilateral action of the USA in April 1991 to grant more than 50% debt forgiveness to Poland and Egypt. The motive for Poland can be assumed to have been an attempt to lure it into the NATO camp and for Egypt, a reward for its role in the Middle East peace process. Debt forgiveness depends entirely on the political will of the creditor and such political will has not been forthcoming for Africa; at least no more than necessary to keep Africa bonded to the creditor!

The so-called Naples Terms, which were approved by the G7 in Naples in 1994, would have offered 27 of the poorest nations a 50-67% reduction in NPV (Net Present Value) terms for specific parts of their eligible debt and essentially could have offered an EXIT package on the bilateral debt. The Naples Terms, however, were the first to link aid and debt conditionalities by imposing the IMF conditions. For a debtor country to benefit, it would have to have: a satisfactory track record with the IMF over three years; a satisfactory Paris Club track record of repayments over four years; confidence of all its creditor countries that it would meet future obligations; agreement from all creditors on a common strategy towards the debtor. Until now, the Naples Terms have been implemented only on the basis of the goodwill of the creditor. Such a power imbalance that works so clearly to disadvantage developing countries is no longer tolerable.

Following the launch of HIPC in 1996, 41 countries were identified as effectively insolvent and, therefore, eligible for debt relief. However, as we approach HIPC III, the real achievements in terms of debt stock reduction and relief in African and other developing countries are insignificant. By June 1999, a minuscule 2.6% of the debts of the 41 countries had been written off and four countries – Uganda, Mozambique, Guyana and Bolivia – had received partial debt relief. Relief to Uganda and Mozambique was negligible, reducing debt service from US$166 million to US$149 million and US$113million to US$110 million respectively. *In fact debt servicing by the poorest most indebted nations of the world rose from US$25billion a year to US$28billion*

Table 1 Sub-Saharan African Debt Trends, 1980-1998

Year	Debt Service to Exports %	Debt to Exports %	Debt to GNP %
1980	10.8	85.0	23.5
1981	14.2	123.0	29.2
1982	17.8	177.2	34.4
1983	22.9	214.5	40.4
1984	26.9	207.7	41.9
1985	34.7	217.6	43.4
1986	39.4	326.3	74.4
1987	23.8	365.9	101.1
1988	25.8	340.6	97.7
1989	20.3	299.9	108.0
1990	20.6	278.4	107.7
1995	14.7	269.8	-
1998	15	-	-

Sources: Carol Lancaster and J. Williamson (eds) African Debt and Financing, pp 28-46, and World Bank, World Bank Debt Tables: External Debt of Developing Countries (Washington D.C, 1989).

in 1998. When Mozambique became the first candidate under the HIPC initiative in 1996, it was thought that the debt relief package would finally liberate the country from bondage. But, by 1998, Mozambique, saddled with a US$6 billion debt, found itself repaying more than US$100 million a year in debt service. The actual relief amounted to little more than US$10 million a year, leaving Mozambique to channel more than 20% of its foreign exchange earnings into debt repayment.[16]

(c) The current HIPC Initiative does not address debts that are owed by HIPC countries to non-Paris Club creditors and which have not been rescheduled or serviced at all for a long period of time. Consequently, the debt-sustainability ratio proclaimed to be the measure of indebtedness is misleading, since the actual debt situation of these countries is worse than is apparent. Even if all the Paris Club and multilateral debt were to be eliminated, it is more than likely that some HIPC countries who owe large sums of money to other HIPC countries (e.g. Tanzania being a creditor to Uganda) and non-Paris Club countries would remain in severe indebtedness, since there is no programme to address non-Paris Club debts.[17]

(d) As noted in a Report to the United Nations Commission on Human Rights[18], Zambia's debt would not reach 'sustainable levels' until after 2005, according to the IMF's own analysis. The IMF had, in early September 2000, proposed several options for smoothing post-HIPC debt service obligations:

- *Front-loading of interim assistance under the initiative by 75%.* The debt service under this option would still be above the current debt service and would not, therefore, address the objectives of the HIPC initiative.
- *Rescheduling the Structural Adjustment Facility (SAF) Loan to the IMF.* This would only shift the 'hump' of the debt burden to a different period in future and a HIPC initiative loan would not be subject to any further debt relief ; and
- *Blending HIPC initiative grants and loans, and reducing Zambia's debt to export ratio to 11.7% in 2001, and 8.5% in 2005.* This variant would leave the debt service-to-revenue ratio at 23% in 2001, and since it will not fall below 15% until 2007, it is still insufficient.

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This is the simple reality in which Africa finds itself. In its unwillingness to find a solution to the clearly identified problem of debt, the North has failed Africa. It is now a challenge for everyone, most of all for Africans, to resolve this dilemma and not take it as given.

The aid distortions

Despite the rhetoric and self-interest surrounding calls for increased aid flows to Africa, the reality is that aid has failed to work for the continent. Instead, it has been used as a tool to impose development paradigms, expenditure and investment patterns and even forms and concepts of governance that have left Africa trapped in an aid syndrome which only begs more development aid. While the arguments for increasing the effectiveness of development aid may have some merit, the very existence of the aid trap and dependency demands more serious analysis and solutions. It is very encouraging to see that the New African Initiative notes that Africans should not appeal to further entrenchment of dependency through aid.

Refinancing of old debts is one of the biggest problems in the aid and debt synergy. A review of debt relief initiatives might provide the basis for a solution. The Brady Plan of 1988 was introduced to enable poor countries to get rid of their debt to commercial banks of the donor nations. Through the IDA Debt Reduction Facility and additional donor money from Canada, France, Germany, the Netherlands, the US and the EU, a total of US$116 million was used to discharge a US$814 million debt to commercial banks. In this instance, aid was used to secure the interests of the donor countries by bailing out their banks. Aid money, which was supposed to spur development, was redirected to non-performing loans and institutions. Proponents of this always find well-meaning reasons to defend such actions but the reality is that the money was used to save the banks from collapse and not for Africa's development.

Current evidence indicates that, given that most current LDC debt is actually Public and Public Guaranteed Debt (more than 90%), the pressure on the Government budget for loan repayments is extremely high, with as much as 40% of Government budgets being directed to loan repayments. Here again, development aid comes in for budgetary support aimed at debt service. It has been calculated that, in the case of Zambia, the total amount of international aid inflows almost equals the debt service due.

Since 1990, the following patterns of the relationship between debt and aid have been apparent:

- Multilateral debt repayment problems have largely been met by refinancing of old loans. IDA resources, the only real concessional resources Africa can secure for development purposes, have been used to liquidate the old IBRD (the non-concessional window of the World Bank) loans and the old IDA loans. The use of IDA resources for such purposes excludes the use of these resources for creating new wealth and viable economies.
- Aid inflows into many African countries have followed the path of debt service. Thus donors who are also creditors provide aid that then can be used for loan repayments. Various studies show that both official and multilateral disbursements are highly correlated with total debt service. UNCTAD has shown that the more debt service a country has to make, the more official finance it will receive.[19] Under the HIPC Initiative, contributions to the HIPC Fund (e.g. in Uganda) were based purely on matching loan repayments until the country was expected to become sustainable. This means that loan repayments were at artificially higher levels than the country's ability to repay.
- It has been argued that one of the possible reasons for creditor countries refinancing loans is to avoid the embarrassing build-up of arrears in their favour in the debtor countries, as well as to avert growing risks of documented development failure associated with the creditor country. The avoidance of arrears however has serious implications:

  Firstly, aid is used to maintain loans that would otherwise not be on the books, because they would be unpayable and would have had to be written off. This provides credibility to the idea that international aid is used as a form of maintaining the indebtedness of African countries.

  Secondly, aid used for loan repayment undermines the very essence of 'aid' as *development assistance*.

Thirdly, the aid-debt link exonerates the creditors from blame for the failures of their development interventions and holds the debtors responsible.

These implications are more serious than the donors or creditor governments simply giving with one hand and taking away with the other (Killick and Stevens, 1997). The conditionality imposed by the IMF/ World Bank, to whom donors have surrendered their decision-making power, does not just undermine Africa's development efforts but actually reverses development gains. For example, through the removal of subsidies and the commodification of essential common goods, such as water.

The Mozambican case starkly illustrates this. A confidential World Bank report of March 1998, never disclosed to parliament or civil society, shows that the Mozambican government agreed to implement several macroeconomic conditions, including the privatisation of municipal water, in order to receive HIPC debt relief. Public outcry on the terms of the conditions for debt relief, particularly through the Jubilee 2000 movement, led to slightly greater concessions in mid-1999 but the bottom line is that debt 'relief' costs millions of people in Mozambique their access to safe water. Average debt repayment was expected to decline from US$114 million a year between 1995-98 to US$73 million a year between 1999-2005. To get the additional relief, however, the government agreed to implement 71 new conditions imposed by the IMF, including a prohibition on resurrecting the cashew-processing industry using traditional industrial policy tools. Aid flows to cover debt repayments under these circumstances undermine the sovereignty of African countries.

Despite the recent focus on good governance as a condition of aid, the whole aid system undermines good governance. Aid has tended to enrich the political and economic élite, to strengthen central, as opposed to local, government institutions, to benefit men more than women, and urban more than rural areas. In so doing, it has increased polarisation among different groups in society. Again, as noted by the World Bank, 'a typical poor country receives 90% of GDP through international aid, but the poorest quartile of the population consumes only 4% of the GDP'[20] and aid reaches less than 10% of the African population.

Development aid has undermined Africa's own development ideas. Initiatives that have been stymied include: the Lagos Plan of Action of 1980; the Alternative Country Plans developed by Zambia and Tanzania when they broke relations with the IMF in the mid 1980s; the UN-led African Alternative to Structural Adjustment of 1989. These and other programmes, through which aid recipients tried to develop and formulate new development agendas, promoting African self-reliance were not taken seriously. They were denied development finance in favour of SAPs, which have been disastrous for Africa. These issues must be fully addressed if Africa is to break the impasse of its underdevelopment. Will development aid stand up to the imperatives of the New African Initiative and the African Union as a means of African development?

In countries such as Tanzania and Zambia, the failure of aid (among other things) to address development problems has led to calls for more aid which, instead of addressing the problems, has perpetuated dependency. The 'Aid Trap' has been entrenched by African governments who, out of political expediency, opt for short-term answers that tend to have adverse long-term developmental impacts.

Since 1993, the Reality of Aid and other studies have shown that developmental benefits could have been achieved if aid had been well-directed, especially towards enhancing local productive capacity and stimulating local demand for goods and services. Africans are becoming increasingly aware of the underlying factors that prevent aid being as effective as they have been led to believe it would be.

Aid/debt synergies suit creditors

Both aid and debt have played very clear roles in the relationship between rich creditor countries and poor debtor countries:

a) Aid is used to create and dismantle debt. Both are controlled by the creditor countries without the participation of the debtor countries. This goes against the rhetoric of partnership.

b) Both aid and debt negotiating mechanisms use conditionality to activate actions that benefit the rich countries while undermining local thought processes.

c) The so-called 'Aid Syndrome' is in fact an 'Aid Trap', similar to the 'Debt Trap'. The Aid Trap makes it difficult to envisage development without aid. It is made up of the cycle of tied aid, technical assistance, and lack of activities for sustainable long-term development, which then reproduces the aid cycle, increases the productive capacity of donor industries and increases the aid labour pool. In the process, it undermines development in debtor countries, which then require more aid.

d) Debt is a more visible surplus extraction mechanism, through which people are made to pay for what did not benefit them. That surplus is consumed by the donor country and becomes very profitable when invested through the aid machinery.

Can there be a trade-off between debt and aid?

From the foregoing, and on the basis of experiences over the past 30 years in Africa, the following measures are suggested to redress the situation:

- Debtor countries should form a Debtor Cartel to repudiate loans and establish the basis for a more equitable and democratic framework to negotiate debt and aid exit mechanisms, as well as aid/debt trade-off mechanisms.
- Donor/creditor countries should use *all* aid to write off *all* loans to poor nations and so create a zero-debt-crisis development option: 'No Aid, No Debt'.
- Donor countries should reduce and eliminate trade barriers to manufactures of poor countries, to increase their external viability in the context of fair trade.
- New global mechanisms to redistribute financial resources from the richer to the poorer regions of the world, such as a global tax on currency transactions – a Tobin-style tax – should be developed under the UN system to replace current aid regimes.
- HIPC debt relief must be de-linked from the PRSP process. Real national ownership of poverty reduction frameworks can only happen if the threat of 'conditionality' by the IMF and the World Bank is removed from the backs of vulnerable governments. Linking debt relief to the preparation of the PRSP removes the 'autonomy' of countries to come up with a framework that clearly makes the connection between macroeconomic policies and poverty reduction goals. This requires time, research, and exhaustive consultation with broad sectors of their populations.
- The IMF Poverty Reduction and Growth Facility (formerly ESAF) should be abolished, since it is merely a financing facility paid for by bilateral donors to clear up the debts owed by HIPC governments to the IMF. The Fund can clear up debts owed to it through gold sales (revaluation process) rather than through voluntary contributions from bilateral donors. Bilateral resources going to the PRGF should instead go to the African Development Fund and the African Development Bank for the institution to foster African development.
- The United Nations should establish a fair and transparent arbitration mechanism on debt. Such structures as the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards, the Permanent Court of Arbitration (PCA) in The Hague and the United Nations Commission on International Trade Law could have their mandate expanded to include arbitration on debt and insolvency laws.

While international aid should bring development to Africa, in reality both aid and debt are working as instruments of control and domination of African countries by developed countries. Donors use aid and debt to advance not only their commercial interests and diplomatic and political objectives, but also their values and cultural hegemony.

If the sovereignty of the African continent is to be restored and poverty attacked meaningfully, the synergy between debt and aid needs to be better understood, with positive aspects being strengthened, while negative ones are done away with. Both debtor and creditor countries should work towards strengthening the UN System and establishing other global governance institutions, such as the Global Central Bank, a Global Investment Trust and Transfer Mechanism and a fairer WTO, as suggested by the UNDP Human Development Report (1999).

Governance and aid

As discussed above, external aid cannot enforce appropriate governance in Africa because it has no respect for indigenous concepts of leadership, destroys the ideas that bind societies together and undermines pre-existing governance processes on the continent.

During the past decade, the terms 'governance' and 'aid' have become intrinsically linked in the development discourse of Africa. This link was primarily born out of the push by bilateral and multilateral aid donors to make their definition of 'good' governance a pre-condition for continued development assistance. This concept and form of governance was thus imposed on the development agenda of most African countries as a consequence of their need to obtain external aid. By providing tied financial support, aid donors forced African governments to adopt and adhere to the values of their [donor] governance styles while at the same time beginning to interrogate donor policies and their use of power.

Aid has had some positive achievements for governance on the continent – it has paid for many conferences, forums, briefing seminars and national debates on governance in Africa. Aid has also made the most effective contribution to gender equity and recognition of women within post-independence economies, and the development of legislation for their empowerment and emancipation in most African countries.

However, the scope for improving governance through external aid is limited because of the different understandings of good governance, the lack of ownership of the development agenda by aid recipients, and the constraints of the conditionalities that accompany funding. This argument is based on the experiences of African countries over the decade following the emergence of the donor-driven good governance agenda. Examples from three Sub-Saharan African countries – Zimbabwe, Uganda and Nigeria – reflect these aspects of the relationship between governance and aid, and the polarisation between some donors and the governments of recipient countries. For aid to impact positively on governance and development on the African continent it must complement and reinforce indigenous concepts of leadership.

Perspectives of Good Governance

(a) The Views of African Civil Society

An overwhelmingly negative view of the effects of aid was expressed during the 2001 Harare Conference on Reality of Aid. This is not surprising. As Africans continue to consolidate their autonomy of political thought on governance and aid, views from the South have become increasingly polarised from those of the 'cooperating partners', that is the donors of the North. African civil society organisations and intellectuals speak out with frustration about having to accept or use only externally defined concepts of good governance, encompassing inclusive government, democracy and the rule of law. African political theorists[21] have expounded on this point, describing the variety of

Box 4 The negative views from the July 2001 RoA conference in Harare:

- Current regime of aid creates space for pushing agenda that conform to donors' perceptions
- Over-emphasis on macro-level issues benefiting only a few, while micro-issues, which affect the majority of citizens are ignored
- Donor keenness to fund IGPs that do not generate any income but lock people into greater poverty
- Dishonest claims by governments and civil society regarding the real impact of aid, due to vested interests
- Lack of confidence on the part of the aid recipients to choose which conditions to meet or reject.

RoA report, Harare (2001)

condescending approaches adopted by the North towards good governance in the South.

In the Khartoum Declaration of 1988 , Africans defined governance priorities as:

- the promotion of human development
- restoration of basic freedoms and human rights
- overcoming political instability and intolerance and
- curtailing over-centralisation of power.

The Addis Ababa Declaration of the OAU Heads of State in 1990 defined governance in similar terms. Its constituent elements were accountability of leadership, consolidation of democratic institutions and popular participation, and a development model that was self-reliant, human-centred, sustainable and based on social justice. This was complemented by the African Charter for Popular Participation in Development and Transformation drawn up at Arusha, also in 1990. According to the Charter, the elements that made up governance included the following:

- freedom of association
- press freedom
- rule of law
- accountability of leadership
- decentralisation in decision making and
- economic justice.

African civil society has equally redefined good governance in citizens' own words. Listening to citizens and the élite within civil society through a Commonwealth Foundation report,[22] *Citizens and Governance: Towards a Good Society,* newer definitions of the concept emerge according to the aspirations of the people. In the report, the citizens saw governance as a *'… collective decision- making and action in which government is one stakeholder among others'.* [23]

This definition of governance looks to the state as facilitator and provider of services and as an equal stakeholder in the national governance agenda. The emphasis is on a state that is responsive and inclusive, and which derives its power from the people. In such a state, citizens are guaranteed freedom of association and participation. Time and again, *'citizens have tended to retreat from the public domain, leaving their governments to govern, but paying little attention to what their governments do.'* It is important that there is complementarity between the roles of the state and those of citizens.

Basic needs of citizens '*include food, water, shelter, education, sanitation and health. Without having these needs met, people cannot lead a decent and dignified life.*' [24] Equally important are '*respect for the fundamental human rights of all citizens, social justice for all … freedoms of speech, information, association and assembly.'* Such needs encompass respect for culture and heritage, including traditional systems of governance and justice, and the values of fellowship, cooperation, mutual help and support, which build up social capital and a culture of caring and sharing in the community.

This definition stretches to '*Communitarian*[25] *and associative values and norms based on tradition and cultural heritage…*' that uphold traditional systems, patterns of governance and justice. Another aspect of association is the values of fellowship, cooperation, mutual help and support, which build up social capital.

Citizens' view of participation is that they are consulted on a regular basis; their voices are heard in making policies and decisions that affect them. Public officials also listen to the people regularly, not just when their votes are needed. The government and public officials are free from corruption.

Ordinary citizens rate basic needs as most important to them – particularly the tangible provision of economic goods and social services. But the less tangible needs are important because they are central elements of the social capital that provides the alternative to state social support.

Despite years of conditionality, northern perceptions of good governance in Africa – based on a donor-centred development agenda and the idea of multi-party democracy with its 'winner-takes-all' mentality – have not supplanted a consensus that cuts across economic, racial, ethnic, religious, cultural divides and is considered authentic for mobilising African civil society.

Given the failure of dominant northern-dominated approaches on world population, economic growth, inequality, poverty, and globalisation to stimulate localised development and poverty reduction, Africa must examine the polar divide in the definition of good governance at the highest levels. With the strengthening of civil society, policies need to be re-defined to localise development, enhance people's participation and meet their aspirations. Cooperating states, heads of governments and international financial institutions need to genuinely commit themselves to consensual terms of governance and aid, as stated in the Arusha Declaration (1990).

Through its publication *Democratic Governance in Zimbabwe: Citizen Power*, the ACPDT provides another definition of democracy in Africa:

> *'…full participation of all citizens …… through appropriate institutions …… in a way which promotes the growth of individuals and the well-being of communities'.*

This has nothing to do with multi-partyism! It is consistent with the African communal life style and the views from citizens of the African Commonwealth states given earlier in this paper.

From the foregoing, it can be noted that the official and popular definitions identify factors that constitute governance and also those that contribute to 'good governance' from an African perspective. Simply put, governance consists of mechanisms, processes and institutions through which citizens and groups articulate their interests, mediate their differences and exercise their legal rights and obligations. Thus, it is not only the state and its institutions that are involved in governance, civil society and its organisations play an equally important role. Good governance ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable people are heard in decision-making over the allocation of development resources (UNDP, 1997).

(b) A Dominant Group View on Good Governance

From the late 1980s, The World Bank[27] defined good governance as:

> *"the manner in which power is exercised in the management of a country's economic and social resources for development.[28]*

What followed was the propagation of this western view of governance as democracy and observance of the rule of law, which became synonymous with sound development management, globally. However, as Barya[29] (1993) noted, western countries were not genuine about encouraging good governance in the form of democracy, rule of law and popular participation or inclusive government, as shown by their support for dictatorships in Zaire, Liberia, Uganda and Kenya in the 1980s and 1990s, which was under the guise of fighting communism. What this means inevitably is that western countries only render support when it suits them.

In the 1980s, World Bank perceptions of 'bad governance' and the economic instability in Africa took centre stage. World Bank officials who had pioneered the structural adjustment 'solutions' breathed easy on reaching the conclusion that poor governance contributed to the lack of anticipated economic growth in these countries. Thus arguments supporting the need for balanced macroeconomic fundamentals began to be entrenched as key elements for good governance.

Box 5 ACPDT's Community Research

Africa Community Publishing and Development Trust's (ACPDT) [26] community research summarises this concept well.

> *'The state as a creation of the people must bear allegiance to the citizens instead of the other way round … it is supposed to be "governing" instead of "ruling". Governance [in Africa] must be a collective process… ruling is done by a privileged few who are always said to be those up there'.*

Recommendations from Democratic Governance in Zimbabwe: Citizen Power*, ACPDT 2000*

Africa

These conclusions not only assuaged the conscience of IFIs with regard to the huge resources already poured into Africa with insignificant success, they also provided new challenges and direction for the next dispensation of aid. Armed with the conviction that poor governance should be blamed for lack of anticipated development in poor countries, IFIs and donors decided to set political conditionalities (shaped by their conception of democracy and pluralism) as opposed to merely economic ones, for disbursing financial assistance to African countries.

DAC has identified four key components of good governance, as follows;

1. The legitimacy of government, which depends on the existence of participatory processes and the consent of those who are governed.
2. The accountability of both political and official elements of government for their actions, depending on the availability of information, freedom of the media, transparency of decision-making and the existence of mechanisms to call individual institutions to account.
3. The competence of governments to formulate appropriate policies, make timely decisions, implement them effectively and deliver services.
4. Respect for human rights and the rule of law to guarantee individual and group rights and security, to produce a framework for economic and social security and to allow and encourage all individuals to participate.[30]

Most of the above descriptions coincide with the southern requirements of responsive government: a vibrant civil process, polity, public trust, equity and justice, dignity and security. These guide states to the core function of creating an enabling environment for private production and wealth creation, which should provide citizens with economic space to pursue their associated needs, achieve self-determination and participate in governance.

One of the points of deviation from southern citizens' views of good governance, which is people-centred, is on the definition of democracy and pluralism. In the post-Cold War era, there was a notable shift in the perception and attitude among the rich developed countries and international financial institutions regarding the necessary institutional framework for economic development in developing countries. Countries with authoritarian and neo-patriarchal systems of rule would be penalised, while those who embraced democracy would be rewarded with development assistance and loans. There is, therefore, a sense in which there is an implicit political conditionality to loans, investment and aid. This is at least in so far as governments are required to meet certain conditions of good governance, such as observance of the rule of law, accountability, transparency and political pluralism. It is particularly important to examine how the imperative of meeting the basic needs and rights of citizens of countries receiving aid is undermined by externally imposed notions of multi-partyism. From the African experience, it is clear that multi-partyism has undermined inclusiveness and the participation rights of citizens by creating artificial divisions between political interest groups.

When the state fails to address basic needs and there is inadequacy in public and social service provision, women suffer the most as they take over the responsibilities of the state. As a result of the failure of the state to address the inequalities exacerbated by macro economic reforms, the rich become richer as the poor become poorer. In so far as aid has been a powerful influence on the level of social provision and on developing country approaches to equity and poverty reduction, aid donors must share the blame where gender and other inequalities have worsened.

In conclusion, there has been little disagreement, generally, over what constitute the core elements of governance from either the Africans or the dominant group. The institutional, political and economic elements are key ones in any system of governance. Where the controversy has mostly arisen has been on what constitutes 'good' and 'bad' governance, and over the linking of governance to multi-party democracy as a conditionality for receiving aid.

The pros of development assistance

Development aid has been identified as an important element of real economic development and growth of investment in many developing countries. Many world leaders now consistently speak out against poor governance by aid recipients. In 1998, the UN Secretary General, Kofi Annan[31], wrote:

> *'UN programs now target good governance, safe-guarding the rule of law, verifying elections, training police, monitoring human rights, fostering investment, and promoting accountable administration. Without good governance, no amount of funding, no amount of charity will set the developing world on the path to prosperity*.'

Aid has been a major source of hope for the beleaguered citizens. To be effective, it must strive to meet the aspirations of the citizens – for example, by assisting the state to fulfil basic needs, in the role of a provider. Aid should effectively energise citizens to attain their associated needs and ultimately play their part in the demand for good governance from their own state.

Citizens need to be able to articulate their aspirations and their shared vision of good governance. For Africa, this process of citizen empowerment has been a positive development in the governance and aid agenda. It has mostly been achieved through the intervention of civil society organisations (CSOs) as intermediaries who receive and utilise aid to help meet the needs of society.

However, CSOs have had limited success[32] in Africa due to the conditionalities applied to aid funding. At the RoA meeting held in Harare, 2001, participants admitted that issues of gender awareness, voter education and safeguarding the environment had been put on the agenda through aid. By funding cultural exchange, fora and discussions, NGOs were able to create awareness of the demands of citizens on the government. This is an example of aid opening up political space to allow citizens to participate in the search for better governance and ultimately better lives for all.

Aid to Sub-Saharan African countries has benefited women's organisations. Putting gender on the development agenda has seen the empowerment of women and women's groups throughout Africa. Sometimes it is argued that these gains are superficial because the condition of women has worsened in the last 20 years in Africa. While this might be true, it does not detract from the fact that non-partisan political gains of women in Africa in relation to their recognition in laws and the repeal of discriminatory legislation are visible.[33]

Unfortunately, governments have tended to treat NGOs as enemies and have therefore not engaged them adequately for civic empowerment. At the local level, CSOs play a crucial role in the governance push and aid pull phenomenon. As Hearn puts it:

> *'The terrain of civil society is treated like a battle ground, an arena of confrontation between CSOs loyal to the government and "democratic" CSOs (often donor-funded), in which there will be no winners and losers. In a sense, civil society is a realm of capture for either the government or donors.'*

Organising successful reform and empowerment processes that transform society gives rural women

Box 6 Benefits of the governance and aid agenda

Some beneficiaries of the Governance and Aid agenda are the struggles for:

- Gender equity
- Environmental preservation
- Civil Society Organisation
- Human Rights and
- against Racism in Africa.

Interviews, ZWRCN (2001)

***Box 7 Areas of successful utilisation of aid by CSOs*:**

- National briefing seminars – providing information, strengthening relationships and developing positive attitudes.
- Local radio programmes – informing and giving voice to people's concerns.
- Local newspaper projects – for reaching un-reached groups and providing them with diverse views.
- Action against corruption – watchdogs of transparency through NGOs.
- Protection of human rights – support to the police, courts and correctional facilities. To produce fair and just adjudication. Support for independent judiciary – i.e. from interference by the State or any others.

(Osborne, 1993)

greater visibility and inculcates gender equity. This has been possible mostly through external aid. Examples can be found in Uganda's Literacy and Basic Education programmes (LABE) where an NGO was assisted to partner the government.

> *'… to promote literacy and basic education choices for women and men in Uganda by working through and strengthening innovative community initiatives'.*

Aid to the decentralisation process has improved participation of grassroots organisations and NGOs such as LABE. Its spin-off effects created an agenda for civil society and heightened the role of NGOs in the provision of social services and advocacy.

Under the current aid regime, emphasis is more on macro than micro-level structures: issues such as Balance of Payments (BOP), macroeconomic policy adjustment (fiscal, monetary, institutional, inflation, etc), from which the people at the grassroots do not directly benefit. Donors are also attracted to large macro-level projects, as they are easier to monitor.[34] Consequently, problems affecting citizens living in poverty are not addressed.

In addition, there is no real leadership in relation to governance and aid. Southern countries and organisations act alone, and in desperation, to obtain much-needed financial assistance from the traditional sources in the North. There are also a wide variety of opinions regarding the political conditionalities of aid among them. This makes it even more difficult for African countries to form a critical mass to reject the conditionalities or formulate strategies of negotiation within countries and across regions. CSOs and governments vie for aid resources from compromised positions, where donors can exploit the gap and dictate the terms of disbursement.

African leadership needs to review decision-making processes to ensure that the participation needs of the people are met. Where people participate they enrich the framework of decision-making. With adequate momentum such people-focus will overcome some conditionalities of aid and ensure that resources are used in a responsive manner. Thus, rich ideas from each country need to be crystallised and purposefully supported in Africa, for meaningful negotiations with aid donors.

CSOs have played a significant role in contributing to good governance in Africa through their participation in the governance structures and as intermediaries for grassroots participation. There is a need for improved ownership, leadership and negotiation for appropriate development plans and programmes, and improvements in governance in aid recipient countries. While generally acknowledging that aid has not been successful in curbing the spate of 'bad governance' in many African countries, the blame is on both the donors and the recipient countries.

The PRSP policy framework

With persistent pressure for change growing, as the world entered the 21st century, poverty reduction became the new focus for IMF/World Bank lending programmes. This approach, built on the principles of the Comprehensive Development Framework, implied that countries would design their own development strategies focused on poverty reduction as well as compile a Poverty Reduction Strategy Paper (PRSP). In principle, PRSPs were a) to be developed in a participatory way, b) to be nationally owned and c) to lay out a policy framework and agenda for tackling poverty. In terms of their principal defining characteristics, PRSPs:

- Are summaries of comprehensive, long-term development plans drawn up in a participatory manner to reduce poverty, and including a diagnosis of the causes of poverty, prioritisation of public policies to reduce poverty, targets for selected intermediate output and outcome indicators, and monitoring and evaluation systems;
- Are a requirement for debt relief under the enhanced HIPC Debt Initiative when endorsed by the IMF and the WB Executive;
- Set out how money saved through debt relief and received from grants and soft loans will be spent on poverty reduction.

The key element of the new approach was the focus on poverty reduction in the administration of the Enhanced HIPC Initiative, which was to grant deeper and quicker debt relief as well as pave the way for new grants and soft loans for the HIPC countries. The Boards of the IMF and WB approve a country's PRSP before a lending programme is agreed. The Boards accept a PRSP on the basis of the coherence of the policy strategy, which is assessed in terms of its objectives and policy content. Further, the Boards review the extent of governments' consultations with civil society and how governance issues are addressed.

Impacts of PRSPs

The effectiveness of PRSPs is in question; to date the primary objective of the enhanced HIPC of granting deeper and quicker debt relief has not materialised. While PRSPs were intended to be instruments of poverty reduction and also to meet the development goals of recipient countries, it is clear that donors control the programmes. The PRSP envisaged a process led by Government and involving civil society and coordinated largely by donors who would provide budgetary support rather than fund projects. National actions and international cooperation and commitments would therefore facilitate the achievement of the various goals. Inequality has at the same time moved up the agenda, as its negative effects on growth and poverty reduction have been noted.

The failure of SAPs to reduce poverty was blamed, in part, on the lack of 'ownership' of the programmes by countries implementing them. It is probably for that reason that 'ownership' has now become an important part of the rhetoric surrounding the preparation of poverty reduction strategies. By 'country ownership', International Financial Institutions (IFIs) ordinarily refer to the commitment of governments to implementing the strategies. This is in contrast to the concept of ownership, which refers to the meaningful participation, and involvement of the people in the entire cycle of development, from policy design, through implementation, to monitoring.

In preparing the PRSP, governments are expected to show clearly the links between macro-economic policies and agreed international social development goals to be reached by 2015. The examination of eight intermediate PRSPs (Benin, Chad, Ghana, Kenya, Mozambique, Senegal, Tanzania and Zambia) and one full PRSP (Uganda) reveals significant differences in their quality. It also shows that the broad macro-economic objectives of the majority of the countries studied are inconsistent with the poverty reduction goals. One of the reasons for this inconsistency is the tension between the desire to provide debt relief quickly and the lack of a proper poverty reduction framework. Another reason for this disconnection is to be found in the unequal power relations between indebted countries and the Bretton Woods institutions that manage the HIPC process. Given the fact that the G-7 countries are largely responsible for the agenda of these institutions, G-7 governments are as much to blame for continuing to prescribe faulty diagnoses to indebted countries as the World Bank and the IMF themselves.

Thus, despite PRSPs, international efforts to eradicate poverty, particularly in Africa, still lack the critical aspect of ownership. Though the PRSP document is flagged as the people's programme and initiative, it is painfully obvious that the people seem to be a rubber stamp to endorse yet another development framework originating externally. The participation of government, private sector and civil society often becomes a smoke screen concealing the true external origins and identity of the document.

The PRSP is an innovation in internationally financed development initiatives, born out of a recognition of the inadequacy of previous initiatives to address the core problem of poverty, given that people living in poverty had not been part of the process to address it.

Participation is defined as 'a process through which stakeholders influence and share control over development initiatives and over the decisions and resources which affect them'.[35] Stakeholders here include those directly affected, for example the poor, and those indirectly affected, for example debtor Governments at national and local levels, NGOs, private sector organisations, and donors. However, other elements that need to feature prominently are dual accountability, trust, mutual respect and confidence; transparency, equal power relations and access to information; dialogue and setting of common goals.

The Experience of Tanzania and Uganda

In essence, PRSPs are meant to be country-driven, prepared and developed transparently with the broad participation of civil society. This is intended to allow for identification of local priorities and needs and making choices based on thorough debates, dialogue and consensus building. In practice, however, effective decision-making, veto power and the 'seal of approval' still remain with the IFIs who dictate what PRSPs should contain. Moreover, because HIPCs want debt relief and future concessional loans as soon as possible, they are compelled to make sure the strategies meet IMF and WB expectations, which are usually communicated to them in advance. Meeting those expectations becomes the primary objective, a fact that tends to undermine the credibility of the PRSPs as country-owned development frameworks.

One of the main features of the enhanced HIPC is the mandatory requirement of eligible countries to prepare a PRSP. Most African countries have for a long time drawn up their own homegrown Poverty Reduction Strategies (PRS) as long-term planning tools based on local priorities and aspirations. Tanzania produced a PRSP in spite of the fact that it already had several policy-planning documents aimed at poverty eradication. These included:

- Vision 2025 – a national vision of economic and social objectives to be attained by the year 2025
- National Poverty Eradication Strategy (NPES) – a national strategy and objectives for poverty eradication efforts by year 2010
- Tanzania Assistance Strategy (TAS) – a medium-term national strategy of economic and social development, encompassing joint efforts of Government and the international community.

Tanzania developed its PRSP through broad consultation with national and international stakeholders, in relation to the enhanced HIPC Initiative, both as a condition for accessing debt relief and as an accountability tool for using debt relief savings.

In Uganda the government's economic programme has focused on poverty reduction through economic growth and through increased and more efficient delivery of public services through decentralisation. The main guiding policy and planning document is the Poverty Eradication Action Plan (PEAP) formulated in 1997 and which, after substantial revision in 2000, became Uganda's comprehensive development framework.

Poverty reduction strategies embedded in Uganda's PEAP include the reduction of the incidence of absolute poverty to 10% by 2017. In 2000, 35% of Ugandans were living below the poverty line, a significant reduction from the 1997 level of 44% and 56% in 1992.

The main objectives of PEAP are to create a framework for economic growth that ensures good governance, improvements in economic security and quality of life of people living in poverty. In terms of the IMF and the WB, a summary of the revised PEAP is also the full PRSP for Uganda.

Through PSPSs, locally owned processes for planning and accountability are subordinated to externally driven initiatives that add little value for recipient countries, while offering donors an extra layer of control. While PRSPs ostensibly offer a window of opportunity for civil society participation, they add a major burden to already stretched national authorities in countries that already have poverty strategies. Where capacity is lacking, insistence on rigorous participation and ownership can slow down, rather than enhance, debt relief and the grants and loan-contracting processes. Consequently, many governments resort to consulting, rather than requiring civil society to participate in the preparation of the PRSPs. In most cases the speed with which 'interim' and 'full-scale' PRSPs have to be developed militates against meaningful participation. Meetings are held with little notice and no time to review, internalise or own the documents, thus denying effective input from civil society.

It is for the above reasons that CSOs have taken the position that the HIPC debt relief should not be conditional on the preparation, let alone endorsement of the PRSPs. The two should be de-linked.

Properly done, participation by, and consultation with, civil society would be mutually beneficial. It has the distinct potential to increase civil society's awareness of the initial plans and strategies of government. At the same time, it can also help draw the attention of government to priorities of impoverished communities. In this way, consultation with civil society can change the allocation of resources in favour of those living in greatest poverty. While participation is a legitimate demand, it does not always guarantee consensus on the priorities of people living in poverty, except for such broad poverty reduction goals as improved education, improved health care services for all and, in general, sustainable economic growth and increased incomes. In many ways, Uganda's PEAP reflects the consensus reached during the preparation of the document.

The requirement of WB/IMF endorsement of PRSPs has been seen in some circles as amounting to a veto on national approaches to development. It has been long acknowledged that foreign 'owned' frameworks have not achieved much by way of poverty alleviation in the past two decades. What is critical is for the countries affected to pursue strategies that are free of pressure from donors (such as The Lagos Plan of Action, African Alternatives to SAPs etc).

The development of Uganda's PEAP, unlike that of the PRSP, was inclusive and civil society was consulted widely. Most of the civil society recommendations were incorporated into the final PEAP report and helped to build a consensus around poverty eradication as a priority issue. This consensus between government, civil society and donors did not exist before. Under the Uganda PEAP, the bulk of the government budget was to be focused on poverty eradication and maintaining high levels of economic growth – assessed in terms of its effects in reducing poverty. Expenditures for the Priority Poverty Areas (PPAs) would be ring-fenced to protect them from routine budgetary cuts or diversion of funds when emergencies or unexpected expenditures occur.

However, Ugandan CSOs were excluded from the discussions that turned the PEAP into the PRSP; even the language used in the two documents was changed to suit the IMF/WB. The few meetings that took place between the IMF/WB missions and CSOs were like verification meetings to find out the level of civil society participation and the quality of inputs.

Tanzania's case is also an interesting one. One of the crucial points presented by Tanzania to the Consultative Group meeting with donors in May 2000 was that the debt relief expected from the World Bank, IMF and Paris Club creditors would not be sufficient to make a significant impact on growth and poverty reduction. It was clearly indicated that Tanzania would continue to ask for further debt cancellation.

The debt sustainability analysis (DSA) for Tanzania indicated that its external debt to export ratio was 397.1%. Even after full application of traditional debt relief mechanisms, Tanzania's external debt position would be 324.4% of exports, far in excess of the sustainable ratio of 150%. Even with enhanced HIPC, the debt burden indicator would be at 175% by 2002/03.The debt will become sustainable only if there is additional debt relief from multilateral development banks, the Paris Club and other bilateral creditors. Decisions by many bilateral creditors are still pending, and there is little hope that bilateral non-Paris Club creditors will participate fully in the initiative.

Box 8 An example of CSO participation in Uganda

Civil Society Participation in the PEAP

In 1999, the Uganda Government decided to revise the Poverty Eradication Action Plan (PEAP). It opened up the process widely and allowed CSOs to participate. In January 2000, CSOs organised a consultative meeting with the government and World Bank officials, which was attended by more than 45 CSOs. A Civil Society Task Force, composed of international and national NGOs, was formed to organise an all-inclusive consultation process, involving as many sections of Ugandan civil society as possible.

CSOs set up their own technical team to speed up consultations with ministry officials. This step proved decisive in raising the profile of the CSOs and accelerating the pace of their participation. CSOs mobilised their constituents and solicited their inputs into the PEAP. The Task Force held wide consultations with people at grassroots to collect their views on poverty reduction. Extensive use was made of radio and television, where government officials were invited to respond to queries and to explain the PRSP process.

The Task Force organised consultations with special interest groups, including environmental groups, trade unions, students' associations, farmers' groups, people with disabilities, women, youth, religious and community leaders. Significant inputs from civil society were incorporated into the final draft.

The Uganda experience shows that government commitment to such consultations is essential. In spite of the strict guidelines that compel governments to involve civil society in PRSP formulation, most African governments are not yet ready to accept CSOs as serious stakeholders in policy planning.

(In the case of Uganda, the debt stock declined slightly under the HIPC initiative, from US$3.54 billion as at March 2000 to about US$3.1 billion during the second half of 2000. Bt June 2001, it was back up to US$ 3.57 billion, due to new borrowings and disbursements received through the PEAP/PRSP. In addition, arrears of interest continued to accumulate on the non-OECD credits, which are not serviced as per the debt strategy and the HIPC conditionalities. Uganda's debt sustainability, therefore, hangs in the balance as the debt burden is destined to increase. What is important is to ensure that the aid grants and loans are effectively utilised to improve the country's debt sustainability.)

The macroeconomic gains that countries such as Uganda and Tanzania are continuing to register at the national level are not reflective of the realities on the ground, where poverty is still widely and deeply felt. The following points are worth noting in relation to PRSPs:

- The Poverty Reduction Growth Facility (PRGF), a form of conditionality, has a major bearing on the success or failure of PRSPs.
- It has not been possible to trace and track down the actual *amount* of debt relief savings used at a sectoral level, thus making it difficult to measure its *impact*.
- The registered increase in the quantity of funds allocated to social sectors is not reflected in the quality of social services delivered.
- The gap in financing PRSPs is directly and in directly affecting the implementation of the planned action in alleviating poverty.
- The use of loans to finance PRSPs is not the best strategy at this moment when Tanzania is still struggling to deal with the current debt burden.
- The revision of both the enhanced HIPC package for Tanzania and the PRSP is necessary in order to realistically deal with poverty; but also for the sake of public accountability after the much raised expectations following the participatory preparation of this PRSP which is being implemented.

We are agreed that strategies are needed for poverty reduction but they should be owned by the countries that are going to use them. Currently, PRSPs are 'needed' because without them, debtor countries cannot access debt relief according to the IMF and World Bank's HIPC lending procedures. Countries need strategies to help combat poverty; they do not need conditionalities like HIPC that *perpetuate* their poverty.

Macroeconomic measurements as indicators of economic growth have long since lost credibility among the impoverished people who constitute the majority of African populations. This is because, as mentioned earlier, an increase in GDP does not necessarily represent a reduction in poverty and increase in social capital. The answer to the 'poverty reduction' dilemma lies in the implementation of poverty reduction strategies formulated by developing countries in consultation with as many representative stakeholders as possible.

Debt relief must be de-linked from the PRSP process and a consensus/commitment reached by donors and recipients that resources freed through debt relief be directed towards social development. The exclusive role of monitoring poverty reduction programme performance should be given to a wider constituency, including civil society as well asthe World Bank, IMF and UN agencies

Policy observations

We can conclude that it is not a question of whether or not Africa needs aid; it is a question of what form this aid takes and what alternatives are available. We need as a continent to look at the process of accessing or receiving aid, the management of the process and the ultimate outcome.

We need to change the aid regime to a 'win-win' situation in which the giver and the recipient are satisfied and ultimately contribute to Africa's development. As Africans we need development aid and we need to define what we mean by our own development, set our own agenda and then give the donor countries our prescription.

If aid is to continue:

- Recipients should be part of the systems that govern aid.
- Aid recipients should be able to manage the processes of the aid regime.
- The issue of conditionalities and ownership should be addressed by the giver and the receiver being open to each other.
- For the sake of ownership, recipients should be involved in the proposals for development aid. The same should be done for the conditionalities.

We need a fresh start with all the participants in the process having an equal opportunity, notwithstanding the fact that the playing field is not level.

We also have to live within our means and be aware of the limitations and have these addressed, at the same time being mindful of our depleting resources and maximising our opportunities. Africa and Africans need to be more productive and use the resources more efficiently, by redirecting aid to development, concentrating on that which we can do best and having systems that are home-grown and sustainable. Sustainability also requires a balance between aid expenditures on productive and social sectors to secure long-term development sustainability of the social sectors and on the macro and consumptive levels.

How do we reduce Africa's dependence on aid? One way is by adhering to conditions that uphold traditional systems, patterns of governance and justice, respecting our cultural heritage and upholding the values of social capital. External influences should be compatible with citizens' aspirations.

Participation should mean that citizens are consulted on a regular basis, their voices heard in making policies and decisions that affect them. The process should encourage consensus to build a sense of belonging and ownership.

Assigning of roles and responsibilities to different parties in the public sector will help ensure that there is accountability and ownership of the process.

More emphasis is needed on micro–level issues, especially the improvement in the social sectors and poverty reduction. Improved governance and management of aid within governance and civil society organisations will mean there is efficient use of resources.

Competence and a good understanding of the conditions and conditionality put forward by donors will enable recipients to reject what they see as damaging.

Africa

A well-versed consortium of aid recipients is needed to lobby and push forward a collective agenda and common position on external aid. This consortium should have the capacity to negotiate for resources and get more appropriate responses from donor agencies for better conditions that will address the strategic needs of the peoples of the recipient countries. They should also go with the demand for civil and political rights to public goods and services, and rights and freedoms. Attention should also be paid to other aspects of poverty that do not necessarily depend on economic growth. This would go with the ability of recipient governments to initiate programmes that are pro-poor and of CSOs to intensify the role of safeguarding the citizens.

Donors are called upon to be consistent in applying conditionality for aid; the current inconsistencies make them suspect and expose their socio-economic and political strategic interests, which in most cases are to their own benefit.

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Notes

1 Why Aid? The Pearson Report.in 1969.

2 *African Recovery at the Millenium*, p xxvi.

3 DAC Report 1999.

4 WTO advocates the liberalisation of the world economy without exception.

5 These measures include quantitative restrictions, the imposition of customs barriers on imports, etc, and constitute a form of protectionism in relation to their economies

6 See UNCTAD (1999) Trade and Development Report 1999, p11.

7 See Brighenti, 2000:26.

8 See Mende, 1974:87.

9 See Hanlon J, 1991a:43.

10 See Claus (1992:29).

11 See governance and aid discussion in the next chapter below.

12 Rodolfo interview on 2 May 2000.

13 The monopolistic tendency arising from conditionality allows for the setting of high prices in the donor country, compared to those acquired in other markets. Thus, the recipient country is obliged to purchase the goods or services in reference often at higher prices than on the international market.

14 The Third UN Conference on LDCs, Brussels 14-20 may, 2001. UN Genral Assembly document A/CONF.191/11.

15 Mengisteab K. & Loga B.I. 'Africa's Debt Crisis: Are Structural Adjustment Programmes Relevant?' Africa Development Volume XVI No 1 1991.

16 Joseph Hanlon, 'New official data shows Mozambique gains little or nothing from debt relief ', Jubilee 2000 Coalition, 4 June 1998.

17 Under the enhanced HIPC framework, the present value of debt is to be reduced to a maximum of 150 of exports (as compared with a range of 200-250% under the original HIPC) and 250% of government revenue (previously 280%). The amount of debt relief to be delivered is determined at the decision point, based on actual data.

18 The HIPC Initiative: A Human Rights assessment of the PRSP, 57th Session Agenda Item No. 10 of the provisional Agenda.

19 UNCTAD LDC Report 2000 page 123.

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32 From 'A Project Portfolio', Osborne, D. 1993 *Action for Better Government: A role for donors* IDS Bulletin Vol. 24 No 1 January 1993.

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34 As an example, under the Zambian Public Sector Reform Programmes, amounts spent on revamping the Ministry of Health Headquarters in 1999 could have been used to bolster the nutritional status of one third of the population. Similarly the spending on defence could have been better invested into the local authorities' health and education sector.

Asia

Part III
Asia

Post-crash flows fail to ease the human toll

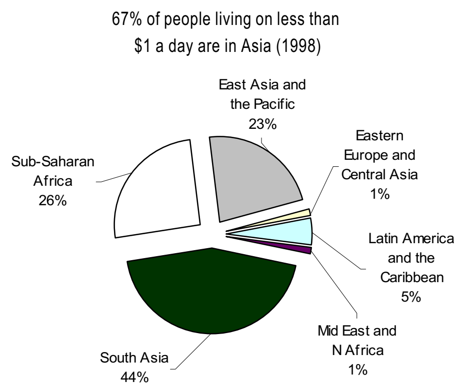
Antonio Tujan Jr, IBON

Despite all the hype regarding the so-called Tiger economies and the economic boom in Asia, the great majority of people who live in poverty live in Asia. More than 67% of humanity living on less than US$1 a day can be found in Asia's urban slums and rural villages (see Graph 1).[1]

This is not a matter of a much larger population resulting in higher absolute figures. Poverty ratios are also relatively high in Asia – south Asia is comparable to Africa's ratios, which are the highest in the world.

In this sense, the need for development cooperation in Asia remains urgent and substantial. This need has not abated with Asia's much-touted successful experiment with the neoliberal development model.

Graph 1. Proportion of people living in poverty



Asia's low and middle-income countries did not benefit substantially from this strategy, or from all the promotions regarding tiger economies.

Net private capital flows to East Asia's low and middle-income countries increased by only 3.6 times from 1990 to 1998, and 3.4 times for South Asia's, compared with 10.2 times for Latin America and the Caribbean's. Foreign direct investment increased only 5.8 and 7.9 times respectively, compared with 8.5 for Latin America's (see Table 2)

But thanks mainly to speculative financial flows, this model led to the financial crash in 1997, resulting in increased economic vulnerability and a greater need for development assistance, especially for the affected Southeast Asian countries. Due partly to this problem, debt rose 2.4 times for East Asia's low and middle-income countries, whereas it rose only 1.6 times for Latin America's.

World leader in aid receipts

It is not surprising, therefore, that in 2000, Asia received a substantial proportion of global ODA, second only to Africa. According to OECD DAC figures, East Asia received almost US$6.2 billion and South and Central Asia received US$3.3 billion in 2000. The total for the Asia region is therefore US$ 9.5 billion or 35% of aid allocable by region compared to almost US$9.78 billion for Africa or 36% of aid (see Graph 2**).**

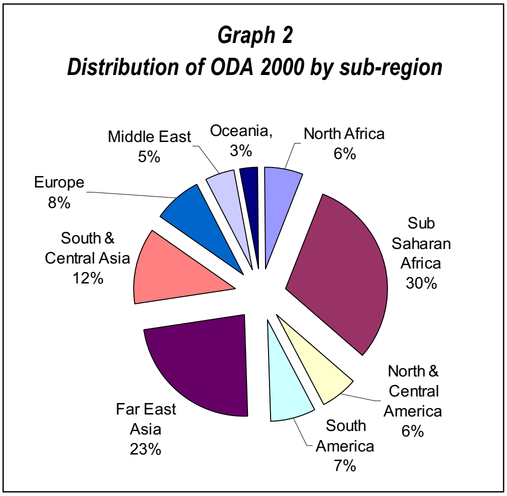
Asia

Table 2. Aid & Financial Flows (US$ millions)

	Net Private Capital Flows		*Foreign Direct Investment*		*Overseas External Debt*		*Dev't Assistance*	
	1990	*1998*	*1990*	*1998*	*1990*	*1998*	*1991*	*1998*
NIEs								
Hong Kong, China	8,107	42,676	3,487	43,751	55,301	154,599	34	na
Korea, Rep. Of	1,056	7,644	788	5,415	34,986	139,097	64	(50)
Singapore	-	-	5,575	7,218	-	-	-	16x
EAST ASIA								
Korea, DPR	1,056	7,644	788	5,415	34,986	139,097	8	109
Mongolia	*28*	7	*2*	19	*350*	739	18	203
PRC China, People's Rep. Of	8,107	42,676	3,487	43,751	55,301	154,599	2,166	2,359
SOUTHEAST ASIA								
Brunei Darussalam	na	na	na	na	na	na	-	4x
Cambodia	-	118	-	121	1,854	2,210	62	337
Indonesia	3,235	(3,759)	1,093	(356)	69,872	150,875	1,733	1,258
Lao PDR	6	46	6	46	1,768	2,437	161	281
Malaysia	769	8,295	2,333	5,000	15,328	44,773	459	202
Myanmar	153	153	161	70	4,695	5,680	167	59
Philippines	639	2,587	530	1,713	30,580	47,817	1,231	607
Thailand	4,399	7,825	2,444	6,941	28,165	86,172	738	690
Vietnam	16	832	16	1,200	23,270	22,359	218	1,163
SOUTH ASIA								
Afghanistan	na	na	na	na	na	na	521	154
Bangladesh	70	288	3	308	12,769	16,376	2,142	1,251
Bhutan	na	na	na	na	na	na	55	56
India	1,873	6,151	162	2,635	83,717	98,232	1,657	1,595
Maldives	na	na	na	na	na	na	28	25
Nepal	(8)	(1)	6	12	1,640	2,646	403	404
Pakistan	182	806	244	500	20,663	32,229	1,183	1,050
Sri Lanka	54	325	43	193	5,863	8,526	651	490
PACIFIC DMCs							567	798
Papua New Guinea	204	230	155	110	2,594	2,692		
South Asia	2,174	7,581	464	3,659	129,899	163,775	6,640	5,025
East Asia & the Pacific	18,720	67,249	11,135	64,162	274,071	667,522	5,460	8,036
Latin America & the Carribean	12,412	126,854	8,188	69,323	475,867	786,019	na	4,370
Middle East & North Africa	369	9,223	2,458	5,054	183,205	208,059	na	4,806
Europe & Central Asia	7,649	53,342	1,051	24,350	220,428	480,539	na	-
Sub-Saharan Africa	1,283	3,452	834	4,364	176,873	230,132	na	12,732

Source: World Bank World Dev't Report 2000/2001; United Nations data from various reports

x - indicates data that refers to years or periods other than those specified in the column heading, differ from the standard definition or refer to only part of a country.



IBRD and IDA loans and credits also favour East Asia with US$2.98 billion whereas Africa received US$2.16 billion in FY 1999-2000. If we include South Asia, both Asian regions received a total of one third of World Bank loans and credits (see Table 3).

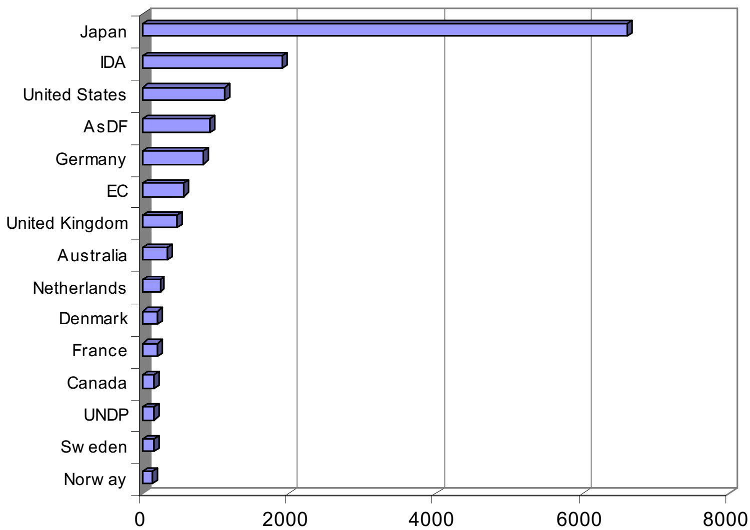
The reason for Asia's position as leading recipient of ODA is that it includes the three most populous countries, China, India and Indonesia, and they all belong to the low-income category. These three receive the bulk of development assistance to Asia and, as the tables show, are some of the world's leading ODA recipients. The same pattern also follows for ADB loans approvals, except that Philippines and Pakistan follow closely (See Table 4).

While China, India, Bangladesh and Indonesia, being the most populous low-income countries, dominate ODA recipients in Asia, Japan is the dominant donor to Asia (see Graph 3).

Increasing ODA goes against the flow

In spite of the overall pattern of a major fall in aid in the 1990s, from an average of 0.33% of GNP among DAC donors to 0.22%, Asia's share has increased in absolute terms in the ten-year span from 1989-1999. (See Table 5 and Graph 4). This is due mainly to increases in Japan's aid to Asian regions, compensating for slight increases or declines in aid from other DAC countries. However, there was overall a significant decline in per capita ODA allocations to most Asian recipient countries in 1998 compared to 1990. Substantial increases in ODA to China translate to a stagnant US$2 per capita, but this is large enough to boost up the otherwise declining trend in Asia.

Graph 3. Top 15 donors to Asia in 1999
US$ millions



Source: DAC website

Asia

Table 3. World Bank Cumulative Lending Operations by Borrower (amounts in US$millions)

	1990			*1999*		
	IBRD loans	*IDA credits*	*TOTAL*	*IBRD loans*	*IDA credits*	*TOTAL*
NIEs						
Korea, Rep. Of	7,154.0	110.8	7,264.8			-
Singapore	181.3	-	181.3			-
EAST ASIA						-
Korea, DPR	-	195.2	195.2			-
Mongolia	na	na	na		32.0	32.0
PRC						
China, People's Rep. Of	5,280.2	3,927.3	9,207.5	1,672.5	-	1,672.5
SOUTHEAST ASIA						
Brunei Darussalam	na	na	na			-
Cambodia	na	na	na		41.7	41.7
Indonesia	14,829.4	931.8	15,761.2	13.0	120.4	133.4
Lao PDR	-	195.2	195.2			-
Malaysia	-	23.9	23.9			-
Myanmar	33.4	804.0	837.4			-
Philippines	6,751.1	122.2	6,873.3	277.5		277.5
Thailand	4,186.6	125.1	4,311.7	400.0		400.0
Vietnam	-	60.0	60.0		285.7	285.7
SOUTH ASIA						
Afghanistan	-	230.1	230.1			-
Bangladesh	46.1	5,248.6	5,294.7		171.9	171.9
Bhutan	-	22.8	22.8		22.4	22.4
India	18,319.2	16,955.7	35,274.9	934.2	866.5	1,800.7
Maldives	-	23.9	23.9		17.6	17.6
Nepal	-	1,058.3	1,058.3		54.5	54.5
Pakistan	4,175.1	3,237.0	7,412.1			-
Sri Lanka	210.7	1,323.8	1,534.5		45.2	45.2
Africa	15,364.0	19,887.9	35,251.9	97.6	2,061.4	2,159.0
Asia	62,062.6	31,112.5	93,175.1	3429.5	1,661.9	5,091.4
Europe, Middle East &						-
North Africa	47,892.1	5,751.1	53,643.2	3493.3	468.9	3,962.2
Latin America						
& the Carribean	61,343.0	1,470.5	62,813.5	3898.1	165.3	4,063.4
TOTAL	186,661.7	58,222.0	244,883.7	10,918.5	4,357.5	15,276.0

Source: World Bank annural reports, various years

Table 4. Asian Development Bank Loans (amounts in US$millions)

	1990	*2000*
Afghanistan		
Azerbaijan		
Bangladesh	355.55	275.10
Bhutan	7.13	19.60
Cambodia		109.60
China	50	872.30
Cook Islands	4.9	
Fiji Islands		
Hong Kong, China		
India	716.8	1,330.00
Indonesia	938	800.00
Kazakhstan		45.00
Kiribati	1	
Korea, Rep. Of		
Kyrgyz Republic		61.00
Lao PDR	28	60.50
Malaysia	15	
Maldives		
Marshall Islands		6.82
Micronesia, Fed. States of		8.02
Mongolia		41.90
Myanmar		
Nauru		
Nepal	123.05	173.30
Pakistan	705	707.00
Papua New Guinea	18.9	45.54
Philippines	691	515.00
Samoa	0.5	10.50
Singapore		
Solomon Islands	4.7	10.00
Sri Lanka	196.4	234.70
Taipei, China		
Tajikistan		54.00
Thailand	113.8	
Tonga	2.4	
Turkmenistan		
Tuvalu		

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Asia

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Uzbekistan		177.00
Vanuatu		
Viet Nam		223.50
Regional		70.00
TOTAL	3,972.13	5,850.38
OCR Loans	2,491.65	4,258.00
ADF Loans	1,480.48	1,592.00
A. Gov't & Gov't Guaranteed Loans	3,712.62	5,694.00
B. Private Sector Loans	259.51	156.00
EQUITY INVESTMENT	139.08	78.00
TECHNICAL ASSISTANCE	95.00	172.00
COFINANCING	1,256.55	2,966.00

Source: Asian Development Bank, annual reports, various years

Consultation keeps out communities

ODA projects and programme loans have elicited much controversy in many Asian countries, particularly recently. Most prominent among these cases is the negative impact of ODA-funded projects, mostly infrastructure development projects such as dams, power plants and ports. A recent example is the Pampanga Delta Development Programme, funded by Japan ODA, which entails the construction of dams and other river development infrastructure but will inundate several towns along the Pampanga river.

Another example is the ADB-funded Theun Hinboun Hydropower Project in the Lao PDR, which is expected to harm the livelihood of 3000 families in 55 villages. Other similar cases include the Samut Prakarn Wastewater Treatment Project and the San Roque Multipurpose Dam, both of which will displace rural residents and jeopardise their livelihood.

All of these projects failed in fulfilling a key democratic prerequisite: conducting consultation and ensuring the full participation of all those affected in decision-making processes involving the project. This is especially important for those who will be adversely affected. Both governments and ODA donor institutions are responsible for the lack of consultation with the affected communities. This contrasts starkly with the drawn-out process of consultation with corporations involved in conceptualisation and preparing feasibility studies for these large infrastructure projects.

The negative impact of ODA-funded projects, the lack of community consultation and participation that could have prevented such impaired projects from being put on stream, and the contrasting participation and role of mostly donor country corporations in these projects point to the motivation for aid as a key issue. Asking whether the motivation is self interest or altruism, or whether ODA fulfils the need for development cooperation or corporate profit, leads to the question of the relationships behind aid.

The utter lack of democratic governance in the management of ODA-funded projects flies in the face of the increasing concern expressed by the World Bank, ADB and bilateral donors over corruption and governance issues, and their promotion of anti-corruption and good governance conditionalities in programme loans.

Conditioned partnership

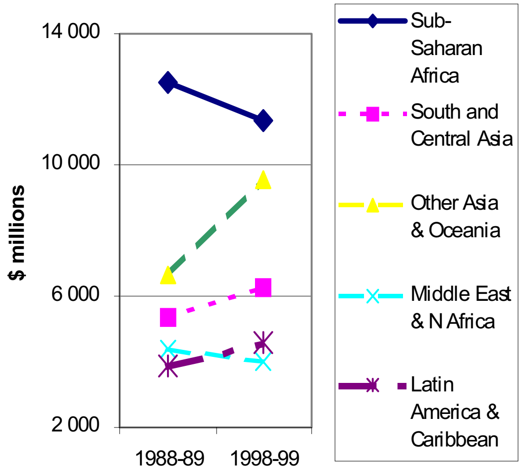
The issues regarding conditionalities constitute the other set of controversies regarding ODA. In a broad sense, conditions to aid can come in many forms. When donors decide which programmes and projects and sectors they are prepared to fund, and also determine the detailed funding mechanisms to be used, they are in effect making aid conditional through the use of selectivity. Countries can only access resources if they fit in with the parameters that the donors decide.

However, conditionality is commonly understood to mean using aid as a lever, as a set of conditions clearly imposed, to promote objectives set by the donor. These are conditions that the recipient would otherwise not agree to, besides ensuring that the money is spent in the way the donor intended. A dominant form is commercial conditionality, or tied aid, whether explicit or implicit, which conditions aid on the use of donor country goods and services.

Recently, the more controversial forms of conditionality are the structural adjustment conditionalities, which focus on the implementation of neoliberal prescriptions of globalisation, such as liberalisation, privatisation and deregulation. These are implemented through programme conditionalities, such as the liberalisation of whole sectors of the economy, or through project loans such as the privatisation of a parastatal that is subject to a project restructuring loan.

An example of this is the Power Sector Restructuring Programme loan by the ADB and the Japan Export Import Bank, which was conditional on the privatisation of the National Power Corporation of the Philippines.

Graph 4. Aid from all DAC donors to Asia and other regions over the last decade compared



Releases of US$300 million each from both donors were withheld in June 1999 with the failure of the scheduled passage of the privatisation law. The law to privatise the NPC was finally rushed through last May, after a total of US$950 million in programme and project loans had been withheld by the IMF and the ADB.

Table 5. Regional Distribution of ODA by DAC Donors (in US$ millions, two-year averages)

	Sub-Saharan Africa		**South and Central Asia**		**Other Asia & Oceania**		**Middle East & N Africa**		**Latin America & Caribbean**	
	1988-89	*1998-99*	*1988-89*	*1998-99*	*1988-89*	*1998-99*	*1988-89*	*1998-99*	*1988-89*	*1998-99*
Australia	102	84	136	92	547	580	16	20	10	16
Canada	589	369	344	168	177	145	117	53	216	177
Japan	1 416	1 305	1 487	2 852	3 062	5 202	365	568	524	870
New Zealand	3	9	2	8	58	85	0	1	1	4
United States	969	1 418	764	813	406	640	2 302	1 212	1 145	816
TOTAL DAC	12 525	11 343	5 361	6 269	6 675	9 538	4 368	3 997	3 863	4 593
of which:										
EU Members	8 859	7 440	2 412	2 058	2 329	2 754	1 531	2 002	1 845	2 505

Source: OECD

Asia

Efforts to transform conditionality into a 'positive' instrument to improve or ensure the quality of aid – for example through gender equality and good governance conditionalities, or through the Poverty Reduction Strategy process – remain questionable due to their very approach to aid. Is aid merely an instrument of donors? And as such, can it be used, through conditionalities, primarily to achieve a purpose determined solely by donors, whether selfish or egalitarian?

Aid as an expression, and also a product, of partnership and cooperation among nations seeks to enhance the objective of such partnership for mutual benefit and equality. However, the inherent inequality in the aid relationship contrasts starkly with the objectives and principles of equal partnership that this relationship is meant to uphold and promote.

In such a situation, the system of shared goals and objectives expressed in the terms of an aid relationship easily gives way to contract terms and conditionalities imposed by the donor, accepted and often pre-empted by a penurious would-be recipient. Often, these conditionalities are the result of aid governance issues such as corruption and bad project management, donor-country corporate interests, whether in ODA-funded projects or in the recipient countries in general, and weak fiscal management. Nevertheless, conditionalities have become the norm in the unequal world of aid partnership and development cooperation.

Conditionality defeats the objectives of development cooperation because it enhances inequality in the aid relationship. In many cases it is contrary to the objectives of development for the recipient country and it abets the lack of accountability, undemocratic governance and even corruption. Criticism of conditionality is commonly focused on content, such as tied aid, neoliberal restructuring, and fiscal reform, and its negative impact on recipient countries and peoples. However, the decisive factor in reform lies in the *process* of aid relationships rather than choosing between positive or negative conditionalities.

Several initiatives can be undertaken in reforming aid relationships, such as in the area of project development, monitoring and reporting and so on. While it may be impossible to remove conditionalities outright or in the short-term, the key element in reform is stakeholder consultation, especially with the marginalised sectors and those directly affected by projects, as a prerequisite for aid approval. Properly conducted, such consultation should allow criticism of development programmes and projects, prevent the implementation of failed ones and/or allow the revision and development of projects that are more acceptable to marginalised people.

The overall objective of such reform is achieving balance in an otherwise skewed power relationship in aid and in achieving stakeholder participation and government accountability in both donor and recipient countries. It is to be hoped that, in the process, conditions become transformed into commonly agreed goals and targets, initiated both by recipient and donor, which define the terms of equality and mutual benefit in the aid relationship.

Notes

1 1998 data from World Bank PovertyNet, see source www.worldbank.org/poverty/data/trends/income.html#table 1

Japanese ODA in Indonesia – a high price for poverty

Sugeng Bahagijo, International NGO Forum on Indonesia Development (INFID), Indonesia[1]

One of the interesting debates that surfaced from the Asian Crisis in 1997 was about the role and nature of foreign capital, either in the form of ODA or in the form of private capital.[2] Did ODA monies really help the recipient countries? Did ODA really generate the promised growth for recipient country economies, or only for donor country industries?

Even if countries with a heavy dose of ODA, with substantial capital and investment over three decades were able to generate a high level of growth and bridge the well-known saving-investment and foreign exchange gaps, how did this capital help them to withstand the external shocks of 1997?

With regard to Japanese aid, critics say that ODA loans are merely an instrument of foreign policy. Loans are also a mechanism for the promotion of exports of Japanese goods and services. Large portions of loans go to Japanese consultants and contractors. Japanese companies dominate in the construction of ports, dams, railroads, power plants, cement plants and other projects, profiting from low interest rates.

Critics have charged that despite the claim by Tokyo that its ODA in the 1990s was largely untied, Japanese firms won most contracts through informal tying techniques: the exclusive use of Japanese consultants for feasibility studies and providing engineering services, and the 'on-request' basis of aid/loan project identification. Japanese domination of consulting and engineering works creates an incentive to design projects that specify materials and equipment that can be supplied by friendly firms. The 'on-request' procedures enable Japanese firms to propose projects that are beneficial to their business interests.

In the case of Indonesia, the evidence tends to support the claims of the critics. In theory, Japanese bilateral aid is composed of untied and tied aid. In reality, both of them are tied. The ODA/Yen loan is significantly tied to the procurement of Japan goods/services, while the 'untied' aid is conditional upon policy reforms laid out in IMF letter of intent.

Trends in bilateral lending

Japan is the largest bilateral donor to Indonesia; around three-quarters of external financing comes from Japan. Indonesia is the top priority for Japanese ODA and receives more than 50% of its assistance from Japan.[3] As of 2001, Indonesia bilateral loans (yen loans, technical assistance and grant aid) from Japan stood at US$25.8 billion. Outside the ODA/Yen loans, the other external financing from Japan was export credit valued at US$47.4 million, loans from financial institutions, which amounted to US$634 million, and suppliers' credit, which amounted to US$1.2 billion.[4]

As a bilateral donor,[5] Japan also sits as a key member in the CGI (Consultative Group for Indonesia), a donor/creditor forum led by the World Bank that meets annually and pledges new or extended loans commitments.[6] On average, CGI annual pledge/loan commitments were around US$4 - 5 billion. On average, Indonesia approved about US$36 billion worth of Japanese non-oil investment between 1967 and 2000 (ICG, 2000).

Asia

The ODA loans were composed of several types: Project loans, Engineering Services, Financial Intermediary Loans, Structural Adjustment Loans, Commodity Loans, and Sector Programme Loans. In general there are three types of Japanese ODA in Indonesia: Yen loans (by OECF/JBIC), technical assistance (by JICA), and grant aid (JICA).

From 1992-1997, more than 75% of Japan ODA to Indonesia was in the form of Yen Loan/ODA Loans (project loans, commodity loans, etc), as opposed to grant aid and technical assistance. Meaning that, most of the proceeds went to finance the provision/procurement of capital-intensive equipment, industrial and agricultural machinery, raw material, fertiliser and pesticides, civil works, consulting services and other project needs

In dealing with the Asian crisis, Japan took several policy measures for Indonesia: (i) support for the facilitation of trade finance (a two-step loan by Exim Japan, utilisation of trade credit insurance, restructuring support loans); (ii) support for private debt resolutions; (iii) support for Indonesia's structural reform efforts.

In January 1998, OECF committed to 19 new projects valued at 195,248 million yen. The largest projects are power plants, road improvements, transmission lines (electricity), flood control, rural areas development and irrigation projects. Of the 19 projects, the JICA handled the master plans and feasibility studies of 11 projects.

In cumulative terms, in the 32 years between 1967 to 1999, Indonesia received 18.6% of total Japanese ODA loans, or 3,432 billion yen (around US$34 billion). In FY 1998, Indonesia received 19.7% of the total ODA loans, compared to18.6% in 1997, 14.9% in 1996, and 18.8% in 1995.

As of December 1998, the total ODA loans from Japan to Indonesia was 587 commitments, valued at 3,265 billion yen. This was part of the loan extended in line with Japanese government policy for 'Support Measures for Asia', announced in April 1998.

In 1999, under the NMI (*New Miyazawa Initiative*), Japan committed to channel funds amounting to y2.4 billion, composed of the following:

1 Power Sector Restructuring Programme (y400 million. managed by JEXIM);
2 Extended Fund facility (complement to IMF loans, valued at y1 billion. managed by JEXIM);
3 Policy Reforms Support (valued at y100 million, managed by JEXIM);
4 Health and Nutrition loans (y300 million, managed by OECF);
5 Social Safety Net Loan (y300 million, managed by OECF);
6 (1) Social Safety Net Programme (300 million, by OECF)

The entire bilateral loan under NMI was said to 'support the government of Indonesia in its reform efforts'. Specifically, the Policy Reform Support Loan II statement (January 2000), said that the loan was designed to promote macroeconomic stabilisation, financial and corporate sector reforms, and other economic structural adjustment efforts, 'all of which are significantly needed to overcome the country's economic hardship'.

Terms, conditions and tying aid to company interests

ODA loans vary in their grant element – the degree of concessionality related to interest rates, grace periods and repayment periods. Japan is slowly accommodating its critics by increasing the grant element and grant aid components of its ODA, as Table 6 shows. However, Japan's aid remains less concessional than the DAC average

Table 6. Grant components of Japanese ODA (%)

Year	*Grant element*		*Grant aid*	
	Japan	*DAC*	*Japan*	*DAC*
1977	70	89	38	72
1987	75	90	47	78

Decision-making regarding Japanese ODA loans resides with different authorities. The volume and country priorities for ODA/yen loans are decided by

MOFA (Minister of Foreign affairs), MOF (Minister of Finance) and the ruling politicians. JICA and OECF (JBIC), as implementing agencies, are actively involved in the preparation and decision-making process. At the operational level, MOFA and the Japanese Embassy, as well as JBIC/OECF and the JICA office in recipient countries are active in loan discussions and negotiations (see Hanabusa, 1991).

In Indonesia, every year, Bappenas (the National Development Planning Agency), headed by senior economic/planning ministers and line ministries (public works, communications, home affairs, etc) compose a collection of projects called the Blue Book. This contains dozens to hundreds of development projects across Indonesia. Bappenas claims that this book arises from the proposals and needs of local government and line ministries. It is an official document that provides the reference point for discussion between the Government of Indonesia (GOI) and JBIC/OECF/the Japanese Embassy in Jakarta.

Under Soeharto, he and Bappenas were the sole agencies determining the final projects for the final proposal to the OECF/Japanese Government. Once an informal and in-principle agreement was reached between GOI and the Japanese Government, OECF and JICA would start the design and preparation work to produce the final loan proposal, including the terms of conditions and other aspects. The DPR, the Indonesian parliament, would only agree to all the projects, once the Bappenas chairman (a senior ministerial post) had presented the annual government budget, together with the amount of external loan needed (Soeharto officially called it ‘development aid’, not ‘loans’).

On the basis of conditions attached to the procurement sources, ODA loans may be grouped into three types: generally untied, partially untied (also called LDC, or less developed country, untied), and tied. Generally untied allows bidding by all interested suppliers/contractors; partially tied aid allows only for suppliers from Japan/donor country; and tied aid requires that both supplier and bidders are from the donor country (Yanagihara and Emig, 1991).

Three related issues are relevant in looking at procurement conditions: tied aid, mixed credit and capital projects. Mixed credit is the practice of sweetening export financing with aid grants in order to promote exports or support certain industries. Japan puts more emphasis on capital projects – power, transportation, and telecommunication – that on other instruments.

All DAC members tie a proportion of aid to the procurement of domestic goods and services. Critics said that during 1960s and 1970s, Japanese government tied almost 100% of its aid to push export for MITI. Grant aid through JICA remains strictly tied, while project loans from OECF are generally-untied or LDC untied. Through OECF loans, Japanese firms outmanoeuvre their competitors from less developed-countries but Japan has responded to criticism about the level of its aid-tying and has untied more than 70% of its ODA. Since May 1988, OECF lending to Korea and Malaysia has become wholly untied; in 1990, OECF lending for engineering consultancies to Thailand, the Philippines, Brazil and PNG was generally untied (Bloch 1991). However, for Indonesia and China, Japan’s two largest yen loan recipients, Japan excludes the untying process (Bloch, 1991)

Regarding the nationalities of contractors, on a global basis, procurement from Japanese companies went down to 20.5% from 27% in 1997. On foreign currency-based procurement, 28.2% of procurement was from Japan, down from 40.8% in 1997, a drop attributed to the increase in commodity loans (from 5-11% to 29% in 1998) providing for emergency assistance after the Asian crisis.

Again, the situation in Indonesia is different. The JBIC/OECF report from 1996 to 1999,[7] shows that most of the procurement contracts arising from ODA/Yen loan projects in Indonesia continued to go to Japanese companies. Both for consulting works as well as for the contractors for civil works and equipment, a conservative estimate is that between 60-70% of contracts and funds went to Japanese companies.

Japanese *consulting companies,* including Pacific Consultants International, Nippon Koei, Nikken Consultants, Nippon Telecommunications Consulting and Newjec, were the principal consultants, from 1996-1998, on the largest projects in Indonesia, with values of more than 1-10 billion yen.

Meanwhile, Japanese contractors for *civil works and equipment,* such as Mitsubishi, Mitsui &Co, Sumitomo, were the winners of major construction contracts in Indonesia. All technical cooperation and grant aid, under JICA and OECF was tied aid.

Making matters worse – the role of the IMF

The IMF has been the most influential external lender in Indonesia. The IMF programme and assessments were used by other lenders and in the rescheduling process with the Paris Club. The IMF has also been the most intrusive lender – it has suspended aid four times since 1997, because of dissatisfaction with implementation of the programme (ICG, 2000). Independent analysts said that the IMF was part of the problem. In November 1997, it instructed the Indonesian government to close down 16 insolvent banks, without adequate preparations, resulting in the collapse of the entire financial system and forcing the government to recapitalise the banking system. For that purpose, the government started issuing bonds, generating roughly y80 billion in new domestic debt, incurring 12% interest annually. (Pettifor, 2001; Radelet, 2001).

Japan is a leading members both in the IMF and at CGI. It has argued for more tolerance of delay in implementing IMF programmes than the US government, but it does not want to see Indonesia abandon the IMF altogether (ICG, 2000). At the CGI, Japan has asked Indonesia to accelerate its reforms, including the governance reforms.

As part of the IMF emergency package for 1997, Japan pledged US$19 billion for Thailand, Korea and Indonesia. Since then, under the New Miyazawa Initiative, it has given untied loans, such as the Policy Reform Support Loans I and II, co-financed with the IMF, World Bank and ADB, and with policy conditionality laid out in the IMF letter of Intent.

The IMF approved a three-year Standby programme totaling US$10.14 billion in November 1997. It continued with an EEF programme up to 2002. In return, Indonesia agreed to implement a stabilisation and structural adjustment programme.

The conditions involved in this classic adjustment process were wide ranging:

1. *Fiscal sustainability* requires that the government should, among other measures:

   - remove VAT exemption
   - increase non-oil revenue
   - introduce single taxpayer registration numbers
   - raise profit transfers to the budget from state-owned enterprises, including from Pertamina (state oil company)
   - cancel 12 infrastructure projects
   - raise prices on sugar, wheat flour, corn, soybean and fishmeal
   - eliminate subsidies on sugar, wheat flour, corn, soybean and fishmeal
   - lift restriction on branching of foreign banks
   - eliminate all restrictions on bank lending except for prudential reasons or to support cooperative or small scale enterprises.

The fiscal programme also covered public debt reduction through lowering the budget deficit and cutting the subsidy on energy, raising taxes and maximising asset sales and revenue from privatisation.

Most of these measures were taken or underway by 1998.

2. *Financial sector* reforms covered monetary and banking programmes, such as:

   - establishment of IBRA (to manage the bad debt/NPL and asset recovery)
   - closure of 16 non-viable banks
   - provision of liquidity support to banks
   - compensation for small depositors
   - transfer of 54 weak banks to IBRA
   - signing by state banks of performance contracts, prepared by Ministry of Finance with World Bank assistance
   - drafting of legislation enabling state banks' privatisation.

Again, most of this programme was completed or underway by 1998.

3. *The Foreign trade programme* required the government to:
   - reduce by five percentage points the tariffs on items then subject to tariffs of 15-25%
   - cut tariffs on all food items to a maximum of 5%
   - abolish local contents
   - reduce tariffs on non-food agriculture products by five percentage points
   - abolish import restrictions on all new and used ships
   - reduce export taxes on leather, cork, ores and waste aluminum and other non-tariff barriers.

   Most of this programme was completed in 1998.

4. *Under the Investment and Deregulation* programme, Indonesia had to:

   - remove the 49% limit on foreign investment in listed companies
   - issue a revised and shortened list of activities closed to foreign investors
   - remove restrictions on foreign investment in palm oil plantations, in retail trade and in wholesale trade
   - dissolve restrictive marketing arrangements for cement, paper and plywood
   - eliminate price controls on cement
   - take effective action to allow free competition in importation of wheat, wheat flour, soybean and garlic, sale and distribution of flour and importation and marketing of sugar.

   All of this was done by 1998.

5. *The Privatisation* programme covered, inter alia, announcing:
   - Privatisation of seven enterprises in 1998/1999
   - Divestment of seven enterprises
   - Preparation of action plans for 164 public enterprises to be privatised
   - Moving oversight of public enterprise to the Ministry of Finance
   - Establishment a Privatisation Board.

Most of this got underway in 1998 and some measures were completed in 2000.

Conclusion

What are the results and achievements of ODA loans in Indonesia's economy? This paper does not answer these questions directly but I would like to address them briefly.

As a result of the 1997 crisis and its aftermath, at least 40 million people are living in extreme poverty. Two million Indonesian children will be 'lost generations' because of the 40% decline in social spending since 1997.

Indonesia has been the largest recipient of Japan's ODA loans since 1967. These loans have concentrated on infrastructure and industry, and have served foremost as a strategic instrument of Japan's economic and foreign policy interests. Both before and since the crisis, they have been characterised by high levels of tied aid. Moreover, ODA tied to IMF programmes in Indonesia has not answered the development need of Indonesia. Massive debt burdens caused by the IMF programme will not the help Indonesia's efforts to recover economically and reduce poverty. The 'fire sale' of Indonesian assets does not reduce poverty. Ongoing privatisation of 144-160 state-owned enterprises does not reduce poverty. Recent polls by the Indonesia newspaper *Media Indonesia*[8] of 482 respondents across major cities in Indonesia showed that more than 45% believed that the IMF did not help Indonesia, 29% said that the IMF did not help Indonesia at all to get out of the crisis, and 25% said that IMF did help Indonesia.

Indonesia will not benefit from recent DAC moves to untie aid to Least Developed Countries because Indonesia is not an LDC. But, as a result of the recent crisis, it is a severely indebted and low-income country. If Japan's cooperation is to make a more positive contribution, its loans need to address several key issues. These include the quality of aid and conditionality, as well as ownership. Revising inequitable procurement policies is a priority, to ensure that procurement outcomes produce broad-based growth and benefits, free from collusion, corruption and nepotism. In terms of Japan's bilateral yen loans, there should be an independent audit of the procurement results, independent assessment of its impact on the local economy and local industry and independent assessment of the IMF programme in Indonesia.

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Creating the conditions for economic collapse

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The rate and magnitude of international and financial crises, from Mexico, to East Asia, to Russia, Brazil and now Turkey and Argentina, clearly demonstrate that financial instability is global and systemic. And the threat posed by inherently debilitating financial flows is greatest for debtor developing countries with close integration into the global financial system. Their national policy efforts alone will not be sufficient to deal with the problem and institutions and mechanisms are needed at the global level to reduce the likelihood of such crises, and to better manage them when they do occur. To date, despite some initial momentum after the Asian crisis, efforts to come up with such international measures have not achieved significant progress. Instead, attention has shifted to making marginal reforms and incremental changes.

Consequently, the IFIs, have been urging – and where they can, imposing conditions on – these emerging economies, to undertake structural reforms and adopt certain 'necessary measures'. These include: agreed banking standards; transparency; good governance; prudential regulation of the financial sector; increased foreign reserves. The IFIs want these countries to reinforce their resilience against financial instability while at the same time insisting that they retain full capital convertibility and remain fully integrated into the global financial market. However, the bottom line is that once fully integrated through the liberalisation of the capital account, the scope for national policy to prevent instability remains severely curtailed. Good governance alone will not be able to deal with the kind of financial crises we have witnessed. Developing countries need to seek *strategic* integration rather than *full* integration into the international financial system. They need to establish mechanisms designed to regulate and control international capital flows, in order to reduce instability, while at the same time tapping international financial markets for trade and investment.

Blaming the victim

The focus by the IMF on good governance led to a proliferation of governance-related conditionalities in its loans to the crisis-stricken countries in East Asia. The IMF sees the root of the problem to be primarily in these emerging economies as opposed to the international financial system.

The steady increase in the number of conditionalities attached to IMF loans over the last three decades, especially under SAPs and ESAF (Enhanced Structural Adjustment Facility) is empirically documented and now well-recognised.[1] According to the IMF, the expansion of conditionalities was due to the institution's focus not on stability alone but growth as well. (The question is whether the Fund's current pre-occupation with poverty reduction, especially under its new Poverty Reduction and Growth Facility (PRGF), will lead to an augmentation of conditions as well).

This proliferation of conditions became particularly acute with the IMF packages to the Asian countries during the crisis. This also heralded the advent of the governance-related conditionalities.

The resounding failure of SAPs and ESAPs in many of the recipient countries and the demonstrable ineptitude of the IMF in dealing with the crisis-stricken countries, led to the institution's damnation both by NGOs and governments, which called among other things for a scaling back of funding conditionalities. Another concern is that far-reaching conditionalities have become strong disincentives for countries, delaying recourse to the IMF. Indiscriminate expansion of conditionalities could well send wrong signals and create a crisis of confidence.

The IMF appears to have taken stock of such criticisms, hence the move to 'streamline conditionalities'. However, the IMF's understanding of the nature and impact of conditionality is narrow:

'Conditionality [is] a mechanism that links financing and policies, as distinct from the design of those policies themselves.' [2]

It is clear that the IMF sees conditionalities as a technical issue, as a mechanism between financing and policies, and wants to centre discussion around this 'mechanism' rather than on the policies themselves. This dichotomy is spurious. It detracts attention from the root of the problem behind lack of ownership, which is often bad policies, and overlooks the preemptive role of conditionality in shaping 'acceptable' policy. While the IMF acknowledges its intention to influence policy, it is only concerned with those aspects of policy upon which funding is contingent, not with development of 'good', developmental policy:

The case against conditionality

Compliance with conditionalities has been low. Proliferation of conditionalities has exacerbated the non-compliance. As well as failing to achieve their stated goals, conditionalities have impacted negatively on governance. According to Joseph Stiglitz, in 1999:

'There is mounting evidence that conditionality has not been effective – good policies cannot be bought, at least in a sustainable way. Equally critically there is a concern that the way the changes were effected undermined democratic processes.'

Paul Collier, Director of the Development Research Group at the World Bank, goes further:

'The extension of the practice of conditionality from the occasional circumstances of crisis management to the continuous process of general economic policy making has implied a transfer of sovereignty which is not only unprecedented but is often dysfunctional.'

Collier adds that donor conditionality has 'low credibility' and 'was incredible since its inception', in three respects:

- The penalties inflicted by the conditionality regime "lacked moral legitimacy";
- The punishment was excessive relative to the "crime";
- The imposition of penalties was not in the financial interest of the donors.

Arguments for reform

The literature on reforming donor conditionality centres on four themes:

Ownership – ownership has an inverse relationship with conditionality. The greater the *sense* of ownership over the programme the lesser the need for conditionality. Genuine ownership is promoted by allowing greater flexibility over several stages of the policy process: formulation, implementation, monitoring, benchmarks, timing etc. However, the IFIs appear to see ownership as governments' willingness to abide by their programmes or, in the case of the IMF and World Bank, as the propensity to reform policy, rather than the degree of control governments have over the policy process. In trying to encourage ownership, the IMF allows greater policy options in non-critical areas. The other issue in ownership is the extent to which non-state actors are allowed to play a role. Again there is concern over the IFIs' approach, which sees such engagement with civil society as necessary to win the latter over rather than having a real policy dialogue.

Selectivity – the more discriminating donors are about the governments they are willing to support, the less need there is for explicit conditionality, because the selection criteria are tailored towards governments with 'acceptable' policy. The criteria include economic and non-economic factors, good policy environment according to the WB, past record of commitment to reforms and democratisation, and of late good governance. More radically some have suggested that conditionality be jettisoned altogether, extending aid only to those which satisfy the selection criteria.

Technical assistance – instead of imposing conditionalities on unwilling reformers, it is suggested that technical assistance be provided. Donors can then avoid the risk of 'throwing good money after bad' while remaining engaged. Technical assistance could also be used to prepare recipient countries for reform.

Retrospective conditionality – either in terms of i) policy reforms or ii) policy outcomes. In this scenario, the IFIs define the set of good policies and then reward countries that move towards them. In principle, this would presumably strengthen the incentive to good performance and reduce non-compliance. However this may create a temporary lending problem, since disbursement would be interrupted until countries built up the necessary performance record.

The danger here is that it may be applied in the same way in which prior actions were. Hence, no lending until certain structural reforms are in place. Current procedures already amount to a compromise between ex-ante and ex-post policy conditionality.

The other type of ex-post conditionality focuses on outcomes rather than manifest policy reforms. Here, governments should be allowed to be responsible for formulating policies as well as implementing them, based on objectives and end results agreed between donors and recipients. Aid is then allocated on the basis of periodic overall assessment of government achievements in the agreed outcomes, such as improved growth or poverty reduction rather than on the implementation of particular policy measures.

Good governance – how myths abound

Some, in particular the IFIs and industrialised countries, are drawing the wrong lessons from the Asian crisis. While it is recognised that volatile capital flows are extremely debilitating for developing countries, the root of the problem is seen by the IFIs to be primarily domestic, emanating from these countries themselves. This has resulted in the proliferation of 'good governance' conditionalities in the IMF programmes, such as the need for greater transparency, banking sector reforms and ending government cronyism. There are several myths that perpetuate this tendency to downplay the role of the global financial system.

Myth 1 There wasn't a clear and transparent picture of the real situation of these emerging economies, and hence it was not possible to assess the true risk.

In other words, the investors were cheated. Inadequate information is also seen as the major reason for the failure of multilateral financial institutions and rating agencies to forecast the East Asian crisis. This is grossly exaggerated. Although there were some gaps in information, data was generally available concerning key variables in the countries concerned, such as the balance of payments, short and longer term external debt and external assets, capital inflows, the exposure of banks and other financial firms to different sectors of economic activity. Thailand had been running a current account deficit for years before the crisis, and capital continued pouring into the country right till the eve of the collapse.

What was really missing was adequate *evaluation* by both multilateral financial institutions and market participants of available information. Such arguments indeed became quite hollow after the Russian crisis. Much of the increase in the external financial exposure to Russia took place during a period when information was widely available concerning the shortcomings of the Russian economy.

Myth 2 Too much government involvement led to corruption and misallocation.

The fault is not that the government misdirected credit. It is rather the government's lack of action, the fact that the government underestimated the importance of financial regulation. Stiglitz said "the heart of the current problem in most cases is not that government has done too much, but it had done too little".

It is increasingly heard in any analysis of the crisis, that one of the main causes was the imprudent and irresponsible borrowing pattern of the private sector in the crisis-stricken countries – taking short-term foreign loans for long-term economic activities that would not generate foreign currency, investing in real assets.

Somehow the fact that this only happened as a result of financial liberalisation is overlooked. It should be noted that financial policies have considerable influence on how much the private sector can borrow, at what terms and what they do with the money. The East Asian economies were being urged to follow Japan on a path of financial liberalisation, granting financial institutions more freedom in their borrowing and lending decisions, and introducing market-based monetary policy by loosening regulatory controls.

In Thailand, for instance, the government created the Bangkok International Banking Facility as an intermediary for foreign investment. In reality it served instead as a conduit for short-term foreign lending to the liberalised Thai banks and finance houses. Offshore borrowing was also encouraged by tax breaks.

Moreover, governments also broke with the historic practice of control over external borrowings and state guidance of private investment. For instance, Korea had always tapped external finance in its post-war industrialisation, primarily through borrowing from international banks, but this was subject to government approval and guarantee. In addition, policy always played a major role in coordinating private investment decisions in order to avoid excessive competition and excess capacity.

Abandoning this coordination, which Thailand did as well before the crisis, seems to be one of the main reasons for misallocation and over investment. The fact that the government relinquished control over the financial sector explains why the country became vulnerable to an external debt run and an attack on its currency. It proved fatal when corporations were allowed to raise money abroad without the traditional supervision and control, treating external and domestic debt as perfect substitutes. Domestic financial deregulation, together with capital account liberalisation, is therefore the real root of the asset bubble there.

Myth 3 Lack of effective prudential regulation and supervision of the banking system is a major reason for the crisis.

The truth is that the East Asian economies had started to improve their regulatory and supervision systems way before the crisis. The important point here is that mere adherence to banking standards is ineffectual in checking excessive build-up of risk and fragility in the financial sector.

Banking standards are designed to protect international banking systems and not developing countries. Furthermore, there is an asymmetry in the regulations. While exposure is regulated, there is no regulation restricting exit, such as a debt standstill, which could benefit both creditors as well as debtors.

Effective prudential standards in emerging markets do not necessarily protect them against currency and financial instability. Take Malaysia as an example. On the eve of the crisis, Malaysia’s non-performing loans (NPLs) were 2% of the total loans; the international ratio was 12% and the ratio of provisions to NPL was nearly 100%. The short-term debt of the Malaysian economy was also more than adequately covered by international reserves. Despite all that, the *ringgit* lost 30% of its value, equity prices collapsed, NPLs rose to 12% and the economy was headed for deep recession. Thus came the controls in September 1998, in order to allow monetary policy to support recovery rather than speculation against the currency.

Such regulations and adherence to such standards have their merits and ought to be encouraged. However it is dangerously naïve to think that regulation and standards alone will prevent financial instability.

Conclusion

The upshot of having drawn the wrong lessons from the crisis is that countries are discouraged and prevented from tampering with capital account convertibility. Hence, capital controls are frowned upon, in effect forcing countries to remain vulnerable to external shocks. In return, the IFIs’ solution of good governance, transparency, and better regulatory regimes has lead to a proliferation of punitive conditionalities. The bottom line is that once a developing country is fully integrated through the liberalisation of the capital account, the scope for national policy to prevent instability remains severely curtailed. Good governance is then not able to deal with the kind of financial crises we have witnessed.

The IMF has been under attack for the plethora of conditionalities in the Indonesian and Korean and Thai Letters of Intent. This has triggered a debate within that institution about its position on conditionalities. However, the IMF's recent behaviour in Turkey does not give us much to be hopeful about.

Good governance, as mentioned earlier, has emerged as a crucial part of the agenda of the IFIs. However this is highly problematic. Governance-related conditionalities are far more invasive of country sovereignty than earlier forms of conditionality. In a world of unequal nations, can governance-related conditionalities be applied equitably? The risk of unequal treatment of borrowers is increased by the vagueness that attaches to governance-related conditionalities, which forces the IFIs to apply a greater degree of judgment and discretion.

Governance-related conditionalities will inevitably increase the politicisation of the IFIs, although their articles of agreement contain provisions against the use of political considerations in lending[3] If the IFIs have always been vulnerable to the political pressures of their major shareholders, governance-related conditionalities open the door more widely. This can be seen in the cases of political pressure on Indonesia and Russia.

Such aberrations in analysis and prescriptions can only be explicated on the premise that the IFIs failed to appreciate the full ramifications of the crisis. Anne Krueger, the newly appointed first deputy managing director of the IMF, was quoted as saying that the Asian crisis was a small price to pay for the decades of growth. It is precisely this that is an indictment of the global system. That decades of growth can be so extensively undone in a matter of months is the real measure of the kind of devastation that developed countries and the IFIs fail to understand. It is not just about depreciating currencies and falling stock and asset prices. For many millions of Southeast Asians, it is simply and profoundly a matter of life and death.

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Trading national sovereignty – for debt

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Ask the average Filipino about aid, and he or she would say point-blank that aid, whether bilateral or multilateral, whether fulfilling specific requirements at a certain point in history, still has the same broad objectives: not to reduce poverty but to liberalise the Philippine economy and to make the Philippines politically friendly to the North – especially the U.S – and hostile to communism.

Filipinos have been exposed to the real concept of aid since the post-war era, long enough to know the overriding motives for aid giving. The Philippines received its first foreign aid and development assistance in the context of the post-world war economy and the US assertion of its hegemony in Asia.

Thanks to the war-surplus economy, the US assumed a commanding position from which to introduce a new international economic order based on the philosophy of the free market. It had to ram the philosophy down the throats of war-ravaged countries such as the Philippines. For instance, the granting of Philippine independence by the US was made conditional on the acceptance by the Philippines of the Bell Trade Act, which defined a policy of liberalised trade, open economy, and parity rights for American corporations.

The US war surplus was faced with the protectionist policies of some countries and the devastated economies of many others. In order to promote free market to these countries, the establishment of multilateral agencies was necessary. The thrust of the International Monetary Fund was originally to provide short-term loans to countries experiencing negative balance of payments, which eventually dictated the flow of international trade. With the US controlling 69% of the world's gold reserves, it maintained its trade surplus in the following decades. The thrust of the World Bank was originally to facilitate the flow of private and long-term investments in Western Europe, to help rebuild economies ruined by the war by providing loans for construction of roads, ports, and other infrastructure. By 1948-1949, the World Bank was already starting to extend so-called development loans to the 'Third World' and to introduce the concept of conditionality.

Through the standing policy of the IMF/World Bank to determine voting power by subscriptions, the US dominates and controls both institutions.

The formulation of US aid policy, which started during the early part of the 1940s, had the same end view of encouraging an economic atmosphere that would allow the free flow of foreign investments and perpetuate a colonial pattern of trade. Foreign aid assumed an increasingly important role in pursuing the US-imposed international system and in complementing the thrusts of the IMF/World Bank. Bilateral aid allowed the US both flexibility and an increased presence in the recipient country. Multilateral aid, especially if administered by the US-dominated multilateral institutions, allowed the US to pool and mobilise resources from other countries in the service of essentially US-directed programmes.

After its first bilateral aid programme, the Marshall Plan, conceived for the reconstruction of war-devastated Western Europe, the US institutionalised foreign aid. But towards the 1950s, major events in the region, although they did not change the nature of aid giving, substantially redirected it. The US initially demanded that Japan pay American allied countries, such as Indonesia, Burma, and the Philippines, the costs of rehabilitating their war-damaged economies. But when the success of Mao's Communist Party in China in 1949 and the Korean War in 1950 threatened US interests in Asia, the US transformed Japan into a junior partner in fighting communist expansion. It shifted its policy to one of war reparations, so that Japan would supply Japanese transport, construction, and other goods to the war-ravaged countries – which served to rehabilitate, not exactly those war-ravaged countries, but the economy and industries of Japan.

The US replaced the Technical Cooperation Agency with the Mutual Security Agency in 1951, in the same year that the pioneering USAID office was established in Manila. It was also the same year that the US convened the San Francisco Peace Treaty, part of which was the War Reparations Agreement, which made Japan give the Philippines US$800 million as war reparation, US$550 million in the form of donations of equipment and machinery, technical assistance, training and others, and the remaining US$250 million for loans to private businesses. That was technically the first ODA to the Philippines, long before the Development Assistance Committee of the OECD introduced the concept of ODA in 1969.

The war reparations programme with Japan would run for 20 years from 1956. Meanwhile, the Philippines continued receiving technical assistance, grants, and commodity assistance from other countries, particularly the US. This would shift to finance for agricultural, industrial and rural development programmes, but would coincide with the first IMF loan in 1955 and first World Bank loan in 1957, and would not be released until the Philippines undertook its first so-called stabilisation programme under the IMF.

Structural conditionality from the start

From the start, ODA has meant loans not grants, for which the average Filipino must ultimately pay. It has also meant being attached to programmes of multilateral and foreign commercial lending and following the dominant IMF programme at any given time. ODA therefore means programmes that are meant to restructure the Philippine economy to serve the interests of foreign and big local business. In particular, ODA promotes the liberalisation of trade and investments, especially for the transnational corporations of the donor country.

Aside from ODA being conditional upon major economic restructuring, it is also heavily tied to the recipient country having to procure equipment, machinery and other goods and use technical experts and consultancy firms of the donor country, thereby facilitating private business in the ODA project.

In the early 1970s, ODA was closely associated with the liberalisation of Philippine fisheries, as Japan became aggressive in solving the crisis of its own fisheries. Examples are the construction of the Navotas Fish Port and the passage of the Philippines-Japan Treaty on Amity, Trade and Commerce. Both of these liberalised commercial fisheries and opened the Philippines' territorial waters to Japanese fishing corporations.

ODA was also closely associated with Martial Law and the survival of the Marcos government. For instance in 1972, when Martial Law was declared, a conspicuous increase in US ODA was registered as disaster assistance but there was no disaster at that time that merited such a huge increase.

ODA was used in the counter-revolutionary programmes of the Marcos government. It was also used in corruption activities by Marcos cronies.

By 1976, the Philippines was among the 15 most heavily indebted countries in the world. The country entered the structural adjustment programme in 1979, when SAP was still at the experimental stage. The Philippines embraced the combined paradigms of liberalisation, privatisation, deregulation, and export promotion as its economic philosophy. The country's economic crises peaked in 1979, 1984, 1987 and 1989. Poverty was redefined in 1988, at a time when the Philippines government revalued the currency, making comparative analysis of poverty levels difficult. Income disparities remained fairly steady throughout this period, with the lowest-income 20% of the population sharing little over 5% of national wealth and the top 20% enjoying more than half the total national wealth.

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Table 7. ODA Loans Committed to the Philippines by Source
CY 1978-1988
(In US$ Million)

Source	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*
Multilateral	696	473	818	612	749	642	620	132	473	390.1	891.73
IBRD	561	273	695	295	541	369	333	104	151	342	505
ADB	120	192	123	301	176	273	287	28	322	43.5	380.23
IFAD	10	—	—	8	12	—	—	—	—	4.6	—
OPEC Fund	5	8	—	8	20	—	—	—	—	—	6.5
Bilateral	321	182	291	255	251	310	280	310	348.16	543.4	982.9
OECF	230	75	159	190	201	274	234	233	305.16	514	708
USAID	61	46	37	23	26	24	23	59	32	—	30
KFW	23	11	13	11	18	10	19	7	11	19.4	27.7
EEC	7	50	82	31	6	2	4	11	—	10	217.2
TOTAL	1017	655	1109	867	1000	952	900	442	821.16	933.5	1874.6

Source: National Economic and Development Authority (NEDA) Public Investment Staff. Loans comprise at least 90% of total ODA. The table refers to loans committed as opposed to those that are in the pipeline.

Among the trends the table shows:

- There was an almost 100% increase in ODA loans as soon as the Philippines entered the SAP, notably from the World Bank and the OECF.
- From 1978 until 1984, multilateral ODA was dominant. Increasing total foreign debt was a global trend, due particularly to overspending by governments. In the Philippines, foreign debt became behest loans or foreign debt that was channelled to Marcos cronies. There was an international debt crisis in 1983.
- In 1985, following the international debt crisis, multilateral ODA substantially decreased. In the Philippines, 1985 was the height of the political crisis. Again, there was another conspicuous increase in US ODA.
- 1986 was the start of the consistent increase in bilateral ODA, especially from the OECF and especially Japan.
- By 1987, bilateral ODA had overtaken multilateral ODA. In 1989, Japan achieved the highest ODA in the world.

ODA increased its share in relation to the Philippines' total foreign debt; the country received stabilisation loans from the IMF, while commercial creditors were reluctant because of the series of coup attempts against the Aquino government. In fact, there was a dramatic increase (608%) in ODA for the last five years of Marcos compared to the first five years of Aquino. (Since the beginning, 96% of multilateral ODA and 62% of bilateral ODA came as loans.)

ODA was instrumental in the intensification of the export-orientation of the economy. ODA money was used to prepare the country for foreign investments in the export sector. ODA was infused in regional development plans, in the establishment of economic zones and industrial enclaves, and so-called development projects that paved the way for foreign business.

ODA money was used to build ports, dams and irrigation systems, telecommunications, and power systems, and so-called development projects to prepare the economy for full liberalisation and privatisation.

Table 8. ODA Loans Committed to the Philippines By source, 1990-1995 (In US$ Million)

Source	***1990***	***1991***	***1992***	***1993***	***1994***	***1995***
Multilateral						
IBRD/WB	1008	648	654.3	428.3	448	168
ADB	311	609.7	352.6	370.4	—	708.2
Subtotal	1319	1257.7	1006.9	798.7	448	876.2
Bilateral						
JAPAN	818.79	1116.86	200.00	468.65	1128.05	1029.64
USA	21.00	15.00	20.00	20.00	15.00	
CANADA					15.40	
SOUTH KOREA		5.40				
EEC	2.70	0.43		53.10		143.72
Subtotal	842.49	1137.69	220.00	541.75	1158.45	1173.36
TOTAL	2161.49	2395.39	1226.90	1340.45	1606.45	2049.56

Source: NEDA Public Investment Staff

Debt by any other name…

In 1989, the energy sector got the bulk of ODA, followed by transportation, and the building of dams and irrigation systems. After a series of standby arrangements with the IMF, beginning in 1986, the Philippines entered its second SAP in 1989 and ODA took a more decisive role in financing.

The table shows that during the 1990s:

- Multilateral ODA continued to decline in the first half of the decade but bilateral ODA substantially increased, except in 1992/1993 when the Ramos government refused to re-negotiate with the IMF. (The Ramos government did negotiate with the IMF during that time but the IMF refused to continue negotiations unless the Ramos government would impose an oil levy. The Ramos government refused, considering that it had already passed six tax measures, solved the indebtedness of the Central Bank, and partially privatised the National Power Corporation. As a consequence, international creditors withheld their loans and the IMF engaged in financial blackmail against the Philippines. The Ramos government entered the third SAP in 1994.)
- By 1995, ODA recovered and loans increased by 63% compared to the level in 1992. More noticeably, bilateral ODA loans rose by 340%!
- Again, as in the previous decade, ODA loans accounted for 85% of total ODA committed.
- There was a sudden drop in ODA in 1996 due to many factors. Foremost of these was the speculation on the economy. In addition, the Philippine government went on a foreign borrowing rampage by availing cheap commercial loans, thus hitting the US$10 million debt ceiling.
- In 1996, the Philippine Congress passed the ODA Law, which re-classified ODA loans and excluded them from the foreign debt limit in order to 'facilitate the absorption and optimize the utilization of ODA resources'. By doing so, 'foreign borrowing' was kept within the debt ceiling, but more importantly, the Ramos government lifted the limits to ODA availment.
- In 1997, with the Asian financial crash, an increase in ODA loans was noted. ODA came mainly to the rescue of foreign banks and corporations.

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- In 1998, the Philippines entered another IMF stabilisation programme – the continuation of the unfinished and unimplemented conditionalities, which later on would be pushed through ODA loans.
- In 1999-2000, the country was again in political turmoil as the Philippine social movement ousted the Philippine president.

Thus, while the Ramos government was bragging about an 'exit programme' with the IMF, starting in 1994 to 1997, and while the IMF was declaring the Philippines as having become a less-indebted country, the increase in Philippine bilateral debt was phenomenal, thanks to the increasing role of ODA in financing.

The increase in bilateral debt in the 1990s was not uncommon in developing countries. New loan terms had become increasingly concessional. For instance, in bilateral debt negotiations in the Paris Club, rescheduling became more frequent as new concessional terms were implemented. In other words, why would bilateral debt not increase if debtor countries could avail cheap and long-term financing, and could negotiate for debt stock reduction? Concessional rates increased availments of soft loans and in the process nurtured indebtedness.

In the Philippines, bilateral ODA availment became *the* major borrowing programme of the government. By 1995, IBON estimated that 41% of the country's total foreign debt was ODA.[1] ODA money continued to finance the power crisis, the energy sector having accounted for 26% of ODA in 1994, transportation for 22%, and water resources 13%.

But the increase in ODA was more of a result of the aggressive implementation of the neo-liberal agenda under the latest SAP. Programme-wise, ODA had to support the 1994-1997 SAP, jazzed up as 'Philippines 2000'. Because of aggressive liberalisation, privatisation and deregulation, the government had to increase its reliance on ODA. Debt makes up 27% of the national budget. Aid is incorporated in debt. While ODA loans committed in 1996 accounted for only 1% of GNP, it comprised 9.06% of national government spending.

The Philippine government implemented the most aggressive liberalisation with the removal of the so-called negative list in foreign investments, thus liberalising practically all sectors of the economy. It implemented the most aggressive privatisation, starting with the implementation of a build-operate-transfer scheme to open up infrastructure projects to private sector financing, thereby facilitating the infusion of ODA loans that would guarantee the privatisation. The Ramos government achieved a dramatic increase in privatisation proceeds. Lastly, it deregulated key sectors such as the oil industry, energy sector, agriculture, etc. ODA thus was instrumental in the Ramos government's 'achievements' in the increasingly globalised economy.

Even the conditions are conditional

As of year end 2000, there were 203 active loans (196 project and seven programme) with a net commitment of US$13.3 billion. Of that amount, US$11.8 billion (89%) or US$11.8 billion were project and the remaining US$1.5 billion programme. Japan accounted for 54% of total ODA, followed by the ADB, at 22%, and the World Bank, at 19%.

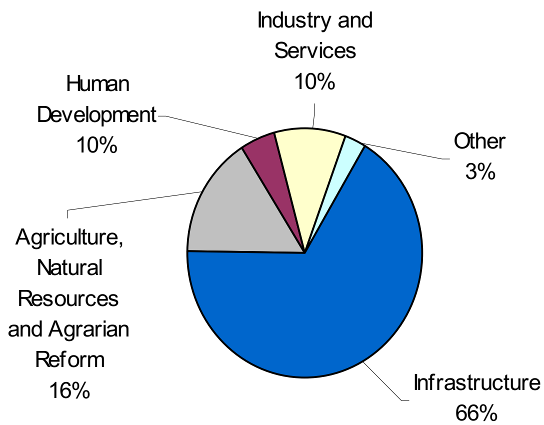
Graph 5 shows that infrastructure is still the most attractive sector to donors and corporations.

Table 9 shows that:

- The government registers a low availment rate – that is the take-up rate of aid available at any given time.[2] Only 63% of scheduled availment is currently realised, which means only 37% of the total net commitment (utilisation rate). This means that government has low capacity to absorb and manage foreign assistance. At time of writing, the undrawn balance of aid is equal to 63% of the total ODA net commitment.
- There is a disbursement backlog of US$2.9 billion, on which a "commitment charge" or penalty of 0.75% is applied.

Recently, the Arroyo government paid US$13 million in penalties on the undisbursed amount, (for the World Bank on the total undrawn balance of US$1.2 billion and for the ADB on the undisbursed scheduled amount of US$534 million). Penalty fees are money down the drain since these will be collected on top of the principal and interest in later years.

Graph 5. Aid Commitments by sector in the Philippines (end of 2000)



The reason for this is that the government has to allocate counterpart funding for ODA to be disbursed, but it does not have money to do so; its running budget deficit is P225 billion (around US$4.3 billion by year end). To add insult to injury, the ADB announced lately that it would increase its counterpart requirement from 50% to 60% of project cost. The funny thing was that the Japanese government announced that if the Arroyo government might have problems raising counterpart funds, Japan would be willing to extend additional *loans* that may be used by the Arroyo government as counterpart funds! Here, clearly, ODA means more debt.

Aside from government's lack of counterpart funds, however, the recent ODA loans carry perhaps the most stringent conditionalities in recent history.[3] For instance, disbursements of programme loans have declined by 68%. This is mainly due to the suspension of the Power Sector Reform Restructuring Program Loan, which

Table 9. Cumulative ODA loans: availment rate by funding source as of 31 December 2000

Funding Source	*Net Commitment Commitment*	*Scheduled Availment*	*Actual Availment*	*Undrawn Balance*	*Disbursement Backlog*	*Availment Rate*
WB	2,588.20	1,652.90	1,401.80	1,186.40	251.10	0.85
ADB	2,908.80	1,645.50	1,111.30	1,797.50	534.20	0.68
JBIC	7,159.70	4,382.60	2,243.20	4,916.40	2,139.40	0.51
Others	656.40	254.30	205.40	451.00	48.90	0.81
TOTAL	13,313.10	7,935.30	4,961.70	8,351.30	2,973.60	0.63

Source: NEDA Project Monitoring Staff

carries as conditionality the passage of the Power Reform Bill and the eventual privatisation of the power sector, particularly the state-owned National Power Corporation, NAPOCOR. The partial privatisation of NAPOCOR was a conditionality attached to the 1986 IMF standby arrangement under Aquino, which required the reduction of subsidies, leading to deregulation and partial privatisation. In 1987, the government allowed private firms to build and operate power plants through the BOT scheme.

In 1992, the IMF required the Ramos government to take charge of the power crisis by encouraging private sector participation in financing, maintenance and construction of government power infrastructure projects. It legitimised direct private sector participation in government projects. Thus, even before the power sector was partly privatised, NAPOCOR had already entered into several long-term power supply contracts with the Independent Power Producers or IPPs (private power providers are mostly foreign corporations) through Power Purchase Agreements or PPAs, BOT schemes, and ODA. ODA, through guarantees, facilitated private business.

Further partial privatisation of NAPOCOR was a conditionality of the 1994-1997 SAP. The IMF wanted to restructure and partially privatise the NAPOCOR by phasing out subsidies and introducing peakload pricing. The Ramos government used 'emergency powers' to implement this.

In 1998, under the IMF stabilisation programme, the full privatisation of NAPOCOR was the main conditionality. This time, however, the conditionality was attached to two ODA loans from the ADB and JBIC. The privatisation of NAPOCOR was said to be the mother of all privatisation. In fact, many loan commitments to the Philippines are tied to the final passage of the Power Sector Reform Bill, apart from the ADB and JBIC loans of US$300 million each – US$300 million from the Japan Export-Import Bank, a further US$300 million from the ADB, plus US$350 million ADB guarantee for NPC bonds, to be issued within 2000, and US$200 million from the World Bank. Here, ODA is being used to facilitate the privatisation.

The NAPOCOR accounts for 90% of electricity generated in the country today, 49% of its own and 51% from the IPPs. NAPOCOR has become the milking cow of the IPPs. It pays for power contracted, whether or not the power is produced or consumed, at an average price of US$76 per MWH, more expensive than the NAPOCOR-generated power at US$57 per MWh. So, consumers pay for unused power. NAPOCOR pays for 70% of the contracted power from the IPPs even if they are operating at 30-40% capacity.

NAPOCOR has shouldered the debt obligations of the IPPs through guarantees, which is among the incentives stipulated in the BOT law. Thus, NAPOCOR has become the milking cow of the IPPs.

Today, total NAPOCOR debt is P352 billion, around US$6.7 billion, fully guaranteed by the government. But privatisation proceeds will only amount to US$4.9 billion Of the total liabilities (of US$6.7 billion), P200 billion (US$3.8 billion) will be shouldered by the cash-strapped government and P152 billion (US$2.9 billion) by the winning bidder. The P152 billion, when passed on to consumers will translate to a 30-centavos per kilowatt-hour increase in the electricity bill, which represents roughly a 17% increase on the cheapest rate of electricity. On top of that, the government will surely pass on the P200 billion debt to taxpayers. The ADB has 'suggested' that government increase the coverage of VAT, revoke exemptions, and increase the rate. Here, ODA 'relieves' the government from debt to enable it to go on with privatisation and liberalisation, at the expense of the consumers, taxpayers, and workers.

Lastly, in the implementation of privatisation of power generation and distribution, ODA, through the ADB and the World Bank provides guarantees to the private sector through their private sector financing arms.

Drawing on this historical sketch, we arrive at several conclusions about the nature of ODA conditionality in the Philippines:

1 ODA conditionality complements the SAP.
2 ODA conditionality is financial blackmail in an export-oriented, import-dependent, investment-led debt-driven economy.
3 ODA conditionality promotes trade and investments liberalisation, privatisation and deregulation.

It facilitates transnational corporations in infrastructure business, social services, utilities, agriculture, and other key sectors.

4 It promotes the commercial and political interests of the donor country.

5 ODA conditionality penetrates markets and politics.

6 And by the substantiation of the affected people, the displaced communities, and marginalised sectors on the impact of ODA conditionality on their lives, ODA conditionality has taken away people's sovereignty.

Notes

1 See IBON Facts and Figures issues 15 and 28. February 1994

2 In order for the government to avail the funds scheduled for release at any time, it has to raise counterpart funding. The low availment rate reflects incapacity and inefficiency on the part of the Philippine government in raising counterpart funds, implementing projects, etc.

3 Background documentation giving detailed information on these conditionalities is available from Rosario Bella Guzman at rguzman@info.com.ph

ODA and gender conditionality: equal partnership is long overdue

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Self-reliance is always the best policy when it comes to development. But given the plethora of problems and issues faced by women, and the dearth of resources available to them, support in any form, even as Official Development Assistance (ODA), is welcome. However, ODA for gender concerns is acceptable only if given in the spirit of equal partnership.

At present, the skewed donor-recipient relationship prevails when it comes to ODA.

In the Philippines, gender equality is not given as an explicit conditionality for ODA but some multilateral and bilateral agencies have clear-cut gender policies. They push for gender equality in programmes and projects, or encourage the Developing Member Countries (DMCs) to integrate gender concerns into their development programmes, or develop separate women-focused programmes and projects. These funding agencies are few. Among the more than 40 multilateral and bilateral agencies providing ODA to the Philippine government only a quarter have a bias for gender. In the Asia region, the multilateral and bilateral agencies with this known bias are: the Asian Development Bank (ADB), Australian International Development Assistance Bureau (AIDAB), Canadian International Development Agency (CIDA), the Deutsche Gesekksgaft for Technuishche Zwammernarbeit (GTZ), the Ford Foundation, the International Labor Organization (ILO), United Nations Fund for Population Activities (UNFPA), the United Nations Children's Fund (UNICEF), the United Nations Development Fund for Women (UNIFEM), United States Agency for International Development (USAID) and the World Bank (WB).

These agencies fund programmes and projects that fall within their priority concerns or conform to their specific strategies. Programmes and projects that do not fall within their priorities, even if badly needed by the women in the DMC, have very little chance of getting funds. The programmes and projects usually funded can be categorised as:

- social programmes particularly for women's health and education with a violence against women component;
- training programmes on leadership, assertiveness or technical skills for livelihood; and
- lending programmes of the microfinance type.

Box 9

World Bank gender policy priorities: an example

The World Bank's gender policy states the following main operational strategies for improving women's status and productivity

1 expanding enrollment of girls in schools;
2 improving women's health;
3 increasing women's participation in the labour force;
4 expanding women's options in agriculture; and
5 providing financial services to women.

Yet even among multilateral and bilateral agencies with a bias for gender equality, only a small portion of ODA is allotted for gender-focused programmes and projects. National policy related to economic programmes such as liberalisation, deregulation and trade take precedence over gender. More money is poured into ODA that will help shape these policies or tilt the balance of trade towards the donor than to gender-focused programmes/projects.

Thus it is not surprising that in most countries, ODA for gender responsive programmes and projects is only a small fraction of total ODA. In the Philippines, only US$2.145 billion of the US$8.828 billion ODA from 1997-2000 was for gender-biased projects. This comprised only 24% of total ODA for the period.

A big portion of the ODA for gender responsive programmes/projects during the same period also consisted of loans. Of the US$2.145 billion, about US$1.883 billion, or 87.8%, was in the form of loans.

If gender equity is to be achieved, there is need to channel more ODA funds for programmes and projects that are gender-biased and are directly impacting on women.

ODA as gendering development or endangering women?

Since the mid-1990s, there has been a shift in the policy approach of multilateral and bilateral agencies towards eliminating gender oppression and discrimination. In the 1980's WID or Women in Development was the accepted approach. The battle cry was 'Women need development'. Thus the proliferation of women-only projects. However, this approach was found to be more of a disadvantage to women.

The WID approach focussed on women in isolation from the social, economic, and political milieu in which their discrimination and oppression occur. It did not take into consideration the relationships in society that led, bred and reproduced the inequality between men and women. This approach implied that the problem and solution to this inequality, discrimination and oppression was confined to women; it did not look into societal conditions. Instead of integrating women, the WID approach actually further marginalised and isolated women from mainstream development.

Thus the shift from WID to GAD (Gender and Development). In the GAD approach, the emphasis is on understanding the power relations between men and women and the socio-cultural environment where this relationship thrives, in order to pinpoint ways of improving the status of women. Under this approach, the battle cry is 'Development needs women'.

Gender is seen as a cross-cutting issue that is relevant and influential in all economic, social and political processes. It sees the solution to women's oppression and discrimination as broad-based and multifaceted and involving both women and men. The key is mainstreaming gender into the development process and empowering women.

However, the question is not so much in mainstreaming gender as the development framework used to promote this. Since the 1980s, multilateral and bilateral agencies have been pushing for neo-liberal policies which in DMCs like the Philippines are known as globalisation. The adoption of these policies is often used as conditionality for the approval or release of ODA. For example, the fast-tracking of the passage of the Omnibus Power Act in the Philippines was a condition for the release of a recent ADB loan.

Based on the experience of women in developing countries, neo-liberal development or globalisation is leading to women's underdevelopment; it is inimical to their interests and concerns.

While it is true that globalisation is putting more women into the labour force, they are coming in either as contract workers and out-workers in export-oriented manufacturing and services, or as unpaid workers in the informal sector. Their wages are below minimum, they are deprived of benefits, and they work under very difficult conditions. Women are the preferred workers by employers who need cheaper and more 'flexible' sources of labour to stave off the stiff competition of international trade. Contractualisation of labour and flexible labour arrangements give employers greater freedom of hiring and firing. In times of economic crisis, it is the women who are displaced, they are the first to be retrenched. This trend is especially noted in Indonesia, Malaysia, Philippines, Thailand and Sri Lanka, where export-oriented manufacturing is prominent.

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Globalisation is likewise associated with massive land use conversion (LUC) in the countryside. This has driven thousands of farming communities from their livelihood and homes. In many cases, it is the women who are forced to migrate into the cities only to find low-paying contractual work. Some end up in entertainment establishments as dancers or even prostitutes. Those with sources of funds find work abroad as domestic helpers and entertainers. For more than two decades, remittances from Overseas Filipino Workers (OFW) have saved the Philippine economy from total bankruptcy. It is estimated that 70% of OFWs are women.

In many cases, globalisation runs right smack against the objectives of gender-sensitive policies promoted by multilateral and bilateral agencies. Among the aims of most gender policies is increasing girls' and women's access to education, and improving the health of girls/women. However the privatisation policy under globalisation, which is now focused on state colleges, universities and hospitals, is eroding whatever gains there have been in these areas. Asia-wide, there is declining access to public services, thus diminishing the chances of girls/women to better education and improved health.

At the same time as the economic crisis in developing countries, associated with globalisation policies, is leading to cuts in state budgets for social services (particularly education and health) ODA for these services are affected by these budget cuts. For example, budget for the five (5) year Women's Health Project under the DOH and funded by ADB loans was cut by 25% in 1998 due to the Philippine Government's austerity programme. One objective of this project is to 'improve the quality and range of women's health and safe motherhood services.'

Participation of Women: a must in equal partnership

A very important aspect of equal partnership is the participation of women in decision-making. This means their involvement in the whole investment, programming and project development process.

Lack of participation has dire consequences for women. For example, the demolition in connection with the Japanese ODA funded Flood Control Project in Malabon, a municipality north of Metro-Manila, has resulted in one miscarriage, three heart attacks, and countless stress-related illnesses like migraine and diarrhoea among women who were daily in the frontlines of the barricades. The demolition likewise caused the separation of a number of couples, and of children from parents, as children were brought to relatives outside the community.

Women from Asian countries must demand for a voice in the shaping of ODA policies and priorities of aid giving countries and their own government. The concerns and issues of Asian women should be considered and included in this process. Asian women should be given the chance to define the support and aid they need.

This entails forging close ties and forming a united front with like-minded women's groups in developed countries where aid comes from. With these women's groups, Asian women should develop advocacy programmes that will bring to the attention of the nationals of aid-giving nations their needs and demands and how their governments are responding or ignoring these. Together, they should form lobby groups so that they could influence the ODA policies and priorities of these aid-giving countries vis-à-vis Asian countries.

When it comes to gender/women activities, Asian women must have a say in identifying, developing and implementing programmes and projects of their governments. They could use as a starting point their own government's policy on gender/women, if such a policy exists and/or the various international conventions on women which their government has signed over the years. Most Asian countries are signatory to the Convention on the Elimination of Discrimination Against Women (CEDAW). Where no gender/women policy exists, they must lobby for the enactment of such a policy.

Changing ODA's ways

Equal partnership entails the removal of all restrictions/limitations set by multilateral and bilateral agencies on ODA for gender/women responsive programmes/projects. Women should be free to set their own ODA agenda without being hindered by restriction on the types of programme/projects that are acceptable to the funder and availability of funds.

Box 10

The Philippine Experience

The existence of a policy or various agreements is no guarantee of government's commitment to gender/women issues.

In the Philippines, much has been done in terms of setting policies on gender equity. A law popularly known as the Women in Development and Nation Building Act was passed in 1991 to set a national policy that recognises the role of women in nation-building and ensures fundamental equality before the law of men and women. One of this law's affirmative action provisions is that a substantial portion of ODA funds from foreign government and multilateral agencies and organisations, set at between 10-30%, shall be utilised by the agencies concerned to support programmes and activities for women. Five years later, the General Appropriations Act of 1996 was passed requiring all departments, bureaux, offices and agencies of government to set aside at least 5% of their budget for use in projects to address gender issues. The Philippine government has also set in place a 30-year National Plan for Gender Responsive Development.

Despite all these laws, work on gender equity in the country remains slow. Many Filipinos, even those in government, remain ignorant of the existence of the Women and Nation Building Act. ODA funds set aside for gender equity/women programmes and activities remain within or below the minimum of 30%. Women advocates within government agencies still find it difficult to access the 5% of the budget set aside for internal projects to address gender issues. By 1998, only 69 of more than 300 state agencies have used their GAD budget. In many cases this 5% gender budget has not been used for the purpose for which it was intended. This fund has been used for ballroom dancing, *tocino*-making, cross-stitching, fruit preservation. Some agencies have even used the GAD budget for activities and projects that they find difficult securing funds for.

The National Economic Development Administration (NEDA) of the country is even revising the policy on setting aside the ODA for projects for women since they say this 'distorts' the usual investment programming and project development process.

The Philippine government through its National Commission on the Role of Filipino Women (NCRFW) has already conducted many gender-sensitivity trainings. Despite this, the Rape Bill took a decade before passage into law and the Act that resulted is very different from the original bill as conceived by various women's groups.

ODA should be made available for any type of project even as these challenge or put into question the development framework of the ODA-giver. Women should feel free to choose their development framework.

The amount of ODA for gender/women responsive programmes/projects must be increased vis-vis other types of programs/projects. The ideal is to make the whole ODA package for each Asian country gender/women responsive. The distinction between programmes that are gender/women responsive and those that are not should be erased.

Most crucial in equal partnership is the involvement of women in decision-making at all levels – from policy making to programme planning, implementation and evaluation, at the level of multilateral and bilateral agencies and including government. Women's organisations must lobby their respective governments to set aside funds for consultations and public hearings regarding programmes/projects to be prioritised for ODA. Once the funds are available, they must make sure that women from the basic service sectors and the sector concerned are involved in these consultations and public hearings.

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Women's organisations must lobby for a block fund for women/gender programmes/projects to come from a certain percentage of the ODA. In the Philippines, this is from 10-30% of the ODA as set in the Women in Nation Building Act. This fund is to be managed by the women's organisations who will set the criteria and mechanism for programme/project screening, approval, monitoring and evaluation.

A prerequisite to the full participation of women in the ODA process is the existence of a strong women's movement that is rooted in the basic service sectors, including workers, peasantry, and urban poor women, and is a distinct but vital part of the people's movement. Thus, ODA should give priority to awareness raising on gender/women concerns for both men and women and organisation-building among women.

Other ODA priorities should include:

1. the building of women's centres that will provide various services to women, from literacy to skills training on socio-economic work as well as leadership and counseling. These women centres must be run by women's organisations; and

2. a continuing public campaign on women's rights and various women's issues such as sex trafficking since, in this age of globalisation, developing countries have become the source of women and children for the prostitution business in developed countries; sexual discrimination legislation to address the preference of companies for young, 'with pleasing personality' and single women, and sexism particularly in media.

Ensuring that gender and women's concerns are built into ODA and that equal partnership prevails when it comes to ODA, means women's groups must work together at the regional and international levels, the problem being global. Asian women's organisations must form a network whose aim is exchange of information and conduct of regional advocacy campaigns on ODA. This network must keep in constant touch and launch joint actions with women's organisations in donor countries.

Without equal partnership, ODA for gender/women programmes/projects becomes mere tokenism. Women will remain passive recipients of ODA packages that may not be responsive to their needs. Worse, ODA could merely entrench the marginalisation, oppression, and enslavement of women.

Who’s aiding whom? Poverty, conflict and ODA in Nepal

Gopal Siwakoti ‘Chintan’, Water and Energy Users’ Federation-Nepal[1]

Since Nepal has become one of the poorest countries in the world, with a current per capita annual income of only US$210, any study of ODA needs to ask whether aid has contributed to poverty alleviation – or just to poverty.

The World Bank is one of Nepal’s major lending agencies. In recent decades, it has channelled hundreds of millions of dollars into Nepal for infrastructure, irrigation and hydropower projects. One case that illustrates typical World Bank funding approaches is the famous Arun III hydroelectric project, which was finally cancelled in 1995 after a long battle by Nepali and international activists.

Arun III, initiated in 1995, was originally a 402mw project to be built in the eastern part of Nepal, at the cost of about US$1.1 billion. That cost increased by about 40% in the five years after it was approved[2]. It was criticised as the most expensive project in the country. The main reason for the high cost was the handling and management of the project by foreign consultants – selected and approved by the Bank – and the use of foreign materials and equipment. Electricity tariffs were increased by about 200% to cover the internal project-financing. The project was designed and imposed by the Bank, in collaboration with European co-financiers and the ADB, as a model for the century in dam-building. It was argued that Nepal would always have to live in the dark and would lose foreign investment opportunities and international lending credibility if it failed to implement the project.

In 1995, the minority government of the Communist Party of Nepal (Unified Marxist/Leninist) sent a ministerial delegation to Washington, DC, to renegotiate the project with an alternative cost reduction plan. Bank officials turned down the request in a humiliating manner. They indicated that not a single word could be changed from the text as negotiated by the previous government. And yet if the alternative plans proposed by the new government had been agreed, the project could have easily been implemented at a reduced cost. Ironically, the cancellation of the project later that year was based on the critical findings of the Bank’s own Inspection Panel as a result of the first-ever complaint officially filed by Nepali NGOs and local people against the Bank – and claiming that it violated its own operational policies and procedures.

In Arun III, the Bank had imposed a series of conditionalities on the project loan. These were widely criticised in Nepal as well as outside the country, even within the Bank itself, on the grounds that these conditionalities would mean a virtual takeover of Nepal’s internal decision-making authority and undermine the new democratisation process. These conditionalities included: [3]

- Conduct annual joint review and update of the macroeconomic framework for public expenditure planning and the resources covering the power sector;
- Establish and maintain a Tariff Fixation Commission (TFC) that is satisfactory to the Bank, with a study of the Commission's institutional and operational aspects;
- Classify rural electrification schemes as unprofit able;
- Obtain IDA approval before undertaking new investments;
- Earn specified rate of return on revalued assets;
- Adjust tariff to reflect fuel cost increases;
- Finalise a public expenditure programme satisfac tory to IDA;
- Revise the TFC's regulations to ensure that electricity tariffs and other charges are set in accordance with agreed financial covenants.

The cancellation of Arun III was an embarrassment and a set back for the Bank in Nepal. Its image was highly damaged and it stopped promoting large dams in the region. However, privatisation and free market policy have remained the main objectives of any World Bank lending in the country, including the power sector.[4]

As in other countries, the International Monetary Fund (IMF) has imposed several economic and financial packages, including a Structural Adjustment Programme (SAP) in Nepal. As a result of IMF conditionalities, Nepal has been going through a dramatic process of privatisation of public institutions such as the commercial banks and other social sector institutions. Regarding the transparency in these activities, it has been almost impossible to find out the deals made between the government and the IMF. In a recent public interest case, the Supreme Court asked the government to take appropriate action as provided under the Constitution of Nepal for the release of such information and documents to the public.

The ODA provided from Asian Development Bank (ADB) has dramatically increased in recent years. It has covered most of the lending sectors from agriculture and irrigation to the construction of dams. The performance of ADB has been considered even more secretive and undemocratic than the World Bank. The ADB has also been the main institution to put pressure on the government for the liquidation of the Nepal Food Corporation, which used to supply food relief in the poverty-stricken remote hill areas of Nepal. More recently, the main controversy over ADB lending has been on the increase in electricity tariffs. For example, as part of a loan to Kali Gandaki 'A' Hydroelectric Project, ADB's conditionality is described as below in one of the documents prepared by Nepal Electricity Authority (NEA)[5]:

> *'The reason for its inability to comply with these covenants lies mainly with the low tariff level, which has been pegged at the present level since March 1994. To rejuvenate NEA's financial condition, ADB had proposed during its fact finding mission a tariff hike of 30% in its average tariff level in April 1996 and another 10 at the beginning of FY 97. During these discussions, it was finally agreed to raise NEA's 20% in January of FY 97 to ensure that the covenants as revised above are complied [with] in FY 97 and thereafter.'*

To dominate and monopolise Nepal's power sector investment, management and development, the ADB forced the government to sign a secret loan agreement in July 2000, under the Rural Electrification, Distribution and Transmission Project.[6] When the conditionalities tied into the project were disclosed in the press, the issue led to the suspension of the parliamentary session on several occasions. This was the first time that the Nepali opposition parties in parliament had taken a strong stand against such conditional loans.

One major controversy was about the provision of an indefinite tariff increase as required by the Bank from time to time. This imposed an unbearable burden on Nepalis. However, the CPN-UML, while the main opposition party, later on compromised with the government on a minor issue of not increasing the tariff in the near future. In substance, it did not mean anything since it did not cancel or revise the conditions of the agreement. Furthermore, since the term 'near future' was vague, the government soon prepared to raise the tariff as it had committed to do. One hidden fear for the CPN-UML might have been that it would face the same inescapable situation once it came to power. It compromised its position in the same way in the case of Arun III project in March 1995.

Some of the conditions described in this agreement are summarised below:

•The Borrower shall take all action which shall be necessary on its part to enable NEA to perform its obligations under the Project Agreement, including the compliance with financial covenants and establishment and maintenance of tariffs as stipulated ... *(in different Sections)* ... thereof, and shall not take or permit any action which would interfere with the performance of such obligations. Section 4.06.

•Average tariff shall have been approved by ETFC (Electricity Tariff Fixation Commission) and implemented which shall satisfy the financial covenants described in paragraph 11 of schedule 6 to this Loan Agreement. Section 6.01(b).

•The Borrower shall have amended the EFTC Rules to provide for the semi-automatic interim tariff adjustment under a procedure satisfactory to the Bank. Section 6.01(c).

•Procurement of goods and services shall be subject to the provisions of the Guidelines for Procurement under Asian Development Bank Loans dated February 1999... Schedule 4.2.

•Each supply contract for equipment or materials estimated to cost the equivalent of US$5 million or less(other than minor items) shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement. Schedule 4.5(a).

•The selection, engagement and services of the consultants shall be subject to the provisions of this schedule and the provisions of the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated October 1998… Schedule 5.2.

•The invitation to submit proposals and all related documents shall be approved by the Bank before they are issued. Schedule 5.5(a).

The ADB was instrumental in supporting Nepal's first private Khimti hydropower project through its private sector window, together with the International Finance Corporation (IFC). The government has been forced to purchase all the 60mw electricity in gross terms and in foreign currency. Khimti has now been considered as the most expensive project that the NEA has purchased with public money. The Account Committee of parliament has asked the government to review the power purchase agreement but so far it has not yet been done. The effect has been that, on one hand, most of these projects are financed through grants and soft loans. On the other hand, Nepalis pay the highest electricity rates, equal to their counterparts in USA or the United Kingdom, while having the lowest per capita income of US$210.

If combined with its co-financing through both the World Bank and the ADB, Japan makes the largest ODA contribution in Nepal. Generally speaking, the public image of Japanese ODA is relatively clean, due to its low-profile operation and the imposition of conditionalites on 'goods' rather than on 'policies'. Japan has been very smart in pursuing its business in every loan and through consultants and procurements. The Kulekhani hydroelectric project is a typical example. Up to the present, the Japanese have managed their interests very well in Kulekhani through consultants and the purchase of equipment from Japanese companies for construction and operation and up to maintenance.

Another example is the Project for the Extension and Reinforcement of Power Transmission and Distribution System in Kathmandu Valley (Phase 2). The grant conditions described in the official letter are as below:[7]

'3(1) The Grant will be used by His Majesty's Government of Nepal properly and exclusively for the purchase of the products of Japan or the Kingdom of Nepal and the services of Japanese or Nepalese nationals listed below:

a) products and services necessary for the construction of the power distribution system and other related facilities…;
b) equipment necessary for the execution of the Project and services necessary for the installation thereof; and
c) services necessary for the transportation of the products referred to in (a) and (b) above

> to the Kingdom of Nepal, and those for internal transportation therein.'

The letter further states that 'His Majesty's Government of Nepal or its designated authority will enter into contracts in Japanese yen with Japanese nationals for the purchase of the products and services referred to in paragraph 3. Such contracts shall be certified by the Government of Japan to be eligible for the Grant.' It also expects the Nepali government 'to exempt Japanese nationals from customs duties, internal taxes and other fiscal levies which may be imposed in the Kingdom of Nepal with respect to the supply of the products and services under the Verified Contract.' It also bars the products purchased under the Grant from re-export to other countries, requires the prior review of any tender documents by JICA and the review of a detailed evaluation report before the award of the contract.

The observation made by one of Nepal's critical social scientists, Dipak Gyawali, is relevant here[8]:

'While Japan's generosity with grants has endeared Japan to Nepali politicians and most bureaucrats, these grants have the technocrats worried. The primary reasons cited are that items to be bought with Japanese grants are almost three times costlier than items financed by credit with international competitive bidding in other projects in Nepal. Also, the items supplied are difficult to maintain with locally available spare parts, necessitating subsequent import of spares from Japan at high prices.'

Gyawali further adds:

'All Japanese grants are made to the Finance Ministry, which then on-lends to the concerned parastatal utility responsible for operating the project at 10.25% interest rate, the cost of which is transferred to the consumer. If [the] project item is three times more expensive than what international competitive bidding would deliver, then the consumer is effectively charged a usurious 30.75% interest rate. This is the case with electricity as well as telecommunication projects, sectors which have seen substantial Japanese involvement.'

ODA in the case of Nepal too is confined to the donors' interests and a huge chunk of money is spent on foreign consultants' salaries and other benefits. This 'reduce[s] the efficacy of foreign official development assistance, and then lead[s] to a reduction in the ratio utilization of foreign aid'.[9] As a result, it has increased 'dependency and disparity' at the cost of few positive elements. The simple reason for ODA's failure to achieve development in Nepal is that donors lack long-term commitment, do not understand societal structure and fail to recognise specific local requirements.

Faulty implementation and inadequate flow or over-flow of funds is another problem. In such a situation, an ODA-funded project developed and implemented without the meaningful participation of the government and the people can never be expected to be sustainable.[10]

Economic and political costs of dependence soar

The greater part of Nepal's annual budget – between 50-60% of approximately US$1.25 billion – is dependent on foreign loans and assistance. About 15% is allocated for debt servicing and 10-15% to defence, mainly due to the Maoist insurgency. Hardly 25% is spent on development activities. Since most of the development activities are implemented as package projects, designed and defined solely by the 'donors', it is estimated that 70-80% of 'aid' arriving in the country goes back where it came from.

As a result, the majority of Nepal's 23 million population is suffering from extreme poverty – above 50% survive below the poverty line. The country is still described as semi-feudal and semi-colonial. The 1990 parliamentary democracy so encouraged by donors has failed to bring any significant change in designing and defining ODA according to national needs and priorities. The present six-year old insurgency led by the Communist Party of Nepal (Maoist) is said to be deeply rooted in the negative consequences of increasing privatisation, globalisation and foreign control of the Nepali economy. In fact, the major demands of the Maoists, as presented to the government during the latest round of negotiations, reflect this.

It is widely believed that 40-50 years of ODA has not contributed to Nepal's development and prosperity, instead, it has largely escalated the present social, economic and political conflict. In this context, the Maoist conflict is not expected to end unless, among other things, there is a drastic change in ODA priority and management in the interest of the people and the country. Likewise, Nepal has already joined the list of countries that could never pay back their ODA loans. In Nepal's case, they amount to about US$2.5 billion – six times more than Nepal's actual internal annual revenue.

To conclude, unless there is a drastic shift towards absolutely and genuinely democratic, transparent aid, based on local demands and needs, ODA will only help to increase the foreign debt burden and fuel internal uprisings, instead of bringing any desired development benefits.[11]

Table 10.
Foreign Loan and Debt Servicing (Rupees in Millions)

Description	*1984/85*	*1985/86*	*1986/87*	*1987/88*	*1988/89*	*1989/90*	*1990/91*	*1991/92*
Direct								
Outstanding up to last year	7500.0	9184.9	13042.8	16990.6	23861.8	31467.5	52688.8	64569.2
Borrowing	1753.1	1287.5	2361.9	4069.9	5671.4	5959.6	7292.7	7281.8
Repayments	68.2	160.0	249.6	296.5	387.6	700.8	588.0	941.1
Interest Payments	119.7	124.9	235.8	293.0	312.2	419.6	497.0	722.3
Net Outstanding	9184.9	10312.4	15155.1	20764.0	29145.6	36726.3	59397.5	70909.9
Indirect								
Outstanding up to Last Year	19.3	18.3	17.8	63.0	72.3	75.6	108.8	15.1
Borrowing	-	-	-	-	-	-	-	-
Repayments	1.0	0.5	1.0	1.0	1.0	1.0	1.0	1.1
Interest Payments	0.6	0.3	0.6	0.5	0.5	0.5	0.5	0.4
Net Outstanding	18.3	17.8	16.8	62.0	71.3	74.6	107.8	14.0
Total Foreign Loan								
Outstanding up to Last Year	7519.3	9203.2	13060.6	17053.6	23934.1	31543.1	52797.6	64584.3
Borrowing	1753.1	1287.5	2361.9	4069.9	5671.4	5959.6	7296.7	7281.8
Repayments	69.2	160.5	250.6	297.5	388.6	701.8	589.0	942.2
Interest Payments	120.3	125.2	236.4	293.5	312.7	421.8	497.5	722.7
Net Outstanding	9203.2	10330.2	15171.9	20826.0	29276.9	36800.9	59505.3	70923.9

(continued on next page)

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Description	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Direct									
Outstanding									
Up to last year	81738.1	94257.9	107504.9	120555.9	125214.1	150126.8	161813.6	182001.8	190913.1
Borrowing	6920.9	9163.6	7312.2	9463.9	8963.9	13850.9	10839.5	12362.4	8156.8
Repayments	1251.8	1467.2	1827.1	1986.6	2101.2	2779.0	3195.3	3679.9	2698.5
Interest Payments	878.6	1020.2	1156.2	1306.3	1246.7	1420.8	1548.6	1640.1	1018.4
Net Outstanding	87407.2	101954.3	112990.0	128033.2	132076.8	161198.7	169457.8	190684.3	196371.4
Indirect									
Outstanding									
Up to Last Year	14.7	13.5	12.0	12.3	11.2	10.5	9.3	8.1	6.9
Borrowing	-	-	-	-	-	-	-	-	-
Repayments	1.1	1.0	1.1	1.1	1.2	1.2	1.2	1.2	0.8
Interest Payments	0.4	0.3	0.3	0.3	0.3	0.2	0.4	0.2	0.1
Net Outstanding	13.6	12.5	10.9	11.2	10.0	9.3	8.1	6.9	6.1
Total Foreign Loan									
Outstanding									
Up to last year	81752.8	94271.4	107516.9	120568.2	125225.3	150137.3	181822.9	182009.9	19092.0
Borrowing	6920.9	9163.6	7312.2	9463.9	8963.9	13850.9	10839.5	12362.4	8156.8
Repayments	1252.9	1468.2	1828.2	1987.7	2102.4	2780.2	3196.5	3681.1	2699.3
Interest Payments	879.0	1020.5	1156.5	1316.6	1247.0	1421.0	1549.0	1640.3	1018.5
Net Outstanding	87420.8	101966.8	113000.9	128044.4	132086.6	161208.0	169465	190691.2	196377.5

Source: Economic Survey, Fiscal Year 2000/2001, His Majesty's Government, Ministry of Finance, Table No. 8.10.

Table 11. Foreign Aid Commitments by Major Source (Rupees in Millions)

	Source	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93
1.	Bilateral	3627.8	4656.3	5127	3478.5	3532.3	6605.4	3494.9	7643.2	12650
	Grant	2806	4303.2	2484	2925.5	3215.3	6078.3	2734.4	7643.2	12386
	Loan	821.8	353.1	2643	553	317	527.1	760.5		264
2.	Multilateral	2363.6	4847.9	3600.5	2971.1	6870.7	9224.6	2170.5	13440.9	7876
	Grant	493.7	181.4	25.4	14.5	1543.7	160.5	35.5	417.9	3611.7
	Loan	1869.9	4666.5	3575.1	2956.6	5327	9064.1	2135	13023	4265
3.	Total	5991.4	9504.2	8727.5	6449.6	10403	15830	5665.4	21084.1	20562.7
	Grant	3299.7	4484.6	2509.4	2940	4759	6238.8	2769.9	8061.1	15997.7
	Loan	2691.7	5019.6	6218.1	3509.6	5644	9591.2	2895.5	13023	4529

Notes

1 The author is a university lecturer and human rights lawyer, and the founding coordinator of WAFED.

2 Go to http://www.bothends.org for a case study on Arun III, 'Successful campaigning against large dams: the shelving of Arun III in Eastern Nepal'.

3 Staff Appraisal, Arun III Hydroelectric Project, The World Bank, Rep No. 12643-NEP, August 29, 1994, pp. 63-65.

4 Nepal: Proposed Power Sector Development Strategy, The World Bank, Report No. 21912-NEP, March 19, 2001.

5 A report on system planning studies and investment program, Nepal Electricity Authority, April 1996, Kathmandu, p. 39, para. 2.

6 Loan agreement (Special Operations), Loan Number 1732-NEP(SF), (Rural Electrification, Distribution and Transmission Project) between the Kingdom of Nepal and Asian Development Bank, 13 July 2000.

7 Note of Exchange between His Majesty's Government of Nepal and Government of Japan, June 20,1995.

8 Dipak Gyawali, Nepal-Japan Relations: Traditional Ties and Modern Development Aid, Distant Asian Neighbours: Japan and South Asia, ed. Purendra C. Jain (1996), pp. 175-194.

9 Foreign Aid: Sifting the Statistical Evidence, Institute for Integrated Development Studies, Kathmandu (1996), p. 30.

10 See, Impact of foreign aid in Nepal: a case study of Dolakha district, Citizen's Poverty Watch Forum, Kathmandu (2000), pp. 47-50.

11 Ibid.

Part IV
Latin America

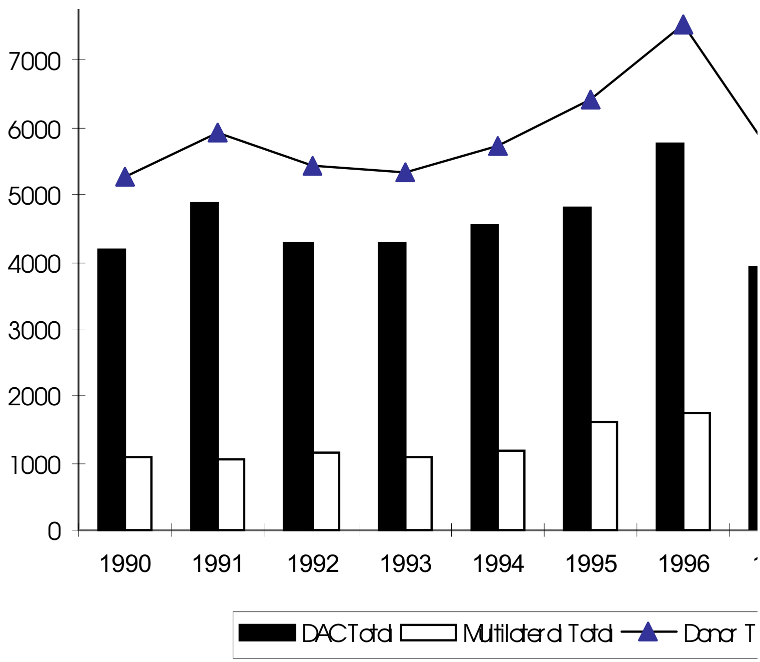
Increase masks downward trend

Federico Negrón, CEPES/ALOP

In 1999, the volume of Official Assistance to Development (ODA) in Latin America amounted to US$6017 million, which meant a 7.6% increase from 1998. Although this rise is considerably higher than the average growth rate of the past ten years, the volume of ODA to Latin America still has not matched what it reached in 1996. (See Graph 6)

The increase, amounting to US$423 million, occurred despite the fact that some of the main donors, particularly Holland and Germany, considerably reduced their assistance to Latin America. These reductions were counteracted overall by increased assistance from Japan, the United States, the United Kingdom, Spain and multilateral aid.

Graph 6. Latin America: ODA Net Total
(in US$million)



*Source:*DAC/OECD

Latin America

Table 12. Main bilateral sources of ODA for Latin America in 1999 (in US$ million)

Donor	***Aid volume 1999***	***% change on 1998***
United States	1238	13%
Japan	814	47%
Germany	398	-15%
Spain	385	22%
United Kingdom	306	48%
Holland	268	-43%

Table 13. Trends in Official Development Assistance to Latin America, 1997- 1999, showing Net Totals (in US$ million)

Donor	*1997*	*1998*	*1999*
United States	924	1093.75	1237.61
Japan	715.03	552.82	814.37
Germany	472.71	466.25	398.19
Spain	284.16	316.26	384.75
United Kingdom	287.95	206.73	305.71
Holland	450.37	467.03	267.62
France	173.69	175.17	166.69
Sweden	117.07	96.13	164.96
Canada	155.21	142.68	136.95
Switzerland	65.93	79.26	80.66
Others (bilateral)	317.23	434.86	296.17
DAC members (bilateral) Total	3927.01	4016.25	4239.75
Multilateral Total	1504.56	1563.44	1763.52
Donor Total	5467.91	5594.38	6017.2

Source: DAC/OECD

The main destinations of ODA resources in 1999 were first Honduras and Nicaragua, the countries that suffered the worst devastation in the wake of hurricane Mitch. Then followed, according to ODA significance: Bolivia, Peru, Colombia and Guatemala. International cooperation still represented an important percentage of the Gross National Product of many countries in the region, such as: Nicaragua (31.4%), Honduras (15.6%), Guyana (13%), Bolivia (6.8%) and Haiti (6.1%).

Table 14. Main recipients of ODA in Latin America, 1997-1999. Net Total (in US$million)

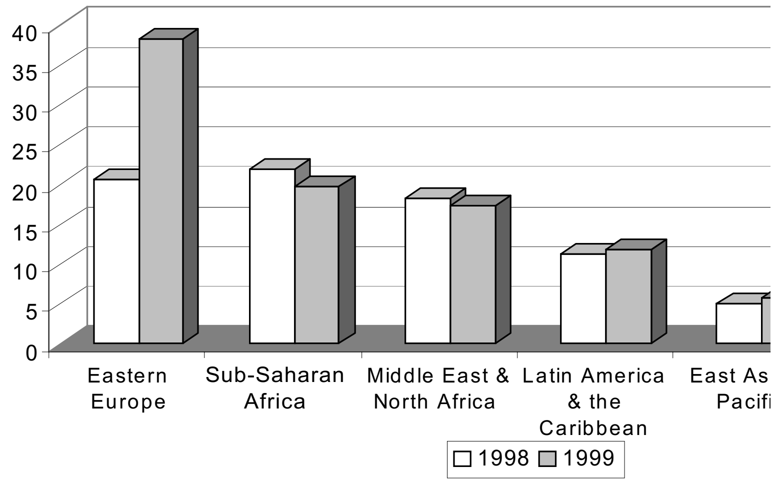
Recipient	*1997*	*1998*	*1999*
Honduras	296.83	320.54	816.89
Nicaragua	410.10	572.40	674.70
Bolivia	698.40	628.06	568.63
Peru	393.46	501.53	452.20
Colombia	194.54	167.57	301.29
Guatemala	263.00	232.59	292.94
Haiti	324.61	407.05	262.76
Dominican Republic	70.97	120.41	194.74
Brazil	273.40	329.08	183.55
El Salvador	272.47	179.79	182.69
Total for Latin America	5467.91	5594.38	6017.20

Source: DAC/OECD

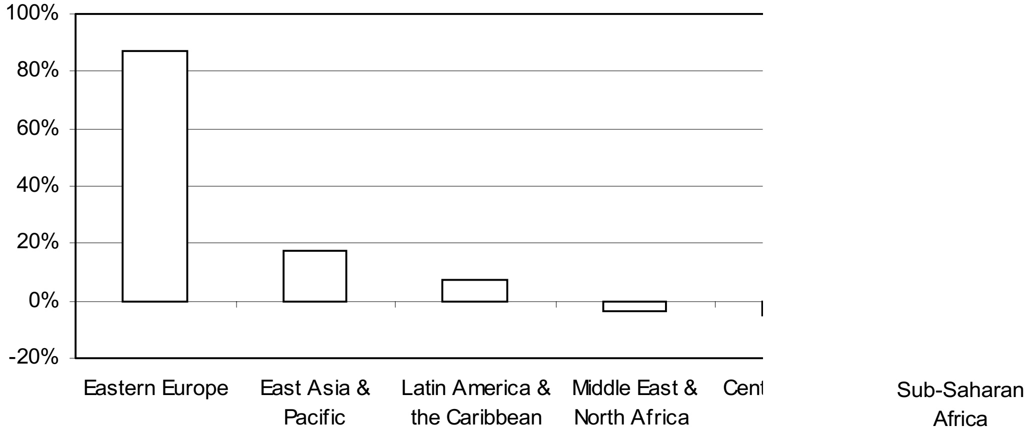
A significant number of Latin American countries experienced a sharp decrease in ODA; among those that saw the largest drops in terms of percentage were: Costa Rica (134.1%), Brazil (44.2%), Panama (37.4%) and Haiti (35.4%). In turn, the countries that saw significant increases in ODA were: Honduras, with a 154.8% rise with respect to 1998, Colombia (79.8%), the Dominican Republic (61.7%) and Guatemala (25.9%).

A comparison of ODA by region with the world's highest poverty indices demonstrates that Latin America was, per capita, the fourth recipient of ODA in 1999 (Graph 7). On comparing the variations in ODA for the 1998-1999 period, both per capita (Graph 8) and as a percentage of total ODA amount (Graph 9), aid resources have clearly been redirected to other

Graph 7. ODA per capita according to regional destination (US$) 1998-1999



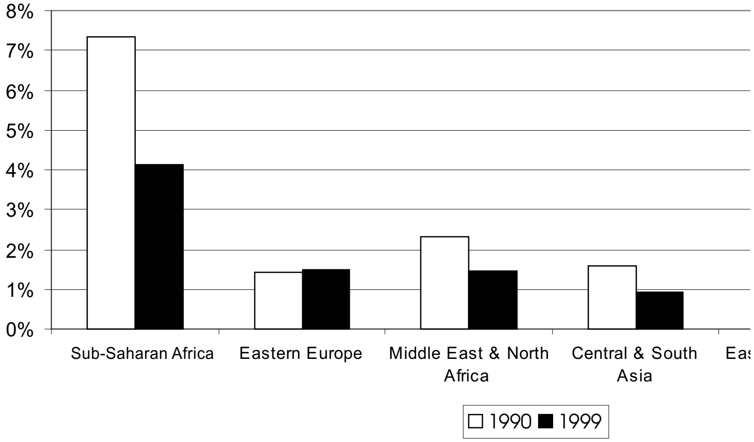
Graph 8. Variations in ODA 1998-1999



Source: DAC/OECD

Latin America

Graph 9. ODA expressed in % GNP 1990,1999



Source: DAC/OECD

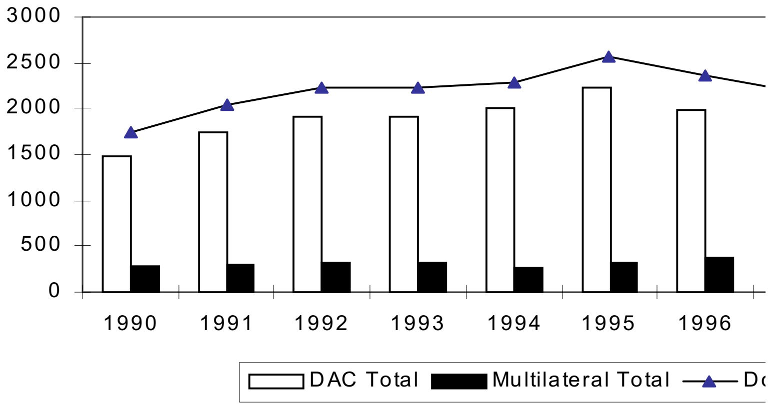
regions, due to the emergence of new ODA claimants, mainly Eastern Europe and some Asian regions.

On analysing ODA in Latin America as a percentage of Gross National Product (GNP), the variation did not go over 1%, which in 1999 made it the lowest in comparison with the rest of the regions, and the one that declined most (in percentage terms) since the beginning of the 1990s.

Technical Cooperation still rising

Since 1997, International Technical Cooperation (ITC) has been showing an increasing trend. In 1999, the amount of ITC totalled US$2630 (see Graph 10). This was mainly due to increases in US cooperation contributions (US$275 million) and to multilateral cooperation (US$189 million).

Graph 10. Latin America: Total Technical Cooperation (in US$millions)



Latin America

In 1999, the largest ITC contributions (in US$ million) came from the US (1095), Germany (346), Japan (323), France (166) and Spain (79). (See Table 15).

The main donor countries showing a reduction in contribution percentages with respect to 1998 were: Holland (51%), the UK (27%), Spain (18%), Canada (15%) and Germany (11%).

At the receiving end, the main ITC destinations in 1999 were (in US$ million): Brazil (271) Colombia (224), Peru (209) and Bolivia (192).

Table 15. Main sources of ITC in Latin America, 1997-1999 (in US$ million)

	1997	*1998*	*1999*
United States	510.00	819.56	1094.96
Germany	362.39	386.95	346.11
Japan	317.21	276.15	322.94
France	154.71	170.56	165.38
Spain	78.40	96.41	79.46
Holland	170.19	159.57	77.55
United Kingdom	78.41	83.55	60.98
Canada	60.83	60.10	51.16
Belgium	43.99	41.97	38.74
Switzerland	45.59	42.49	16.92
DAC members Total	1886.72	2203.75	2305.26
Multilateral Total	285.78	135.52	324.88
Donor Total	2172.50	2339.27	2630.14

Source: DAC/OECD

Plan Colombia: cooperation towards war or peace

ALOP

Colombia, a country with enormous resources, has been gravely affected by drug-trafficking and violence problems that threaten its economic and political foundations. Of the 30,000 violent deaths reported in the year 2000, 3000 were politically motivated. And the spiral of violence is growing. According to official figures, at least 769 Colombians were murdered in the first quarter of 2001, twice the number reported in the same period the previous year.[2]

The issue is not of exclusive concern to the Colombians. The repercussions of the conflict extend to neighbouring countries. This concern is not limited to the potential 'vietnamisation' of the conflict or its expansion beyond borders by the military, guerrillas and drug-traffickers. Also at play are American geopolitics by which the US, beyond eradicating the drugs trade, aims to maintain its hegemony over the Andean region. This is at a time when ghosts, such as Hugo Chávez's populism in Venezuela, political instability in Ecuador, and social mobilisation and a weakened Quiroga-Banzer regime in Bolivia, are looming. The extent of the implications of 'Plan Colombia', as the regional reconstruction, development and peace plan was first known, became evident when light was shed on the obvious connections between the Montesinos-Fujimori mafia and the CIA, drug- and arms-trafficking.

Plan Colombia has gone through various phases. It was initially proposed by the Colombian government as a development and national reconstruction plan in the context of a peace-making process. Later on, it was reformulated under US pressure, which induced a repressive approach to drug-trafficking and a geopolitical military focus. During negotiations with the European Union, the Plan acquired new characteristics as the priority was placed on peace-making and social development aspects. Finally, the current American President renamed the Plan the 'Andean Regional Initiative' (*Iniciativa Regional Andina – IRA*), extended it to neighbouring countries and included socioeconomic cooperation programmes, some of which had already been planned as part of previous cooperation programmes.

Plan Colombia, the US and the Andean Regional Initiative

Plan Colombia, as President Pastrana and his advisors conceived it at the end of 1998, aimed at peace, development, the respect of human rights and strengthening of democracy, by emulating the Marshall Plan applied to Europe following World War II. In second place, the Plan included a law enforcement/military approach to fight the illegal drug trade. This proposal, valued at US$7441 million (US$3922 in national contributions and US$3519 from international cooperation), laid out five strategies:

1. Support to sustainable production processes with the active participation of communities involved;
2. Promotion of human capital and attention to humanitarian issues;
3. Infrastructure for peace;
4. Development of institutions and strengthening of social capital;
5. Promotion of environmental sustainability.

However, towards the end of 1999, this 'local' Plan was transformed under US pressure with respect to its strategy and components. The main focus of the new strategy was on law enforcement/military action against drug-trafficking. Most of the international cooperation funding now came from the US and went to military components: more than 75% of total funds. President Clinton's visit to Colombia in August 2000 was key in transforming the Plan, when he declared in Cartagena that he considered the Plan a national priority issue for the United States.

Following this, on President Clinton's initiative, the US Congress voted in July 2000 to support an assistance package for Plan Colombia that totaled nearly US$1319 million for 2000-2001, in addition to the US$300 million aid planned for the year. In this new package, US$860 million was allocated to Colombia and the remaining US$458.8 million split as follows: US$170 million to neighboring countries (Bolivia, Peru, Ecuador and others), US$116.5 million to police/military FOL (Forward Operating Locations) type bases in Manta, Aruba and Curaçao, US$68 million to radar for customs services, US$55.3 million to the secret intelligence programme of the Defense Department, and an additional US$37 million to reconnaissance aircraft and other secret intelligence expenditures by the US Defense Department.[3]

The greater part of American assistance to the Plan was thus directed to the Departments of Caquetá and Putumayo in the South of Colombia, a coca-producing region with heavy guerrilla and paramilitary presence. Battalions of 900 men each, equipped with military helicopters – including up to 16 sophisticated UH-60 *Blackhawk* – reconnaissance and crop-fumigation planes, were formed.

In May 2001, the new Bush administration proposed the IRA and requested US$882 million for the 2002 fiscal year budget. On 26 July 2001, the Senate Committee on Appropriations approved a total of US$718 million. With respect to the administration's proposal, the cut basically affected the anti-drugs programme by reducing its budget from US$731 to US$567 million.

The Center for International Policy (CIP) in Washington highlighted how the Andean region (Bolivia, Colombia, Ecuador and Peru) has turned into a nodal point for American foreign aid for security issues. The Plan Colombia package introduced US$729 million in aid for the 2000-2001 period in addition to the US$500 million planned for in the normal budget. This represents 90% of the assistance provided to military and police forces in the western hemisphere, and 50% of the training budget.

The idea dominating the US anti-drugs strategy is to impose prohibition in production areas through repressive means. This implies an element of American military intervention (military advisors, equipment, etc.) and covert intelligence operations by the CIA and DEA, combined with interventions on the part of the local armed forces.[4]

US action in the fight against drug-trafficking is not transparent. Anti-drug policies are clearly subordinated to American geopolitical interests. Plan Colombia and what is now called the IRA demonstrate how the US concern is to intervene in Andean countries in order to safeguard its own interests. This is expressed in documents supporting US policy and has been highlighted clearly by the former Secretary of State, Henry Kissinger, who stated that Colombia had become the "greatest threat challenging US international policy". The paramilitary and guerrillas could create a situation of ungovernability, and there was a fear that a radical Marxist government, supported by money from the drug trade, could take power.[5]

In Latin America, US anti-drug policy has been questioned from various angles:

- Crop eradication has affected producing farmers, but not the drug trafficking industry.
- Forced crop eradication has aggravated conflicts in producing areas and become a factor contributing to violence, given the enormous conceptual confusion that bars the distinction between producing farmers, guerrilla fighters and drug traffickers. The American 'bludgeoning' policy, designed at the time of the Cold War, does not consider market issues and the population's survival.
- So-called alternative development programmes have not worked.

Latin America

- Anti-drug policies have given cause for American interference in the internal affairs of countries in the region.

Nonetheless, the most overt questioning of this policy stems from evidence of the United States' curious relations with prominent individuals in Latin American government circles, who are linked to drug-trafficking. In the interests of American national security, the US government has turned a blind eye to, and is alleged to have been an accomplice in, drug-trafficking operations. The cases of General Noriega in Panama and of Carlos Salinas de Gortari, and his brother Raúl in Mexico, are notorious in this regard. In addition, the strange alliances established in Peru between the United States and Fujimori and his omnipotent advisor, Vladimiro Montesinos are now being exposed. In the view of the United States and its anti-drug agency, the DEA, Fujimori's Peru was an important ally in the war against the drug trade and in US operations associated with Plan Colombia. It was not without reason that the US presented Peru with official certificates of good conduct and the US drug Czar met with Vladimiro Montesinos in Peru on two occasions. Furthermore, the CIA allocated a million dollars monthly to an anti-drug unit in the Peruvian Intelligence Service. Up until a short time before President Fujimori's hasty flight to Japan, the political and military leadership that governed Peru was maintaining regular contacts with US intelligence services. There is now overwhelming proof of the overt relations that Montesinos and the military leadership maintained with leading drug traffickers, as well as their involvement in arms-trafficking to Colombia.

European Support Group for the Peace Process

Thanks to the Inter-American Development Bank (IDB) and the Spanish government, a meeting was held in Madrid in July 2000 to form a European Support Group for the Peace Process in Colombia. This initiative had first been proposed by a Donors' Group to support Plan Colombia, but several European countries (Belgium, Holland, Germany and France) distanced themselves from the direction given to the Plan by the United States. At the Madrid meeting, the most significant European commitment came from Spain with US$100 million. The Norwegian government allocated US$20 million. Other loans were granted by multilateral organisations (US$300 million from the IDB) and US$70 million by Japan.[6]

In the European Union, divisions have appeared with respect to the US position on Plan Colombia. The most enthusiastic were Britain and Spain, backed by Javier Solana, the ex-Foreign Affairs Minister of Spain and currently Foreign Affairs representative of the European Union. Other European countries did not share his position. The European Union ended up explicitly distancing itself from the Plan in various resolutions, insisting on its intention not to support the Plan's military and repressive components, but rather its social aspects within the framework of the peace process.[7] Europe has been particularly conscientious in demanding that human rights be respected and that civil society be given a greater role to play, as well as criticising the use of chemical herbicides and biological agents that affect human health and the environment.

The European Union has instead been creating favourable conditions for peace talks between armed groups, the government and civil society.[8] At the third meeting of the Support Group, jointly organised by the European Commission and the Inter-American Development Bank, in Brussels, on 30 April 2001, the Commission committed 140 million Euros for the period 2000 to 2006, to cover aspects such as alleviation of the conflict's social impacts (displaced populations, children involved in armed struggle, alternative development, human rights and peace laboratories). A contribution of US$90 million is expected from remaining European Union members, to be added to the US$120 million already granted by Spain and Norway.

The Colombian government's discouragement with respect to European cooperation is noticeable. The Commission had initially talked about matching American assistance to social development programmes (US$300 million), but did not. Three quarters of Spanish assistance took the form of refundable loans. The US$18 million pledged by the German government had already been allocated but is now incorporated into Plan Colombia. Something similar occurred with the US$70 million from Japan.

A proportion of the European assistance has been channeled through NGOs. The most important case is that of the Magdalena Medio programme, which is to receive US$34 million (14 in its first stage, in November and 20 in two years) for a peace laboratory. This is a holistic approach that touches on various issues, is conceived regionally and where a diversity of public and private organisations converge, following transparency and joint-responsibility principles.

Notes

1 We wish to thank our colleagues Hugo Cabieses and Federico Negrón of the Peruvian Center for Social Studies (*Centro Peruano de Estudios Sociales – CEPES*) for their collaboration.

2 The Social Solidarity Network (*La Red de Solidaridad Social*), a state organisation, reported 529 killings by the paramilitary (*Autodefensas unidas de Colombia*) as opposed to 159 over the last period. The remainder is due to guerrilla action (FARC, ELN).

3 Figures from the US State Department and the Center for International Policy in Washington (CIP).

4 The United States follows a cooperation policy on alternative development policy, which, due to its small volume, cannot achieve the objectives set to encourage coca substitution. It has instead turned into an additional pressure mechanism on governments obviously interested in receiving policy resources.

5 Henry Kissinger, *Does America Need a Foreign Policy?* Simon & Shuster, 2001.

6 See the report ‘Europa y el Plan Colombia’ in *Drogas y Conflicto*, Basic Document Nº 1, edited by the Transnational Institute of Amsterdam, April 2001.

7 A first resolution, approved by a large majority in the European Parliament on 1 February 2001, warns that “Plan Colombia contains aspects that go against cooperation strategy and projects to which Europe is committed, and puts its cooperation programs at risk.” See also the communication of Foreign Relations Commissioner, C. Patten, to the European Commission on the issue of Colombia, 17 October 2000.

8 See European Parliament Resolution on Plan Colombia and peace talks of 1 February 2001.

Out of the Tower of Babel

Mariano Valderrama (CEPES-ALOP)[1]

We are in need of a new common agenda as the starting point for improved coordination between the various cooperation agencies and NGOs, between northern and southern NGOs, and among southern NGOs. Although the official discourse insistently reiterates the importance of 'country coordination', 'North-South partnership' and 'Southern ownership', in the real world, activities are fragmented and dispersed, and relations between North and South are very asymmetrical.

The issue of fragmentation in the work of NGOs and international cooperation has emerged in several studies conducted in Peru. Despite the fact that they manage a significant percentage of international cooperation resources, national and international NGOs have been unable to produce a common agenda in the national and regional arenas. They are institutions that, as the Tower of Babel, speak many different languages in spite of facing the same challenge. Each institution wishes to see its stamp on results and obsesses over projects that have little to do with the agendas of the peoples and the regions on which they are imposed.

NGOs: the increasing weight of conditions

When foreign aid conditions were discussed in the 1970s, they usually referred mainly to adjustment programmes from multilateral financial organisations, or related to donor governments imposing aid, with commercial and political strings attached, on southern governments. More recently however, this policy of conditions has also become a frequent practice between public and private international cooperation and southern NGOs, despite the proclaimed right to 'ownership' that official donors attribute to the South, and the discourse on South-North partnership laid out by northern NGOs and foundations.

A group of researchers who recently carried out a study on partnership pointed out that, even though the partnership model is officially considered an ideal that should rule North-South relations, in practice, the concept of partnership seems to be doing more harm than good in improving the system's credibility and results.[2] Another expert stressed that the notion of partnership had become a rhetorical one, empty of meaning.[3]

The type of conditions imposed on southern NGOs varies according to the cooperation agencies involved. In the case of official agencies, the tendency is to put projects out to tender by calling on southern NGOs to carry them out within certain parameters. Nowadays, the importance that agencies such as USAID have acquired in funding projects on food security, the fight against poverty, alternative development, health, etc. is highly significant. The margin left to NGOs to contribute strategies and formulate projects is therefore greatly reduced. Their fundamental role is that of a hiring office or contractor. A different and positive experience has been the case of the Peru-Canada Fund, which has become the second most important source of bilateral funding of Peruvian NGOs and has shown greater receptiveness to local organisations' ideas.

Conditions on the part of northern NGOs vary. The development agenda is increasingly defined in the North, around issues such as the environment, gender and democracy. Other conditions are added to these thematic impositions. They relate to project planning and monitoring and evaluation. The precept of accountability is now also being imposed. However, this accountability is curiously owed to the sources providing funds, instead of to the people to whom cooperation is supposedly directed ('the poor').

Unlike in the past, when there were attempts to establish a dialogue on agendas and forms of cooperation, decisions are now increasingly made in the North with the message to 'take it or leave it', implying a philosophy of 'he who pays the piper calls the tune'. It is true to say that not all northern NGOs act this way; there are some that hold horizontal conversations with their counterparts. The tendency, though, is increasingly to impose specific criteria.

In spite of years of sustained collaboration with southern NGOs, northern NGOs are reluctant to affirm confidence in their counterparts.[4] In the 1970s and 1980s, attempts were made to create various forums for dialogue between northern NGOs (for example, NOVIB, CORDAID, Bread for the World) and their counterparts. These forums were based on joint responsibility. The original meaning of 'partnership' was understood as a code of conduct that reflected moral, political, ideological or spiritual solidarity between northern and southern institutions that shared a common concern for the cause of social change, and established the basis on which to define a single agenda and common action plans.[5]

Many of the forums were set aside later on, or turned into information clearing houses or project monitoring and execution databases. In previous times, agencies had more resources available to them to maintain regular conversations with their counterparts. Nowadays, due to rationalisation, NGO workers must cover a greater number of projects, produce numerous reports and deal with endless bureaucratic procedures. And to compound this situation, successive and often chronic reorganisations take place in northern NGOs. The quality of the dialogue is therefore diminished. A general view of social processes is disappearing and being replaced by a project-based rationale. The resulting agenda is thus increasingly changeable, as are the reasons for funding approval.

The anguish that institutional survival generates is the spectre that haunts NGO directors and distracts them from reflecting on fundamental issues.

Today, a new context of global networks and alliances on issues such as human rights (Amnesty International), fair trade, social spending (Social Watch), international cooperation (Reality of Aid), debt (Jubilee 2000), and NGO capacity building (International Forum for Capacity Building) has emerged. These forums seem to facilitate more horizontal dialogue in increasingly political perspectives. Nonetheless, a very small part of NGOs' human and financial resources go into network activities. It must also be noted that even networks such as Jubilee 2000 seem tinged by asymmetrical North-South relations. Demonstrations such as the one in Seattle are also basically northern. Northern and southern perspectives can be difficult to mesh. The North's analysis tends to emphasise the analysis of their countries' official policies, while the South's analysis focuses more on practices.

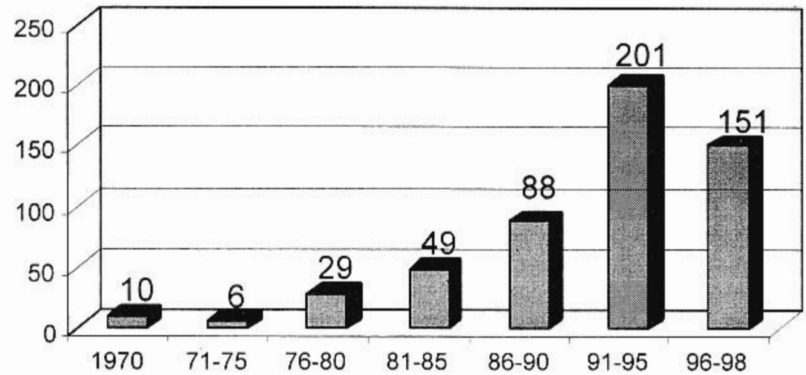
Limitations to dialogue are not only the result of different perspectives from North and South. They also have to do with the absence of common agendas, the institutionalisation of NGOs and their absorption into the international aid regime – aid industry. The anguish that institutional survival generates is the spectre that haunts NGO directors and distracts them from reflecting on fundamental issues.

NGOs and Development Coordination in Peru

In recent years, Peru has been one of the countries with the highest concentration of grants from private international technical cooperation in Latin America. This coincides with a rapid growth of national and international NGOs. Today, more than 100 foreign private organisations operate in Peru and at least 500 national NGOs are relatively consolidated.

In spite of this, the absence of a method to determine the amount and origin of the funds the sector manages, as well as the characteristics of the projects conducted (considering variables such as

Graph 11. Peruvian NGO growth by foundation date 1970 - 1998

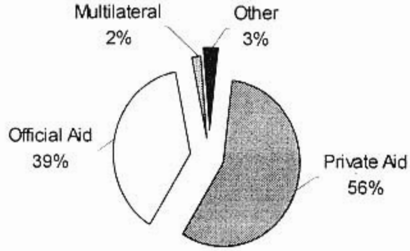


Source: PACT *Directorio de ONGD 1999*. Lima: SECTI, 1998

central themes, geographical location and actors involved), is becoming increasingly obvious. The information vacuum has come to constitute a significant obstacle in developing any capacity building strategy for NGOs as it hinders transparency and a more rational use of resources.

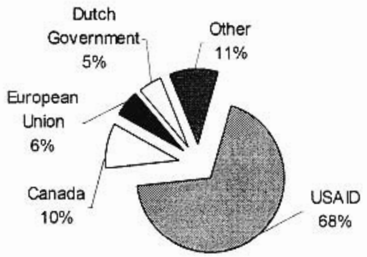
The Coordinating Body of Foreign International Cooperation Organisations (*Coordinadora de Entidades Extranjeras de Cooperación Internacional – COEECI*) commissioned a study in the late 1990s that, for the first time, systematically reported the contributions of private international cooperation to Peru's development. This study compiled empirical information on the resources that international NGOs managed in Peru during the 1998-1999 period.[6] It showed that almost 50% of the official technical cooperation resources Peru receives are channelled through foreign private international cooperation organisations. However, despite the fact that most of these resources are managed by a reduced number of agencies[7] and that their use tends to be concentrated on certain central themes and in particular geographical areas, inter-institutional coordination remains very poor.

Graph 12. Type of aid received by selected NGOs 1998-1999



In the study *Coordination Regional y Cooperación Internacional* (Coordinated Development and International Cooperation), sponsored by ALOP-IFCB, the picture was completed by including another dimension, that of national non-governmental development organisations. The study analysed the funding of a sample of 56 among the best-known NGOs in the country. It found that, not only did local NGOs manage resources from international NGOs (which had been included in the previous study), but that they also had access to other funding sources, and most importantly, that they received a growing volume of resources from official aid (including, first and foremost, USAID, Canadian Counterpart Fund and the European Union), as well as resources from foreign aid channeled through the Peruvian government.

Graph 13. Composition of Official Aid Received by Selected NGOs 1998-1999



NGOs and Regional Coordination

In our research, central attention was given to coordination mechanisms between NGOs at regional level. We tried to answer the following questions:

- What progress has been made and what limitations exist in the coordination of activities between the various national and international NGOs operating in the different departments in Peru?
- What are the achievements and limitations in consulting on and coordinating activities between NGOs and other bodies, such as the central government, local governments, official cooperation agencies and regional social actors?
- How integrated are NGOs' activities within the framework of common agendas and regional or sectoral development strategies?

To analyse the topic in the regions, we called on a team of consultants and on an institution to coordinate the study and the discussion in three departments of Peru: Cajamarca in the northern Highlands, Cusco in the southern Highlands and Piura on the northern Coast. The reports were debated among institutions in each department in order to produce proposals for the future. Finally, to discuss the conclusions of the study and of the different forums, and to examine the challenges ahead, a national forum was organised involving consultants and NGOs from the three departments, representatives from regional movements, national NGOs, international cooperation agencies, and organisations specialising in NGO capacity building.

The regional studies on International Cooperation and Coordinated Regional Development conducted in Cajamarca, Cusco and Piura provided us with a perspective distinct from that derived from experiences in local coordination. In this case, the aim was to analyse the coordination linking the work of NGOs within a wider scope – departmental or regional – and to examine interrelations involving other actors (central government, international cooperation, private sector) around a regional development agenda and strategy.

A clear initial conclusion emerges from a general assessment of the study: curiously there have been interesting experiences of development coordination at the micro level but there is a clear lack of coordination at the intermediate regional level.

NGOs have taken part in several exercises of coordinated planning of local development with the participation of municipal authorities and representatives from government and local organisations. The experience of creating and putting into practice democratic mechanisms to enable people to take part in development planning and management, is a positive one.

Although there is unquestionable progress and potential in the coordination process of local development, being aware of *limitations* is also important:

- Inter-institutional coordination functions well, up to the formulation of development plans. Obtaining resources, however, has proven more problematic due to the fact that ad hoc collective funds are rarely available. Each institution disposes of resources for particular projects and wants to emphasise the stamp of its institution.

- It would be pertinent to reflect on exactly where the functions and means of NGOs, regional and local governments and coordination agencies end, and where the role and responsibilities of the state begin. Certain tasks cannot be taken on by only one or the other. In some cases, NGOs, in alliance with social organisations and local governments, have overestimated their possibilities of reaching important development targets because the dimension of the task was not considered. Indeed, some sizeable tasks are incumbent on central government and citizens have the right to demand that it carry them out.

- At present, coordinated development plans at district level respond basically to a survival strategy. In other words, they concentrate on dealing with the basic needs of the population. They have the advantage of stemming from people's concrete interests, but also the limitation of integrating those needs only partially into a strategic understanding of development. More thought goes into specific projects than into creating economic networks and regional markets. The absence of a strategy for regional competitiveness is evident.

- There is an obvious need to move toward the formulation of regional development plans. Development projections are confined to the local sphere; there are no clear coordinated links with the broader regional arena. A regional view of development would allow: planning of infrastructure projects and key investment programmes; design of regional proposals to face the severe problem of youth unemployment; and a clearer perspective on the demands regions can make to central government.

At a time when the flow of international cooperation is being increasingly restricted, a certain degree of irrationality and lack of coordination in resource management is becoming apparent, due to the absence of a common agenda, of information on ongoing projects and of adequate exchange and coordination mechanisms. NGOs and international cooperation agencies structure their projects according to specific institutional criteria without placing them within the framework of a regional development strategy. This situation is exacerbated by the acute centralism in Peru. This results in a significant number of international cooperation projects being managed from the capital, and in very limited opportunities to make autonomous decisions and develop adequate coordination at the regional level.

Among the most severe limitations on the work of NGOs and international technical cooperation are:

- The lack of adequate information on the funding provided through international cooperation to government agencies as well as national and international NGOs. This coincides with the absence of information on projected investments and public spending in the regions. Neither the central government, nor regional governments, nor NGO coordinating bodies can give precise information on development projects currently underway. Equally surprising is the fact that the volume of resources that NGOs manage is much larger than that estimated. This obliges NGOs to be aware of the big responsibility they have to assume.

- This shortage of information demonstrates a transparency problem in resource management on the part of both the state and NGOs. The accountability process ends up as a mere obligation to turn over the books to donors instead of accounting publicly to the population at whom development projects are aimed. It was, however, interesting to observe how, after an initial refusal to make their information public for the study, many NGOs decided to cooperate and considered having a complete outline of ongoing projects very positive. Fortunately, attitudes in the public sector have also changed since the fall of the authoritarian Fujimori regime.

- Another limitation on the performance of NGOs is the fact that their initiatives result mostly in isolated projects conceived from an institutional, sectoral or local rationale, instead of in the framework of regional development strategies.

- Certain transitional regional governments have designed regional development plans. But, given that they had neither autonomy nor real authority, and were not able to take decisions on public spending in their regions, or keep track of it, these plans ended up as no more than office documents. Even in the case of Piura, where there are broad arenas for discussing regional development strategies – such as the Regional Initiative (Iniciativa Regional), Regional Proposal (Propuesta Regional) and Piura 2010 – that allow substantial conversations among multiple regional actors, such as public agencies, universities, unions and professional associations, NGOs, etc., the plans drawn up did not turn into a central reference to guide the action of institutions and their projects.

- There have been interesting regional coordination experiences in sectors that deserve being consolidated. Such is the case of the coordination exercised by Coincide (Cusco NGO network) in the fields of health and coordinated local development, as well as that of Piura 2010 in the field of rural development.

A fundamental challenge is that of promoting the coordination of the local consultation and coordination groups existing in Peru, and then trying to link consultation groups at district level in provincial arenas, in order to move toward a process of departmental and regional integration. The constitution of Red Perú, a forum composed of about 50 local development consultation groups and formed for the same purpose, is a positive sign.

Political perspectives and proposals for future NGO initiatives on development coordination

In spite of the complexities of the Peruvian political process, the fall of the Fujimori regime has opened the way to increasingly integrated work between NGOs and the state and for the decentralised coordination of regional development strategies.

- The main political forces in place have expressed their intention of going ahead with the decentralisation process and reinstating regional and local governments' responsibilities and autonomy.

- There has been progress in terms of more transparent and less political management of social programmes, which had constituted a source of political favoritism and vote-buying.

- In clear contrast with the previous regime, the Peruvian government has committed itself to transparency and has enacted a law that compels all government agencies to present regular and complete reports on public finances to the citizens of Peru.

- Different dialogue and coordination mechanisms have been established between government and civil society on issues such as the struggle against poverty, rural development, drug eradication, education, etc.

The above scenario opens up a range of possibilities for the development of coordination arenas at regional and national levels, as well as for NGOs to have greater influence. But it also sets out the need for more collective and coordinated actions on the part of NGOs. Future NGO strategies need to consider the following:

- It is essential to go beyond the current fragmented work style based on a rationale of isolated projects disconnected from a collective regional development strategy. The capacity of NGOs to coordinate among themselves and integrate into a broader social fabric must be strengthened. The regional arena and the development of regional agendas (in coordination with the various social actors) must become an important reference and starting point for capacity-building plans. The impact of NGOs cannot be measured solely through successful but isolated projects, but must rather be considered according to its contribution to regional development and the building of local democratic institutions.

- A major obstacle to increasingly coordinated work comes from the growing number of conditions imposed by funding agencies and northern NGOs, who define their policies, priorities, and intervention methodologies in their own countries, thus turning southern development organisations into 'clients.' This occurs despite the proclaimed ownership right that official donors[8] attribute to the South, and the discourse on South-North 'partnership' set out by northern NGOs and foundations.

- Agencies working in the same country or in the same geographic area should jointly promote meetings with local social actors, in order to determine, in the field, how viable proposals are, what is the population's perspective and what constitutes the most rational and coordinated use of resources.

- Transparency in managing international cooperation resources is important. The concept of accountability must be restated so that it will no longer be understood as the mere obligation to report expenses and activities to funding sources. NGOs must subscribe to a code of ethics and transparency by committing to make balance sheets and activity reports public. The Internet could become an instrument to facilitate access to such information.

There is an urgent need for open dialogue between northern and southern NGOs on the issue of how to build true partnerships.

Notes

1 Researcher with the Peruvian Center for Social Studies (*CEPES*) and coordinator of ALOP's Working Group on International Cooperation

2 *Questioning Partnership, The Reality of AID and NGO Relations*, East Anglia, IDS Bulletin, Vol. 1 Nr. 3, July 2000. See introduction by Alan Fowler.

3 K. Malhotra 'Something Nothing: words, lessons in partnership from southern experience,' in L. Hately and K. Malhotra, *Between Rhetoric and Reality: Essays in Partnership on Development*. Ottawa: North South Institute. 1997, pp. 33-56.

4 A study resulting from a series of interviews with British NGO Directors displayed the prejudices existing regarding the issue. A. Bebbington and R. Ridell, *Donors, Civil Society and Southern NGOs: New Agendas and old problems*. London: IIEd/ODA, 1995. See also: Firoze Manji, 'Collaboration with the South: agents of aid or solidarity', in *Development, NGOs and Civil Society*. Oxford: Oxfam, 2000.

5 See introduction by Alan Fowler in the aforementioned publication, *Questioning Partnerhips*.

6 Mariano Valderrama, Federico Negrón and Mario Picón: *La contribución de la cooperación privada al desarrollo* (The Contribution of Private Aid to Development). Lima: COEECI, 2000. In 1999 foreign NGOs managed 154 million dollars

7 Among the hundred or so private cooperation organisations represented in Peru, ten of the largest ones monopolise 65% of available resources.

8 The new development paradigm proclaimed by donor countries in the OECD-DAC document 'Shaping the 21st Century' (*'Moldeando el Siglo XXI'*, Paris, 1996) affirms the right of Southern countries to play a leading role in development and have ownership of cooperation programmes.

Partnership questioned: NGOs and external conditionality

ALOP[1]

As the issue of the conditionality attached to foreign aid is the main focus of the *Reality of Aid 2002* report, it was considered that the sphere of the analysis should not be limited to official bilateral and multilateral aid, but should also include private aid, especially since the report is produced by NGOs at a time when the conditionality imposed on them is tending to increase.

The issue of the conditionality that Latin American NGOs face has been addressed in a first study conducted by ALOP. Our study showed that the types of conditions imposed on NGOs vary according to the diversity of national contexts and funding sources (there are differences between official and private aid, as well as between the various agencies), and also reflect the variations in the negotiating capabilities of NGOs. However, beyond the diverse reality of the different institutions and countries, we were able to identify common trends.

The work of Latin American NGOs has not only been affected by variations in aid volumes, but also by changes in the criteria used to approve projects and in the style of relations with northern funding agencies. Short-term projects now predominate and an erratic definition of agendas and priorities, regarding both concentration in countries and issues, has emerged. All this threatens the institutional development of NGOs, as they consider the medium term and sustainability. As was pointed out in an OECD study[2], NGOs across the world have been experiencing financial insecurity such that it would have bankrupted any business. Furthermore, the long and inefficient processes that lead to project approval are based on conceptions that are out of step with the times and jeopardise professionalism and notions of sustainable development.

The financial crisis is not exclusively or necessarily linked to a reduction in institutional resources year after year, but rather to a funding system based on short-term and highly 'volatile' resources. Funds come from a diversity of sources, address a variety of issues and come with diverse conditionality. This has led to dispersion, which has produced a loss of focus in the work of the institutions and created uncertainty, making any attempt at medium-term institutional planning difficult, and forcing institutions to exhaust themselves in sustained efforts to continuously seek new funding sources.

The new criteria and requirements are: emphasis on quantifiable results rather than objectives, greater control on resources, the tendency to fund specific projects, and the disappearance of the concept of *programmes* and the return of that of *contracts* in carrying out projects. It has turned northern NGOs into something similar to 'bank tellers' distributing funds to projects. The situation has worsened with the generalised tendency to cut jobs for budgetary reasons. Northern NGO employees now concentrate more on administrative tasks and have less and less time for dialogue and monitoring activities in the field.

In view of all this, what has happened to the dialogue between northern and southern NGOs? The answer yields a loss in terms of quality. Notions such as 'solidarity' and 'partnership' have been diluted.

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Relations are increasingly shaped after criteria and conditionality imposed by the North. International solidarity has therefore lost its motivating impulse and been replaced by new ideologies, such as, for example – and maybe the most significant – the ideology of short-term success and pragmatism dominated by the concept of short-term criteria and projects, in lieu of programme and development approaches. The criteria used to assess project efficiency and impact did need to be adjusted and revised, but this did not necessarily imply discarding an egalitarian view of cooperation between partners in the North and South. And another question must also be asked: why is this reductionism to numbers and quantities appearing when, given the diversity of local contexts and cultures in the world, it should be necessary to insist precisely on 'setting up specific arenas', as the work flag and comparative advantage of NGOs?

In order to deepen our study on the issue of partnership and conditionality for funding Latin American NGOs, we carried out an empirical study on the changing relations between northern foundations, NGOs and agencies on one hand, and Latin American NGOs on the other. This was done by examining the degree of symmetry or asymmetry of relations, and which criteria predominate in the orientation of programmes and projects. In addition to reviewing the general literature on the issue, case studies were conducted in four countries: Brazil, Guatemala, Nicaragua and Peru. These countries were selected considering that the flow of foreign aid to their NGOs has been significant for some time now, and that a complex set of ties has been established between entities in the North and the South. A series of interviews with the directors of representative NGOs was conducted and forums were held in each to discuss results and propose alternatives.

The same questionnaire was used in all the interviews and touched on the following aspects:

- Evolution and diversification of funding sources.
- Changes in relations between Latin American NGOs and their counterparts in the North.
- Aspects in which major conditionality from northern funding organisations is expressed.
- Issues for which northern funding agencies provide greater resources.
- Issues considered priorities by Latin American NGOs, but for which it is difficult to obtain foreign aid.
- Comparison of the flexibility toward Latin American NGOs on the part of the various funding sources.
- Evaluation of the dialogue between southern NGOs and northern NGOs and cooperation agencies.
- Suggestions to improve the quality of the South-North dialogue.

Imposing a new global agenda

The relations between North and South have substantially changed since the fall of the Berlin Wall, the collapse of the socialist bloc and the peak in neo-liberalism. The North tends to impose a single global agenda that defines cooperation policy and imposes its criteria as conditionality. The reduction of global foreign aid volumes has brought on greater competitiveness and greater demands when resources are allocated.

The increasing importance of public subsidies from northern governments, first to NGOs in their countries, and then to southern NGOs, stems from the more stringent imposition of an official agenda. Michael Edwards and David Hulme exposed this on summarising the discussions held at the Second International NGO Conference in Manchester.[3]

The report from Brazil revealed how the hegemony of neo-liberal thinking and the questioning of the efficiency of international cooperation in eradicating poverty have provoked defensive reactions among northern NGOs. Their weakness in maintaining their own conception within the perspective of development was displayed as they frequently adopted the viewpoint of the World Bank and other official agencies. As a result, they took on projects of a more social-assistance nature, or spearheaded massive humanitarian aid programmes in situations of social emergency, in order to obtain funding. In that sense, an instrumental rationale has been consolidating itself in the North regarding the fight against poverty, in contrast with the structural view that NGOs in Latin America had been proposing.

A step backward has taken place in the case of the European NGOs that had been working with NGOs in Latin America since the 1960s and 1970s with a view to fundamentally changing our societies. For instance, the report from Guatemala points out that, although European NGOs are closest to Guatemalan NGOs and that there is still plenty of agreement in their perspectives, European agencies have changed significantly and now place too much emphasis on quantitative aspects, thematic and instrumental requirements, and imposed ways of coordinating and performing. Some consider that these changes are due to the policy dictates of European governments, to which the NGOs offer little or no resistance, or to the replacement of their most senior personnel. The reference to generational changes has emerged in various countries. The more politically inclined senior professionals, who shared and supported the historical struggles for liberation of the peoples of their counterparts, have generally been replaced by a new generation of officials, who feel more responsibility toward the administrative authorities of their countries than toward project beneficiaries. They are also more influenced by the new instrumental aspect of development. A positive aspect of this change worth mentioning has been the importance of writing project proposals that are better thought out and have clearer impact indicators.

One of the main changes in the focus of cooperation relates to the fact that activities are programmed exclusively on the basis of projects, while losing sight of the process and development perspective.

In what fields is conditionality imposed most clearly by northern NGOs and agencies on southern NGOs? The results of this study were that conditionality is mostly imposed in three areas:

i) agendas and priority issues;
ii) location focus;
iii) programming, monitoring and evaluation and accountability systems.

The first form of conditionality regards the definition of an agenda that prioritises certain issues and leaves out others. Moreover, not only are certain issues imposed – such as gender equality and environmental protection – but also the manner in which they must be addressed, which corresponds to notions of these issues developed in the North.

In some cases, this is summed up by the fact that NGOs see themselves forced to accept activities according to themes and with criteria imposed from outside. But such conditionality is also empty at times, as shown in the report from Guatemala: priority issues are *included* in every activity but not really integrated.

Many southern NGO directors expressed the opinion that one of the areas in which northern NGOs impose conditionality more forcefully is in requirements of a formal nature: forms; planning; monitoring and evaluation – PME – systems; accountability; indicators; etc. In Guatemala, the Programming-Monitoring-Evaluation system induced from the North has proven to contribute positively to sorting out project management. The problem is that it has been imposed as a universal model and the only planning tool. The logframe does not adequately contemplate what the project means to the community. There is the added inconvenience that the planning system offers little flexibility in adapting it to specific contexts, which often change.

There is a problem with the particular criteria that each northern agency uses for NGOs to account for their work, which means that southern NGOs, working with various cooperation sources, are forced to dedicate large amounts of resources – such as time and personnel that no one pays for – to preparing reports in accordance with the requirements of each agency.

Priority and non-priority issues in the North

From the perspective of Guatemalan NGOs, priority issues for *northern* agencies are gender, the environment, local government and democracy. A very similar perception exists in Nicaragua, where priority issues for northern agencies are considered to be gender, the environment and local government, as well as local development, civic participation and community health. In the case of Brazil, priorities such as gender, the environment also come up and others,

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such as income generation, micro finances, ethnic groups, children and youth have also been integrated. Northern and southern NGOs often have different understanding of such 'priority' issues.

Among the issues for which obtaining funding from the North is most difficult, there was consensus among the four countries regarding the limited disposition to contribute to strengthening institutionally Latin American NGOs through equipment and wages. The directors of the Guatemalan NGOs stated that the demands for efficiency made by northern agencies were somewhat contradictory, since they resisted allocating resources that would guarantee the hiring of highly qualified professionals. Another complaint emerging in many countries was that, although innovative projects are promoted in the North, there is little disposition to fund the initial expenditures required to establish them. In the various countries, it was pointed out that there has been a reduction in the area of training popular organisations and supporting unions and social movements. There was broad agreement among Latin American NGO directors on the growing reduction of resources allotted to studies and knowledge production.

North-South Dialogue

On experiences of dialogue between northern and southern NGOs, the report from Guatemala estimated that there was no knowledge of truly democratic exchanges. The efforts of some donor agencies with their counterparts – as in the case of IBIS, which holds meetings four times a year with its counterparts to discuss and jointly design strategies for the following exercise – are known; as are those made by Bread for the World, EZE, ICCO and Dan ChurchAid, with the limitation that only their counterparts are invited.

Starting in 1994 in Brazil, a very ambitious programme of linkage and dialogue (*Programa de Articulación y Diálogo – PAD*) was launched among European ecumenical agencies and Brazilian counterparts (NGOs and others). The following northern NGOs have taken part in the programme: the Norwegian International Agency, Bröt für die Welt (Bread for the World), Christian Aid, EZE, ICCO and Solidaridad. The objective of this programme has been to contribute to the establishment of a new cooperation pact. It has also aimed to develop a systematic dialogue and launch common coordinated actions, having adopted the human rights question (economic and social) and the institutional and organisational development of Brazilian NGOs as core themes of their work at this stage. Nonetheless, it seems as though the ecumenical linkage process has become politically empty in recent years.

The opinion of the chair of the Peruvian NGO, DESCO, reflects very well the feeling of the majority of directors of Peruvian NGOs on the issue of North-South dialogue platforms:

"Strictly speaking, there are no significant arenas for exchange or actual opportunities to build shared agendas. Of course, specific northern NGOs have their own platforms of counterpart and local partners, but the reasoning here is mostly functional, given that influence on dialogue is quite limited, and that the dialogue is restricted to aspects of interest to the parties involved. Some counterpart platforms have become exchange arenas in name only and have lost their meaning and basic capacity. It should be pointed out that local NGOs are partly responsible for this situation, lacking, as they are, the most minimally significant arenas to coordinate and link – i.e. representation. Their capacity to exercise pressure and generate proposals is therefore lost in the bilateral relations that each individual institution may develop."

There were references to the functioning of various Counterpart Platforms: Misereor, NOVIB, Bread for the World, the EZE Counterpart Arena and the Counterpart Forum of the German Agro Action. In general, none of these has moved beyond exchanging information on specific issues and isolated experiences. Today, the dialogue refers mostly to expenditures, projects and specific issues. There exists a clientele-type relation and the work done overlaps that of NGO networks. The platform model is thought to be coming to an end, not only because of a change in conceptions (from solidarity to technocracy), but also because its clientele structure has constituted an obstacle to its work.

Dialogue forums and opportunities are slanted according to the moment and, in general, depend on northern NGO initiatives. NGOs show significant weakness in their difficulty to collectively address this challenge, which has generally ended up being resolved bilaterally: each southern NGO with its northern counterpart. NGO networks have promoted consultation and coordination on specific issues, instead of a national agenda. This has coincided with the depoliticising process of NGOs.

The different country reports show that the new agendas and alliances that call on northern and southern NGOs in a global world are positively valued. The formation of the International Oxfam Network (which brings together the various Oxfams from the UK, the US and Canada, Novib and Intermón) has demonstrated the search for a dialogue with southern NGOs from a more substantial political perspective, relating to the process and not only to projects. The Social Forum of Porto Alegre and initiatives such as Social Watch further open up possibilities for a more political dialogue.

Facing the challenge to build a new consensus

Among the Latin American NGO directors interviewed, a consensus emerged on the need to achieve better levels of coordination among local NGOs, move forward in the formulation of a common agenda and launch a negotiating work group.

The study also compiled the following challenges to be faced in the near future, according to the consensual view of the interviewees:

- Concerted action on the part of southern NGOs sharing a strategic vision to build their own agenda.
- Shared agenda of northern and southern NGOs on the issues of democracy, civil rights and citizenship, human rights and decentralisation, to develop alliances and carry out campaigns.
- Institutionalisation of an ongoing dialogue group between northern and local NGOs.
- Important role of networks both national, such as ABONG, regional, such as ALOP and international, such as the International Forum for Capacity.

It must be clarified that, if the dialogue between North and South is to be fruitful, it cannot be confined to technical and operational aspects; it requires giving back consideration to concepts such as 'trust' and 'solidarity', and generating new views on development and international cooperation. Michael Edwards and David Hulme, drawing on the conclusions of the Second International NGO Conference, insisted that

"Northern NGOs must define their role and responsibilities with more clarity and seriousness in the future. This involves going beyond modernisation in terms of strategic planning, management, monitoring and evaluation. It also implies establishing a substantive and horizontal dialogue with their counterparts in the South." [4]

Notes

1 This chapter refers to a collective study conducted by Renata Villas-Bôas in Brazil, Carlos Benavente in Nicaragua, Maria Falla and Oscar Azmitia in Guatemala, and by Eduardo Ballón and Mariano Valderrama in Peru. Mariano Valderrama was in charge of the general coordination of the study.

2 Ian Smillie and Henny Helmich: *Non Governmental Organizations and Governments*. Paris: OECD, 1993.

3 NGO Performance and Accountability. London, Earthscan and Kumarian Press, 1996

4 NGO Performance and Accountability, London. Earthscan and Kumarian Press, 1996.

Part V
OECD

Promoting ownership and gender equality

Brian Tomlinson
Canadian Council for International Cooperation

Local ownership is 'a key principle of effective programming' for Canada's International Development Agency (CIDA). In a recently published strategy for improving aid effectiveness, CIDA intends to respond to development strategies that ''are developed by recipient countries – their governments and their people – and reflect their priorities'', and in doing so, ''[cede] more responsibility to developing country partners''.

Ownership implies relationships based on shared values, citizen empowerment and respect for sovereignty. Challenges identified by CIDA in implementing this approach centre on accountability, local capacity and authentic means for citizen participation. For CIDA, pursuing gender equality exemplifies these challenges: ''women are still under-represented in decision-making structures and specific strategies are often required to ensure their participation and the incorporation of gender analysis into programming strategies''.[1]

From the viewpoint of Southern development activists and governments, the central issue in development cooperation is not 'ownership' (i.e. what southern governments should do) but rather the many layers of northern donor-imposed conditionalities or 'policy undertakings' for aid, which profoundly affect the development options available to recipient governments and other 'partners'. These activists share a deep resentment about prescribed aid relationships and often ill-conceived external interventions in the social and political fabric of their countries. Economic policy conditions that accompany 'aid' have had significant adverse consequences for many millions of people who now live in poverty. The development challenge, in this later perspective, is not just improved capacity or 'good governance', but more fundamentally 'who decides, for whom' in aid decision-making, in a context where the dynamics of financing and power are extremely unequal. Can northern donors respect ownership, while avoiding practices of imposed conditionality?

Differing perspectives on aid no doubt reflect more profound debates about the place of values – international justice, equality and solidarity – rather than national interests. Many donor policies, including CIDA's, are increasingly influenced, on paper at least, by these values. For example, the objective for CIDA's 1999 *Policy on Gender Equality* is 'to support women and girls in the realisation of their full human rights.[2] The Policy is explicitly rooted in international human rights treaties[3] and the Beijing Platform of Action, which states that:

'The advancement of women and the achievement of equality between women and men are matters of human rights and conditions of social justice, and should not be seen in isolation as a women's issue. They are the only way to build a sustainable, just and developed society. Empowerment of women and gender equality are prerequisites for achieving political, social economic, cultural, and environmental security among all peoples.'

Beijing Platform for Action
Fourth United Nations
World Conference on Women,
Beijing, 1995, Paragraph 41.

For CIDA, tackling the root causes of gender inequality, according to the gender equality policy, is essential to achieving the Agency's goal of sustainable poverty reduction. The *Policy* moves beyond an agenda for integrating women into development and suggests the need for structural transformative change. The *Policy* assumes a proactive role for CIDA staff in promoting good practices in the design and implementation of projects, and in their control over the terms of programme assistance.

What lessons can we take from instances where CIDA has implemented its *Policy on Gender Equality* in overseas programmes? Do these instances represent 'imposed conditionality'? Are there credible donor practices that can preserve a respect for ownership of development strategies, while sustaining accountability to a substantial and progressive CIDA-initiated policy on gender equality? To pursue these questions, this chapter reviews some recent analyses of ownership as reflected in donor practices in support of Sector Wide Approaches (SWAps, which CIDA is piloting in a number of African countries). It also draws on some donor evaluations and interviews with selected CIDA personnel committed to implementing the gender equality policy. [4]

Understanding 'ownership' in donor relations

In donor literature, the notion of ownership is a commonsense expression of the effective limits of donor interventions to effect change in directions that *external actors* deem appropriate. It implies for most, including CIDA, that national governments must lead in all aspects of development policies and strategies, but must do so democratically and in consultation with key stakeholders. However, the tensions between the form of ownership by government (with the inclusion of other stakeholders) and donor policies and prescriptions for development are often not defined or analysed. In the words of a British analyst, national ownership raises the questions: 'Will donors stand back? How is eligibility for inclusion in consultation and debate determined and by whom? How are conflicts [over appropriate policies] and imbalances of power handled?' [5]

While CIDA is not among them, several donors have explored some of these questions. For the Swedish International Development Agency, SIDA, for example, the national owner is responsible for the project, while 'the donor is responsible for its own work as donor, [with] the first and foremost of the donor's task...to make sure that aid funds are not wasted on bad projects'.[6] But then who defines the 'bad project'?

A more subtle notion of ownership, but perhaps equally problematic from the perspective of donor practice, is suggested in a study for the Finnish Aid Programme: 'ownership refers to relationships among stakeholders and is high when beneficiaries substantially influence design, implementation and operations, representing the interests of citizens, and is transparent and accountable'.[7] This understanding of ownership focuses on the ultimate beneficiaries of a given aid intervention and looks beyond the donor-project implementor relationship:

'Many of the problems of ownership are generated by conflicts of interest between the target groups of development cooperation and, on the other hand, the authorities and other organizations in partner countries tasked with the administration of projects and programmes…A project, where the implementor benefits at the expense of the beneficiaries, no matter how it strengthens the implementor in relation to the donor, can never be a good project.' [8]

Here donors see themselves as the guardians of the interests of beneficiaries; they cannot, therefore, avoid setting limits to the actions of other stakeholders. But how are the interests of the beneficiaries expressed? This approach implies that the beneficiaries have the freedom and capacity to express their rights and assume meaningful ownership of development options within their communities. Likewise, the instruments of international cooperation must enhance innovative forms of 'popular ownership' of public policy, a condition that is seldom achieved by citizens in northern donor countries.

The almost exclusive government-to-government orientation of recent donor strategies for SWAps and coordinated comprehensive development frameworks, which is also reflected in CIDA's *Strengthening Aid Effectiveness*, undermines this more nuanced approach to national ownership. While ownership is never expressly identified exclusively with government, the primary donor reference points for ownership are in practice government policies, poverty strategies and sector programmes. These policies are increasingly conflated with highly flawed public policy processes to produce a World Bank/IMF Poverty Reduction Strategy Paper (PRSP). Gender analysis and issues relating to gender equality and poverty reduction seldom influence these processes or their results.[9]

Integrating gender equality through donor initiatives

Are the policy objectives for achieving gender equality and women's empowerment in CIDA development initiatives an imposition of western donor values and agendas?[10] This is often the reaction of recipients and donor officials.[11] In considering this issue, it is important to separate the actual practices and policy demands of donors from a gender analysis that should inform their stated goals for poverty eradication. The extensive literature on the gendered nature of power relations, from the level of the household to the global economy, cannot be ignored and should inform practice.

The feminisation of poverty is well-known. Women and girls make up more than 70% of people living in absolute poverty, while two thirds of illiterate adults are women. As the UNDP points out 'these disparities result from gender-based inequalities within households, and are reinforced by gender biases outside the household, such as in labour markets, credit institutions and the legal system' and 'they also result from various social norms that lead to women's social exclusion or economic subordination'.[12] NGOs and independent researchers have documented the disproportionate impact of structural adjustment policies on women.
A recent study by southern researchers points to the socio-political and gender dynamics of economic reforms and economic policy-making that weaken women's participation, while seldom proposing policies that address women's gender equality concerns.[13] The interactions between the various dimensions of gender inequality and poverty are complex but integral to strategies to affect change and poverty.

Gender relations in many societies, North and South, are highly contested, and the power exercised by those who benefit from gendered social hierarchies is challenged. Women's organisations and movements are active throughout the South and one increasingly finds women's advocates within government Ministries.[14] Most southern governments have ratified the core international Covenants on women's rights and have agreed to commitments in the 1995 Beijing UN Conference on Women's *Platform for Action*. In many of these same countries, women's organisations are at the forefront of social, economic and political activities to hold their governments accountable to these commitments. Both of these dimensions – the feminisation of poverty and diverse popular organisations promoting women's rights in development – are essential for assessing the realisation of values of equality and social justice in donor, poverty-focused practice that respects ownership. On both counts, many donors are found wanting.

Evaluations of the implementation of gender equality policy by CIDA and other donors, on the whole, reveal a marginalisation of gender concerns; at best women/girl beneficiaries are seen as add-ons for sectoral-wide social programmes and are invisible in most socio-economic projects.[15] A detailed 1997 review of CIDA's Central America Gender Equity Policy Fund concluded that the Fund had been successful in incorporating gender equity in women-specific projects but this orientation was largely absent from the planning and implementation of other bilateral projects.[16]

For recipient governments, implementing institutions and donors alike, policy commitments to gender equality issues seem to 'evaporate' when resources are allocated to implement projects. Differing degrees of receptivity towards gender policies, and levels of expertise in understanding their implications, by donor officials, often undermine capacity to plan and implement gender sensitive programmes. According to a

Canada

1998 CIDA Performance Review, after more than 20 years of policies relating to gender issues in development, and considerable investment in training CIDA officials, there is still significant misunderstanding of the implications of the policy and resistance to applying it to all development initiatives. Accountability is a key concern. Implementation 'depends on individual initiative (rather than professional accountability)' and 'there are few rewards for innovative work in WID & GE programming'.[17]

Similarly, the receptivity of senior government officials in recipient countries and the place of influential champions within and outside government are crucial for sustained commitment to implementing gender policy commitments.[18] DAC assessments point out that the process of defining beneficiary needs and essential services has strong political as well as technical dimensions. It is critical that voices of women and men from different social groups are represented (for example advocacy by women's groups on violence in relation to health sector programme priorities).[19] Increasing attention to decentralisation, as a way of opening opportunities for local priorities and participation within communities, may engage more women. But often decentralisation can compromise policies aimed at gender equality as local élites, dominated by men, capture local decision-making bodies.[20]

A common response of donor officials to their limitations and real constraints in realising progress in gender equality, as they respond to their own institutional needs to demonstrate benefits for women, is to impose targets and policy 'undertakings' in formal agreements with implementing partners. These strictures have marginal impact on the implementation of plans and programmes to fulfil donor policies (and even less so where multiple donors, who do not share common concerns for gender impact, are involved in sector support programmes). Rigid and mechanistic approaches may provoke policy discussions with implementing institutions, but have even less impact for the intended women beneficiaries. The latter remain both poor and excluded from programme opportunities because of ill-designed programmes as well as structural impediments to their full participation in the economic, social and political life of their communities.

Yet these approaches and results need not prevail. There is sufficient experience to draw lessons for positive contributions that donors can make for gender equality, sustained through women's empowerment.

Lessons and approaches for locally-owned gender-sensitive development initiatives

- For CIDA, assuring effective approaches for poverty reduction and gender equality depends on clear accountability to CIDA-determined country-specific and gender-sensitive poverty strategies, reflecting authentic participation and support by those living in poverty. Country programmes must also be guided by an explicit country-specific gender equality strategy. The latter analyses the specific context for understanding issues of gender equality, in order to identify barriers and opportunities for making progress, and possible roles for CIDA as an external actor. The poverty orientation of gender equality strategies should be sensitive to differences of interest among women, as well as issues of accountability and representivity within civil society in relation to the interests of poor women. Ideally, bilateral country programme planning processes should engage all development actors, but most particularly partner institutions, where partners and CIDA agree on a mutual set of goals and medium-term results, to which each side is accountable. Transparent and institutionally sanctioned accountability to these frameworks is essential.

  Where accountability to gender-sensitive frameworks exists, largely due to initiatives by individual officials, CIDA has been able to give a gendered orientation in its response to programming opportunities that are proposed and managed by government ministries and other implementing institutions. In negotiating the technical design of these programmes, CIDA personnel have been able to draw on their country knowledge of gender issues. They are able to direct benefits to women and girls, sometimes on the basis of economic or social returns without explicit reference to gender issues, where these are highly sensitive.
- A donor culture that emphasises listening skills, patience and humility in understanding the dynamics

and cultural specificity of a society is essential. Understanding cultural specificity is important for the expression of shared ethical values in policy dialogue. It is equally important to accept that that there may be areas that cannot be spoken about directly. For gender equality, these skills are critical and may need to be augmented with commissioned research that disaggregates country-specific gender information and analysis. Change is a long-term process that donors may – at best – facilitate but never direct.

- In the words of a CIDA official, ownership is not a value in and of itself, particularly with governments that are highly unrepresentative of their citizens' interests. Where these governments define a strategy and proposals for funding, CIDA has a responsibility to determine whether there is 'a fit' with the donor's priorities and poverty strategies. More explicitly, a DFID official, in one review, is quoted as saying that 'partnership requires overlapping objectives, but they will not usually coincide totally, and…it will usually aid understanding to be quite open about it, and negotiate a common programme, which tries to reflect the different perspectives of the partners'.[21] There is a fine balance to be struck, but it is one that must, above all, reflect the choice of development partners, whose interest and concerns represent authentic links to intended beneficiaries, and include voices and advocates for targeting women and girls. Relationships are based on trust and donors need to accept that they must move with the pace of partner organisations and related social actors, particularly where change involves political risk.
- Strengthening the participation, voice and rights of those living in poverty is one of the most important aspects of the change process. The engagement of women's organisations, gender specialists, and women in social movements working for change in gender relations is critical. Three decades of attention to women's rights in development suggests that external pressure is essential for sustained accountability for gender issues in government-managed sector programmes and other donor-financed development projects.

While this support can, and should, be targeted – with donors contributing – to strengthening women's organisations' voices and decision-making influence, donors can also influence through their methods of work. In Malawi, for example, CIDA has hired a prominent local gender specialist and devoted resources to work in policy dialogue with both government and other donors to promote gender analysis of sector components of the country's PRSP. CIDA has also brought expertise in analysing gender sensitivity of national budgets from South Africa to expose both the donor community in Malawi and government officials to this analysis.[22] In some West African countries, CIDA officials have been meeting regularly with women's organisations, peasants' associations and community organisations to hear directly their concerns. They are sometimes able to open channels of communication between these organisations and government ministers and officials.

A very proactive role by several donors, in the case of Bangladesh's health sector programme, did bring some Bangladeshi voices on gender to the table, and achieved some significant short-term changes. But the degree to which these changes are dependent on donor personnel and support for these selected individuals may limit the depth of these changes and the sustainability of a gender agenda at senior levels of government.[23]

- Over the medium and long term, much can be achieved through formal and informal policy dialogue. As a bilateral donor, CIDA is increasing its capacity and its orientation towards broad policy dialogue as a central aspect of its international cooperative relationship with developing country governments. As such, it is being drawn into joint donor dialogue on both sector programmes and IMF/Bank initiatives for poverty reduction strategy papers (PRSPs).

How might gender equality policy influence this dialogue, without imposing conditionality or undermining ownership? Despite its modest financial resources relative to other donors, CIDA has had a strong reputation for its work in gender policy and analysis. CIDA officials have played 'niche roles' both with other donors and government officials, bringing gender analysis to policy discussion. We have already pointed to the importance of strengthening domestic women's voices in these policy processes (as well as in implementation). But CIDA can also direct its expertise towards leading donor agencies to create political space for more sustained dialogue and greater understanding of gender issues.

Policy dialogue is a political process that is always dynamic and contested, and in which the influence of even the leading donors waxes and wanes and is rapidly diluted as one moves away from central government structures and officials. But experience suggests that there are several important elements for constructive dialogue.

- Connecting to national policy frameworks for poverty reduction and gender equality, as well as formally ratified international Covenants, establishes universal, shared values for policy dialogue, upon which to build constructive commentary and programme advice.
- Donors can strengthen public access to gender and social analysis for poverty strategies through research and proposals for goals and benchmarks that are gender sensitive. Accessible information and analysis provides support for women to press their own agendas for change through their civic organisations and coalitions, elected representatives, national commissions etc.

Capacity building for greater policy impact by local constituencies requires not only technical and organisational skills but can also benefit from cross-country learning (such as women's alternative budgeting exercises or defining legal rights for women), which donors can facilitate. In the words of a Canadian researcher, 'the task of helping women find their voice in the policy making process is a complicated undertaking and faces many obstacles: a male-dominated policy making system; the limited capacity of women's organisations in economic policy analysis, and the general complexity of policy making processes…'[24] Training for policy insertion (knowledge of rights and issues) and broad institutional gender sensitisation at all levels of governance, create greater space and policy roles for women activists. Official donors and NGOs can contribute by giving priority to these activities.[25]

Conclusion

Gender identities and relations shape the way we live and the quality of our lives – in family, in community and beyond. Gender equality is a universal right that should be 'owned' by all citizens no matter where they live. Its achievement is fundamental to the economic, social, political and cultural rights that define a shared commitment to eradicating poverty. Yet, donor agencies, imposing a variety of self-defined development objectives and frameworks on partners, often undermine, or at best ignore, gender issues. While gender-sensitive programming is still marginal in CIDA's aid interventions (in 1998/99, projects coded to gender equality represented less than 5% of CIDA's Programme disbursements), some generic lessons from experience suggest that it is possible to bridge the inherent tension between respecting ownership and making policy prescriptions. Isolated positive experience suggests that CIDA and other donors need to devote urgent attention to identifying specific changes in their practice and expertise to extend what is now largely individual-driven programme activity for gender equality to programming that is accountable in all aspects to the interests of women's empowerment among people living in poverty.These changes require proactive support at the highest level of donor institutions.

Development is not a process easily amenable to bureaucratic and technical fixes. It is, rather, a political process that must engage people, particularly those living in poverty and powerlessness, in negotiating with each other, with their governments, and with the world community for policies and rights that advance their livelihood and secure their future in the world. Donors can design their practice of international cooperation to contribute, but in the words of CIDA's *Policy on Gender Equality*:

'Outsiders cannot empower women: only women can empower themselves to make choices or speak out on their own behalf. However, institutions, including international cooperation agencies, can support processes that increase women's self confidence, develop their self-reliance, and help them set their own agendas.'

Notes

1 CIDA, 'Strengthening Aid Effectiveness: New Approaches to Canada's International Assistance Programme, A Framework for Consultation', May 2001, pp 14, 20. See CCIC's commentary on its Development Policy Page (www.web.ca/ccic-ccci) and the Canada overview in the appendix of this Report.

2 CIDA, 'Policy on Gender Equality', Public Works and Government Services Canada, March 1999 (www.acdi-cida.gc.ca).

3 Notably the Universal Declaration of Human Rights; the International Covenant on Economic, Social and Cultural Rights; the International Covenant on Civil and Political Rights; the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW); the Convention on the Rights of the Child; and the United Nations Declaration on Violence Against Women.

4 I am very grateful to CIDA officials who made the time to discuss these issues with me and share some recent documents. I alone am responsible for the lessons that I drew from this material. While the focus here is on CIDA programming, many of the issues discussed apply equally to Canadian NGO relationships with southern counterparts.

5 Andrew Norton, 'Policy, Gender Equality and National Ownership in SWAps', Overseas Development Institute, Notes for a Presentation, 2001, page 2.

6 Molund, S. 'Ownership in Focus: Discussion Paper for a Planned Evaluation', SIDA Studies in Evaluation, 00/5, November 2000, http://www.sida.se/evaluation, page 2**.**

7 Moore, M, Gould, J, Joshi, A, Oksanen, R, 'Ownership in the Finnish Aid Programme', Report of Evaluation Study, Ministry of Foreign Affairs, Finland, 1996:3, page 9.

8 Molund, S *op. cit.*, pp 9-10.

9 Interview with CIDA official and Charles Abugre, 'Transformation at Last, or a New Instrument of Domination? An Analysis of the IMF and World Bank Poverty Reduction (PRS) Initiative' World Development Movement and ISODEC, mimeo, 2000; Policies to Roll-Back the State and Privatise? A Debt Report by the World Development Movement, April 2001, www.wdm.org.uk.

10 See CIDA's very useful guide in *Questions About: Culture, Gender Equality and Development Cooperation*, February 2001, (www.acdi-cida.gc.ca).

11 One evaluation points to the frustration with this attitude by Ugandans at different levels of the education system who were committed to gender equality. Donors were not articulating a clear commitment to gender equality goals in basic education. 'This appears to be linked to the misconception that 'gender' is a western agenda, and a perception that too assertive an approach would compromise Ministry ownership. Yet Ugandans consulted were adamant that gender equality is a shared goal and that much of the momentum has come from the grassroots.' Sibbons, M, Norton, A, et. al., 'Mainstreaming Gender through Sector Wide Approaches in Education: Synthesis Report', ODI and Cambridge Education Consultants, October 2000, page 7.

12 UNDP, *Human Development Report*, New York: Oxford University Press, 1998, pp 72-3

13 See for example the excellent contributions in Tsikata, D, Kerr, J, *Demanding Dignity: Women Confronting Economic Reforms in Africa.* Ottawa / Accra: The North South Institute and Third World Network – Africa, 2000.

14 *Ibid.*, pp 27 –32 and CIDA, *Questions About.*

15 Woodford-Berger, P, 'Gender Equality and Women's Empowerment: A DAC review of agency experiences 1993 – 1998', SIDA Studies in Evaluation 00/1, 2000, pp 2 - 3 and DAC, 'Reference Guide: Gender Equality in SWAps' Draft, DAC Working Party on Gender Equality, 2001, no page numbers.

16 CIDA, 'Review of Gender Equity and Programming Options for Central America', Central America Division, October 1997. This conclusion was also confirmed in CIDA, 'WID/GE Performance Review – Survey of Southern Women', Final Report, Performance Review Division, March 1996 page 14.

17 CIDA, 'Women in Development and Gender Equality, 1992 – 1995: Performance Review Report', Hull: CIDA, July 1998, page C12.

18 Tolhurst, R, Mainstreaming Gender in Sector Wide Approaches: An Overview of Issues in the Health Sector', Draft, January 2000, page 14.

19 *Ibid.*, page 6.

20 *Ibid.*, pages 9 – 10

21 Norton, A, Bird, B, 'Social Development Issues in Sector-Wide Approaches', Draft Paper Prepared for DFID, nd, page 14.

22 The South Africa Women's Budget Initiative examines the entire budget to determine its differential impact on women and men, girls and boys. It proposes specific changes in gender sensitive programmes and policies to account for these differences. See Debbie Budlender, ' The South Africa Women's Budget Initiative',

Community Agency for Social Inquiry, Cape Town, South Africa, November 1998 (http://magnet.undp.org/events/gender/india/Soutaf.htm).

23 Tolhurst, R., *op. cit.*, page 14

24 Tsikata, D, Kerr, J., *op.cit.*, page 28

25 One example of learning is the evolution of a CIDA-supported initiative in the Special Programme on Africa on Structural Adjustment and Gender in Africa in the early 1990s. An evaluation of this programme of research and workshops with African policymakers and donors was critical of both the degree of participation of African government officials and African civil society. This programme is now managed fully in the South through Third World Network – Africa. See CIDA, 'A Case Study of Policy Dialogue: Structural Adjustment and Gender in Africa (SAGA)', Evaluation Report, December 1997 and Tsikata, D, Kerr, J, *Demanding Dignity: Women Confronting Economic Reforms in Africa.* Ottawa / Accra: The North South Institute and Third World Network – Africa, 2000.

The Asian Development Bank and conditionality – if it's not part of the solution…

Andrew Nette, ACFOA Policy Officer[1]

The Asian Development Bank (ADB) is the largest of the world's regional multilateral development banks and arguably the most powerful development institution operating in Asia and the Pacific. Over the last decade the ADB has greatly increased the use of conditionalities across all aspects of its loan operations.

On paper at least, many of these conditionalities seek to promote principles such as greater national ownership, wider participation and the allocation of an increased proportion of the ADB's lending to social sector operations. More controversial, has been the increasing use of conditionality to promote macroeconomic, legal and other broader policy changes, a trend that is having far-reaching impacts in its Developing Member Countries (DMCs).

Given the Australian Government's significant influence in the ADB, both in terms of funding and policy, a number of Australian NGOs have made monitoring and influencing ADB practices and policies a key focus of their work on multilateral institutions. Among NGO criticisms are: the way the ADB defines poverty and poverty reduction; its lack of accountability; the impact of the Bank's activities on growing debt levels in many Asian countries; specific ADB problem projects; and the ADB's increasing use of conditionality.

Less money, more power: policy influence is the priority

While the ADB claims that its increasing use of conditionality is a response to implementation problems and poor project success rates in the Bank's operations, it is also the result of a number of other interconnected factors. For the first 20 years after its establishment in 1966, the ADB's operations followed what might loosely be called the Japanese model. This emphasised project financing – mainly loans to agriculture and large-scale infrastructure projects, such as roads and hydropower dams – and the encouragement of export-oriented industries and a strong regulatory role for the state.

In the early 1990s, the ADB moved more in line with the approach advocated by the World Bank and the IMF. This stressed the central importance of private sector development and foreign capital, a reduced role for the state, and lending for structural adjustment and policy objectives as opposed to individual projects. Loan conditionalities were included to pressure DMC governments to open up and liberalise their economies. The ADB thus became a key conduit in Asia for the 'neo-liberal' policies of deregulation, privatisation and an economic growth-centred approach to fighting poverty. The ADB is very up-front with its view that just as important as loans are the conditions attached to them, especially in terms of influencing DMC government policy.

This approach is facilitated by the decline in official overseas development assistance, both in absolute terms and as a proportion of global capital flows, and the lack of avenues poor countries have to access global capital markets or other means of financing development.

In the area of infrastructure, for example, Asian governments, particularly those in so-called emerging markets, do not have the funds to undertake even a fraction of the energy, transport, telecommunications, urban and tourism infrastructure needs identified by themselves and foreign donors as preconditions for economic growth. At the same time, the private sector remains reluctant to invest in infrastructure in many of these nations because of commercial and political risks.

In response, the ADB has moved from being mainly a project funder to becoming more of a facilitator or 'catalyst' for private sector investment in DMCs, in turn giving the ADB further opportunity to attach conditions to loans and use technical assistance to force policy change. This new direction is set out most clearly in the ADB's *Private Sector Development Strategy*, updated in March 2000, which argues that a strong and dynamic private sector is crucial to long-term economic growth and is a pre-condition for poverty reduction. It argues in favour of 'creating the enabling environment for domestic and private foreign investors and shifting the role of government from owner-producer to facilitator-regulator'[1]. This is also the theory underlying much of the Poverty Reduction Strategy adopted by the ADB in November 1999[2], which focuses on 'pro-poor sustainable economic growth, social development and good governance.

Hard loan conditionality increases

The increased use of conditionality is most apparent in loans made under the Bank's Ordinary Capital Resources (OCR). These are hard loans made on non-concessional terms to DMCs that have reached some level of economic development and they account for approximately 84% of Bank loans. Conditions attached to OCR loans most commonly include:

- The development of new legal mechanisms and regulatory and institutional frameworks for the development of markets, competition and pricing
- The privatisation of state-owned operations
- The introduction of new policies and laws to protect specific investments, particularly infrastructure
- The liberalisation of trade and investment laws
- The dismantling of state subsidies

The use of conditionality by the ADB gained momentum in the period immediately after the Asia regional financial crisis in 1997, when it participated to the tune of over US$8 billion in IMF and World Bank bail-outs of the Indonesian, Thai and South Korean economies.

For example, included in the ADB's loans to Thailand were projects aimed at policy reform in the financial, labour, health, social welfare and education sectors. In 1999, the ADB and the Japan Bank for International Cooperation (JBIC) approved a US$600 million Agriculture Sector Program Loan. Dispersal of this loan was conditional on a number of far-reaching policy changes, including introducing fees on water use for small-scale farmers and raising interest rates for credit extension programmes.

Similarly, in exchange for a US$46 billion bail-out package for Indonesia's economy in the wake of the crisis, the IMF, World Bank and ADB mandated a comprehensive restructuring of Indonesia's power sector. In March 1999, the ADB and JBIC each approved US$400 million in loans for energy sector reform, aimed at establishing a competitive market in Java and Bali, and calling for changing the legal and regulatory framework, adjusting power tariffs and increasing foreign private sector participation. The reform programme also called for the adoption of a new electricity law prepared with the support of ADB-funded consultants. The ADB has pushed for the privatisation of the Indonesian state-owned power utility, Perusahaan Listrik Negara (PLN). PLN was hard-hit by the crisis as a declining Indonesian rupiah made servicing contracts negotiated in foreign currency more difficult and increased the utility's debt levels. Significant losses have also been alleged as a result of the corruption involving negotiations of private power purchase agreements under the Soeharto regime.

In addition to influencing the policy process of DMCs through attaching upfront conditions to loans, the ADB employs a range of more subtle or indirect conditionalities. The ADB now provides 'investment advice' to governments on how to attract private sector funds into projects and assists DMCs to formulate policies and regulations and strengthen institutions that will facilitate foreign capital flows and private sector development. In particular, the ADB has made significant efforts in the area of sub-regional cooperation in Asia and the Pacific, facilitating trade and investment in designated growth triangles and quadrangles. The best-known of these is the Greater Mekong Sub-Region Initiative, which includes Thailand, Laos, Vietnam, Cambodia, Burma and southern China. These zones bring together bureaucrats from host governments into forums in which the ADB acts as a self-appointed 'honest broker' to facilitate economic cooperation among governments in sectors as diverse as transport, power or public sector administration. These growth zones act as conduits for ADB supplied research and technical assistance to the private sector and member governments, to identify attractive investment projects and prepare feasibility and impact studies.

Soft loans made performance-based

The increasing use of conditionality is also evident in loans made under the ADB's soft loan arm, the Asian Development Fund (ADF).

The eighth replenishment of the ADF, covering the period 2001-2004, saw a renewed debate between donors and the Bank around the ADB's focus. Among the outcomes of ADF 8 was the adoption of a rigorous system of performance-based lending. According to the ADB, performance-based lending is predicated on the assumption that 'aid works best in reducing poverty in countries with sound policies and institutions.[3] Poor policies, poor governance and weak institutions restrict the effectiveness of poverty reduction efforts. 'Good' policies must be in place in recipient countries if aid is to work effectively to support economic growth.

Under this system, all countries seeking ADF funding will be measured against a set of criteria linked to such factors as governance, economic management, gender focus, environmental protection and accountability. Country allocations will be formulated based on how they have performed against these criteria and presented to the ADB's Board for approval. In addition, donors recommended that the ADB systematically link the quality of governance of all DMCs to ADF lending levels. 'Support to countries with poor governance (which occurs when a borrower is not pursuing policies conducive to pro-poor sustainable economic growth, social development and good governance) should be scaled back to non-lending services or stopped entirely if necessary'.[4] 'Support for countries with weak governance (when a borrower has poor policies but is making sustained efforts to improve them) should mainly target strengthening of institutional capacity and basic human needs.'[5]

Among the factors to be taken into account under the definition of governance are:

- 'Receptiveness to policy dialogue with the ADB and donors and willingness to undertake necessary reforms'.[6]
- Efforts at domestic resource mobilisation and public expenditure management.
- Procedures governing the preparation of state budgets.
- Effectiveness in fighting corruption.
- 'Trends in non-productive government expenditures and spending on social sector programs'.[7]
- Participation in the development process and public access to information.
- 'Non-economic' factors, such as democratisation, human rights, adherence to core labour standards, gender and the environment.

Australian NGOs ambivalent

Australia is the ADB's fifth largest overall shareholder and the third largest ADF shareholder, having contributed some A$1.35 billion to the ADF as of June 1999, with A$561 million outstanding. The 2000/01 aid budget saw Australia commit a further A$120 million to the Fund, 13% of the country's total aid budget.

Australia is broadly in agreement with much of the ADB's increased use of conditionality. In his opening address to the first replenishment meeting for ADF 8 in October 1999, Australian Foreign Minister Alexander Downer emphasised the need for the ADB to take full account of the crucial issue of good governance and also encouraged it to consider the performance of developing countries when making loans.[8] This has included strengthening the use of conditionality in the ADB's social, environmental and poverty reduction activities.

To an extent, the Australian Government has balanced this with recognition of the need for greater accountability in the ADB, and has taken a lead in attempts to reform the ADB's internal governance so that it is more transparent to NGOs and civil society in donor and recipient countries. Despite broadly supporting the ADB's activities, Australia has also shown a preparedness to dialogue closely with NGOs and critique the ADB's operations, particularly in relation to the adverse social and environmental impacts of its projects. It has also demonstrated an awareness of some inconsistencies between the ADB's operations and activities undertaken under its bilateral aid programme.

For Australian NGOs, tackling the issue of conditionality in the ADB's operations is complex. NGOs clearly oppose some forms of conditionality. For example, in their criticisms of structural adjustment policies undertaken by international financial institutions, many NGOs are clear that conditionality should not undermine local and national democratic decisions. At the same time, NGOs have mixed views on other conditionalities, particularly 'poverty-focused' or 'social' conditionalities aimed at increasing lending for poverty reduction or securing greater commitment from DMC governments to accept so-called 'pro-poor' policy reforms.

Thus, in the debate around debt and the Heavily Indebted Poor Countries Initiative, Northern NGOs, including those in Australia, clearly support attaching some conditions to debt reduction to ensure funds go towards anti-poverty measures. This has involved NGOs having to walk a fine line: supporting conditionality as a way to garner mainstream public support for debt reduction, but condemning use of some conditions by the World Bank and IMF, especially in poverty reduction strategy papers.

The introduction of performance-based lending by the ADB is partly a response to persistent criticism by NGOs and donors that few ADB projects have been designed specifically to address poverty reduction. A report to donors at the beginning of the recent ADF replenishment talks stated that only 18% of the total171 project loans made under ADF 6 directly targeted poverty, only 3% (1.5% by value) targeted women and 10% the environment. Of the 53 projects targeted at the loosely defined 'social infrastructure', only four directly targeted poverty alleviation.[9] While it is too early to see how much substance there is behind the ADB's claims it is changing, many NGOs have cautiously welcomed shifts such as performance-based ADF lending.

ADB's own performance lacking

The ADB's use of conditionality can be critiqued on a number of levels. By its own standards, it would appear that the increased use of conditionality has so far met with few positive results.

Among problems identified with the proliferation of conditionalities by a 1999 internal review is 'goal congestion', as the ADB has tried to integrate the various objectives donor governments have attached over the years. The review noted an average of 32 conditionalities per loan, causing confusion and a blurring of priorities. [10]

Such conditions, the report observed, alienate client governments and have led to the to the undermining of ownership of ADB programmes by recipient governments. It also noted a tendency on the ADB's part to compensate for perceived lack of commitment, weak administration and technical support by increasing the detail and number of conditions in loan and adjustment operations.

Nor does it appear that the proliferation of conditionalities has led to more effectiveness in ADB operations, which continue to be marked by relatively high failure rates. One recent assessment of publicly available ADB documentation relating to activities in Indonesia, [11] the ADB's largest client country, estimated that at least 70% of ADB projects in that country will fail to produce lasting economic or social benefits for the Indonesian people. These included projects in the education, agriculture, health and credit sectors.

A 2000 report by the Bank's Operations Evaluations Office analysed 21 projects and sector loans and five programme loans. Of these half were 'less than successful' or 'unsuccessful'. Successful projects were mainly in the area of infrastructure, with high failure rates recorded in activities targeted at the agriculture, forestry and social infrastructure sectors.[12]

The poor success rates attributed to much of the ADB's activities are the result of many factors, including lack of capacity or expertise on the part of DMC governments to implement them, insufficient finance or external shocks that divert government's attention away from the reform process.

Another important reason is lack of local ownership and the fact that increasing ADB conditionality is often merely a substitute for the much harder task of getting recipient support for the institution's policies, a point recognised by the ADB itself in a 1999 review of ADF performance which stated: 'The borrowers' ownership of and commitment to the project are the most critical in determining project outcome.' [13]

On a more fundamental level, there are two key problems with the ADB's increasing use of conditionality.

The first is that the proliferation of conditionalities has seen the ADB's operations suffer overreach, as they stray into areas outside its mandate or expertise – or, at worst, bypass or undermine national democratic processes and the rule of law, sometimes sabotaging national democratic and social welfare gains. There has also been criticism of the ADB's use of sub-regional cooperation, which many claim has served to move vital development decisions even further away from the lives of those they affect, a problem reinforced by the ADB's own highly centralised and relatively unaccountable structure and practices.

The second problem is the connection between conditionalities and the institution's flawed analysis of poverty and what is needed to tackle it. Its Private Sector Development Strategy makes it clear that the ADB views markets as virtually the only source of assets and opportunities for people living in poverty, and private sector economic growth as the major vehicle to eliminate poverty, a view reiterated in the Poverty Reduction Strategy. ADB conditionality is geared towards nurturing markets to reach their full potential by the removal of market distorting interventions such as credit subsidies, pricing controls, state ownership, import-export restrictions and overvalued exchange rates.

While there is nothing wrong in strengthening the private sector, particularly the local private sector in DMCs, of concern is the automatic assumption of the beneficial link between private sector development and poverty reduction. These efforts need to be balanced and informed by community input and ownership and, where necessary, government regulation to ensure that markets benefit the whole community, particularly those living in poverty.

The ADB provides insufficient detail as to how this reliance on markets will encourage greater transparency in the its operations, including those with the private sector, or how people living in poverty will benefit from reforms that will result in them having to access services at market prices.

On the ground, this has led to serious opposition to various ADB policies. Reforms to Thailand's agriculture sector have met huge resistance from farmers, the public, and even some sections of the Thai Ministry of Agriculture. In addition to criticising the lack of transparency accompanying the formulation of the loan, Thai NGOs and farmers' groups argue that the introduction of market-based water use rights will discriminate unfairly against small-scale farmers, still a large part of Thailand's agricultural sector, in favour of industry and large-scale agribusiness. It is also a major development issue in terms of food security for rural Thailand, given the degree to which small-scale agriculture acts as a social cushion in times of economic crisis.

The ADB's activities in Indonesia's power sector have generated broad opposition. While critics agree that PLN's existing obligations are beyond its economic capacities and that reforms need to be made, they have raised a plethora of accountability, human rights and equity issues. These include the prospect of large-scale lay-offs, increased power prices, and concerns that without public sector involvement there will be little incentive for the maintenance of power infrastructure in rural areas.

Proposed changes to Indonesia's power sector are part of a wider programme of power sector reform throughout Asia, including in India and the Philippines, which critics charge has led to escalating energy costs for consumers, and increased debt burdens for government, to the benefit of private sector interests.

As one paper on the World Bank and IMF's use of conditionality argued, there is a need for NGOs not just to critique the international financial institutions' use of conditionality, but to suggest alternatives.[14] It suggested three basic principles that should underlie an NGO approach:

- Conditionality should work for those living in poverty.
- Conditions must be genuinely democratic
- Conditions should be the product of partnership, not of coercion.[15]

The ADB's poverty reduction will come to little without fundamental shifts in how it defines poverty and poverty reduction. This means promoting not just private sector economic activity but activities that respond to the needs of the most disadvantaged sectors of society. There is little chance of people in poverty being able to better voice their opinions on issues that affect their lives and those of their children, when so many of the Bank's projects and operations contradict the institution's own definition of good governance.

If these principles are accepted, then rather than applying more conditionality, donors should push the ADB to become a more accountable and transparent institution. This includes giving information to impoverished communities directly affected by the ADB's activities and ensuring that projects only go ahead with the community's prior informed consent. To this end, internationally recognised human rights standards should be incorporated into the ADB's policies and practices.

Until these basic steps are taken, the ADB's use of conditionality will continue to be part of the problem instead of part of the solution.

Notes

1 This article is based on a paper originally delivered at the Conference on Official Development Aid in Asia, organised by the Reality of Aid Network, Asia and the Asia Pacific Research Network, Manila, Philippines, 18-20 June 2001. The author would like to acknowledge the editorial assistance in the preparation of this article of Jim Redden, ACFOA Policy Director.

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3 Asian Development Bank, *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*, Manila, October 1999, p1.

4 Asian Development Bank, *ADF VIII Donor's Report: Fighting Poverty in Asia*, Manila, September 2000 p 17.

5 Ibid., p 18.

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9 The Hon Alexander Downer, Foreign Minister of Australia, Opening address to ADF VIII donors meeting, October 1999, Brisbane.

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11 Asian Development Bank, *Review of ADB's Program Lending Policies*, Manila, November 1999, p 15.

12 Environmental Defence Fund, *Evaluating the ADB in Indonesia: The Operation was a Success but the Patient Died*, Washington, May 2001.

13 Asian Development Bank, Annual Report 2000, pp 47-48.

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15 Angela Wood and Mathew Lockward, *The Perestroika of Aid?* New Perspectives on Conditionality, London, March 1999.

When a Blessing is a Curse: US goals in IMF and World Bank policy-making

Nancy Alexander, Globalization Challenge Initiative

The US government – together with the rest of the aid establishment – asserts that aid frequently fails to foster growth and development because recipient governments do not exercise sufficient ownership of, and commitment to, the development process. Yet, many governments cannot exercise ownership because the aid establishment, itself, holds the reins of power.

The US – as the largest shareholder of the lending institutions, the IMF and World Bank – determines major policy decisions in a growing number of highly indebted low- and middle-income countries.

Economic reform is driven by structural adjustment policy conditions attached to loans and grants. These conditions constitute the 'reins' that effectively control the economic policies of most developing country governments. The US government has been the main architect of policies that aim to achieve export-led growth by various market-led means, including liberalising trade and finance, privatising state-owned enterprises, and taming inflation. Above all, adjustment policies achieve greater and greater capital mobility across borders and help ensure that governments service their debts.

In 1999, the IMF alone attached an average of 114 policy conditions to its loans to each Sub-Saharan African country. Developing country governments are pressed to implement not only IMF policy conditions, but also those of dozens of other creditors and donors. The result is that governments become enmeshed in a labyrinth of policy mandates. By imposing economic reforms, foreign creditors undermine the accountability of borrowing governments to their citizens. This circumvention of democratic processes negates any potential for meaningful ownership.

Adjustment policies did not arrest, and often exacerbated, economic misery throughout the developing world. Africa, Asia, Latin America and Eastern Europe have all experienced economic and social stagnation or decline. In some cases, decades of progress were lost. Studies show growth rates dropping in developing and transition countries during the 'adjustment era' of 1980-1998 as compared with 1960-1980.

Indeed, there has been no change in per capita income in developing countries since 1980. In Sub-Saharan African countries, the situation is worse. Per capita incomes are no higher than they were 30 years ago. Moreover, developing countries are increasingly mired in debt and trapped in a vicious cycle of borrowing to cover debt service obligations. For many countries, expenditures for debt service are higher than expenditures for education and health.

The US claims that structural adjustment policies fail largely because they are poorly implemented. It insists that governments will see the pay-off of liberalisation policies if they take greater ownership and implement broader and deeper reforms.

Yet evidence suggests otherwise. The few powerful governments (e.g. China, the pre-crisis Asian Tigers) that flouted the policy advice of the IMF and World Bank prospered relative to most countries whose policies were designed in Washington. These governments maintained a strong interventionist role in their economies, something that is taboo among market fundamentalists.

Why don't more countries flout the advice of the IMF and the World Bank? They risk losing the IMF's blessing, the 'seal of approval' that not only keeps aid flowing, but supposedly maintains confidence among international creditors and investors. If a government loses the IMF's blessing it can lose its lifeline to international assistance: loans, grants, trade credits and debt relief.

Unfortunately, as it engineers sharp budgetary contractions in country after country, the IMF's blessing is too often a curse. Like a doctor prescribing chemo-therapy for a cold, the IMF calls for fiscal austerity (e.g., slashing spending, hiking interest rates, and raising taxes) in countries already experiencing sluggish growth, which can trigger deep and lengthy recession.

The blessing has cursed even star pupils, such as the Asian Tigers, which at the behest of the IMF and World Bank, implemented capital account liberalisation (to allow free entry and exit of international capital) prematurely. This contributed to their economic collapse in the late 1990s. To win the blessing of the institutions, borrowers dutifully imposed fees on primary education and basic health services for decades, handicapping generations of poor people. Now the institutions are pushing the privatisation of social services and water services, when evidence has shown that such policies in a weak institutional environment can price basic goods out of the reach of people living in poverty. Many of the binding conditions imposed by the IMF push corporate interests at the expense of the borrowing country. In a particularly brazen instance, in mid-2001, the IMF required that Sierra Leone, one of the poorest countries in the world, must eliminate import taxes on cigarettes as a prior condition for receiving assistance.

Ostensibly to promote ownership, the IMF and World Bank announced a programme for low-income countries in 1999. They declared that, henceforth, each government must work with its citizens to prepare an acceptable Poverty Reduction Strategy Paper (PRSP), a multi-year national development strategy. Yet the 'new' process has been business-as-usual. One World Bank official, John Page, said: 'The PRSP is a compulsory process wherein the people with the money tell the people who want the money what they need to do to get the money.' Never before have the IMF and World Bank possessed the power to endorse a borrowing country's *entire national plan.* Ironically, the institutions have seized these powers in the name of enhancing 'country ownership' of the development process.

Many citizens' groups view involvement in PRSP preparation as 'participation for validation'. since PRSP policies must conform to the requirements of the IMF and World Bank. In its study of PRSPs, the US government watchdog agency, the General Accounting Office (GAO) found that PRSP policies, which are presumably 'owned' by the government are essentially the same as those imposed by the IMF and World Bank.

In this PRSP era, the loan negotiation processes are as murky as ever. In parallel with PRSP preparation, governments secretly negotiate the terms and conditions of adjustment loans with the IMF and World Bank. Citizens' groups and parliaments or congresses (where they exist) are demanding transparent processes for negotiating the loans that they will, ultimately, work to repay.

The PRSP process gives the appearance of transferring ownership from the institutions to the borrowers. In effect, the PRSP process diminishes the potential liability and accountability of the institutions while ceding little, if any, power to the borrower. The backlash against secret structural adjustment processes will grow until such processes are transparent and accountable to the people they purport to serve. That is, until the US and the lending institutions release some reins of power.

Cotonou Agreement: trail-blazing or treading a well-worn path?

Louise Hilditch, ActionAid

The Cotonou Agreement is the latest in a series of Agreements dating back to 1967 between African, Caribbean and Pacific (ACP) countries and EU member states.[1] Adopted in Cotonou in June 2000, it covers political cooperation, trade cooperation and aid over a 20-year period, with five-yearly reviews. The Agreement contains a number of innovations – the formal commitment to involve 'non-state actors' in development processes, rolling programming intended to allow a more efficient and relevant use of resources, and a new trade regime based on reciprocal economic partnerships, which are due to be negotiated by 2008. Obligations are mutual and political as well as trade-related. The Agreement is intended to be flexible enough to allow for differentiation between countries at different levels of development and to take account of the particular needs of, for example, land-locked or island states.[2]

European Community (EC) aid, which is managed by the European Commission, has always prided itself on its absence of political and historical baggage, and its disinterested approach. This, it claims, means it can reach the parts that Member States cannot reach. Its implementation of the Cotonou Agreement will be a test of this claim. Although the Agreement is predicated on notions of partnership and ownership, it contains a significant number of direct or indirect conditions that ACP countries are expected to meet in their cooperation with the EU.

Although conditionality is more often associated with economic conditions imposed on World Bank and IMF borrowing, it refers equally to the imposition of political conditions and more subtle and less direct forms of influence. The practice of tying aid to donor-country contractors, ensuring that most aid never even leaves donor countries, is an example. So is the pervasive use of expensive donor-country technical experts and consultants.

The conditions within the Cotonou Agreement appear to fall broadly into economic, political and what might be termed, 'practical' categories. Taken together they have the potential to add up to rather less than an equal partnership. Since the Agreement was adopted only in June 2000 and as it is intended to govern ACP-EU cooperation for 20 years, it is premature to pass judgment on its application. However, one can draw attention to some of the key areas of conditionality, with a view to monitoring implementation more effectively.

Its comprehensive nature, together with its professed basis in partnership may appear to set the Cotonou Agreement apart from other agreements between a set of donors and a group of developing countries. Commissioner Poul Nielson has described the partnership aspect of the agreement as 'a concrete model of…modern development cooperation arrangements'.[3] However, recent events do not entirely bear this out, which is disturbing in view of the fact that the Agreement is in its infancy.

The most glaring example of this is the European Commission's recent announcement of its contribution to the Global Health Fund at the G8 in Genoa in July 2001. Without consulting its ACP partners, without whom no release of funds is possible, President Romano Prodi nevertheless proposed that fully half of the Community contribution to the GHF in 2001 be made up of European Development Funds (EDF). For the ACP side this cavalier approach to partnership is at the root of many tensions in the relationship and was in evidence throughout the negotiations leading to the adoption of the Agreement.

According to Moses Tekere, Director of the Trade and Development Studies Centre and Lecturer in economics at the University of Zimbabwe, the negotiations on the overall agreement were conducted in a very unequal manner, precisely because the EU was able to hold out the promise of a substantial aid package. In two of the most contentious areas under negotiation – the inclusion of the concept of good governance and the trade package – the ACP reluctantly conceded to the EU position only to discover that the aid package announced was disappointing. Tekere claims that: 'The EU employed the tactics of cross-conditionality by tying aid provisions, its size and conditions to ACP accepting reciprocity in trade. Being the recipients of aid, the ACP had no teeth or bargaining power.'[4] Although the EU argued that the new trade arrangements were essential since the previous trade regime under successive Lomé Conventions had failed to deliver the expected outcomes, it would appear to have left some bad feeling between the two partners. ACP countries do not believe that the concessions they felt compelled to make during the negotiations, on the promise of a substantial aid package according to Tekere, were matched by the eventual aid package that the EU announced once the negotiations were completed.

PRSPs and partnership

Embedded in the concept of partnership, it might be thought, is the notion that economic governance lies with the national government. In theory, the EC decision to deliver aid under the Cotonou Agreement through Poverty Reduction Strategy Papers (PRSPs) is a practical and constructive approach that should simplify life for under-resourced Ministries in ACP countries. But while the idea behind PRSPs is that they should be free of conditions, and nationally led, developed and owned, the experience of civil society and indeed Southern governments to date has not been universally positive. A recent paper by WDM states that 'government ownership of PRSPs is weakened by the continued influence of the International Monetary Fund and the World Bank' and that 'the actual policies included do not have clear poverty reducing consequences….The core macro-economic elements have changed little from the old structural adjustment programmes with a continued adherence to privatisation, liberalisation and a reduced role for the state.'[5]

A key issue is whether Commission reliance on PRSPs as a mechanism will improve or reduce the quality of EC aid. While there is some acknowledgment of this in the Commission, it is clear that if developing countries want significant external official funds, they will need to agree to PRSPs and the economic conditions they entail. And while the Commission declares itself in favour of fewer economic conditions and a more outcome-orientated approach,[6] political conditions are unashamedly front and centre of the Agreement.

Seemingly logical their application has not always been even-handed. The 'essential elements' of ACP-EU cooperation are contained in Article 9 of the Cotonou Agreement. These elements also featured in Lomé.

Article 9 states that 'Respect for all human rights and fundamental freedoms, including respect for fundamental social rights, democracy based on the rule of law and transparent and accountable governance are an integral part of sustainable development.', and later:

'Respect for human rights, democratic principles and the rule of law which underpin the ACP-EU partnership, shall underpin the domestic and international policies of the Parties and constitute the essential elements of this Agreement '.

Article 9 also addresses 'good governance', which was a major bone of contention between the two parties throughout the negotiations. It defines good governance as the 'transparent and accountable management of human, natural, economic and financial resources for the purposes of equitable and sustainable development'. This includes clear decision-making by public authorities, primacy of law and efforts to combat corruption.

The final compromise between the partners to the Agreement sees good governance referred to as a 'fundamental' rather than an essential element. It is also clearly stated in the text that 'only serious cases of corruption including acts of bribery leading to such corruption, as defined in Article 97 [on consultation and eventual suspension procedure] constitute a violation of that element.'

The introduction of good governance, understood as the absence of corruption, is not the only new feature. What is also new is the way in which the suspension methods are to be applied. Whereas under previous Agreements the decision to launch a procedure or not has been more overtly political, in the case of the Cotonou Agreement – in theory at least – the suspension procedure will be launched systematically whenever a country has violated one of the essential or fundamental elements. Only time will tell whether this will prove to be the case.

'Practical' conditionality refers to the extent to which the EU half of the partnership influences the selection of areas of support under Cotonou. The ACP country is responsible for drawing up the Country Support Strategy (CSS) with input from the Commission Delegation and donors in-country. This is then sent to Brussels, where the Quality Support Group, a high-level group of European Commission officials, examines each dossier on the basis of comments from sectoral expert officials before it is sent to the Member State Committee, which is responsible for approving CSSs.

The idea is to ensure that CSSs are in line with the EU's approach to development and the country's own analysis of what is required. The EU's joint development policy statement with the Commission articulated the EU's approach to development policy and at the same time, outlined the areas where the Commission should focus its development efforts in the future.[7] The six areas are:

- trade and development;
- regional integration and cooperation;
- support to macroeconomic policies, with an explicit link to poverty reduction strategies, especially in the education and health sectors;
- transport;
- food security and sustainable rural development; and
- institutional capacity building, good governance and the rule of law.

At the same time, support under the Cotonou Agreement is intended to focus primarily on two sectors, so as to avoid dissipating the EC's development efforts. These two sectors must be drawn from the six areas of activity listed above. At this early stage of Cotonou's development, there are real concerns that despite the renewed emphasis on poverty, the EC's portfolio will continue to be focused on large infrastructure projects at the expense of support that has a direct impact on poverty eradication. The balance of expertise within the Commission (favouring infrastructure rather than the social sectors), the relative ease with which funds can be disbursed in this area and the large industrial lobby in support of such projects, make it unsurprising that almost half of available funds are currently earmarked for transport.

Conservative estimates put the cost of universal primary education at US$9 billion per year and an effective Global Health Fund at US$10 billion a year. Much of the need is in Sub-Saharan Africa. In view of the severe financing gaps in sectors that have the greatest impact on poverty eradication, it seems strange for the EC to put so much into transport.

Although only two CSSs were officially approved by the beginning of September 2001, between 40 and 50 were expected to be approved by the end of the year. Of those countries where draft strategy documents exist, 85% of available resources have been earmarked, with 37% being committed to transport versus a mere specifically 10% for education and health. Whilst more of the available funds (from the 85%) will be allocated to social sectors via macro economic support, the relative importance being allocated to social sectors and transport appears skewed.

OECD

The final point with respect to ACP-EU partnership and conditionality is in relation to the obligations that the EU side must meet. The European Development Funds (EDF), through which the Cotonou Agreement is financed, provide for more than •20 billion $20 billion) up until 2007. This comprises the financing package announced at the conclusion of the Cotonou negotiations, together with rolled-over, unspent Lomé funds from previous years. On average, the Commission therefore needs to spend around •3 billion per year – or the agreement will amount to little. However, reorganisation within the Commission services (AidCo is the new agency responsible for disbursing external aid) has so far failed to make much impact on the lamentably low levels of disbursement that characterise EC aid. Indeed, the most recent figures available for EDF spending in 2001 indicated that the Commission had spent only 41% of anticipated expenditure up to May 2001. It will require Herculean efforts to catch up on disbursement in the rest of the year – and the Commission record to date is not encouraging.

Principles must be put to the test

While the Cotonou Agreement contains some very positive elements, including more flexible programming and broader participation in the Agreement, vigilance will be required to ensure that the much-vaunted principles of partnership are actually implemented. For example, although there is a requirement to include NGOs, local government, trades unions, the private sector and other stakeholder groups in development processes – and even a fund available under the Agreement to facilitate this involvement – this is one aspect that is not actually a *condition* of cooperation. There are no sanctions for countries that fail to include non-state actors in the development process and no danger of having cooperation suspended for failing to respect this Article of the Agreement. The decision to work within the PRSP framework, while it may be constructive in principle, risks increasing ACP countries' exposure to unnecessary and even harmful economic conditions that will not have a positive impact on poverty eradication. The EU should, therefore, reconsider this decision and in the meantime, work for genuine ownership of PRSPs rather than falling in with the latest international orthodoxy.

Notes

1 For discussions of earlier ACP/EU framework agreements under successive Lomé Conventions, see earlier Reality of Aid Reports at www.realityofaid.org

2 For a comprehensive briefing on the contents and implications of the Cotonou Agreement, refer to the Cotonou Infokit produced by the European Centre for Development Policy Management. Available at www.oneworld.net/ecdpm/en/cotonou/index.htm

3 Speech by Mr Poul Nielson European Commissioner for Development Cooperation and Humanitarian Aid ACP-EC Partnership Agreement ACP-EC Partnership Agreement, Signing Ceremony Cotonou, Benin, 23 June 2000 available at **www.europa.eu.int/comm/commissioners/nielson/speech/index-en.htm**

4 African Agenda Vol 3. No. 3 2000, p.8

5 *Policies to roll back the state and privatise? Poverty Reduction StrategyPapers investigated,* World Development Movement, April 2000, p.1.

6 Interview with B Petit, Director, DG Development, September 2001

7 The European Community's Development Policy, Statement by the Council and the Commission, Brussels 10 November 2000. Available from www.europa.eu.int

Partnership and poverty-focus in tension: a donor case study

ActionAid UK

Since the UK government's 1997 White Paper, *Eliminating World Poverty*, the UK's Department for International Development (DFID) has committed itself to poverty reduction as its sole overarching objective.

DFID has adopted the International Development Targets and the Millennium Development Goals (MDGs) as a core mobilising framework, to be pursued through support for nationally owned poverty reduction strategies. The UK Government has become a strong advocate for reform of development assistance with a renewed focus on 'systematic poverty reduction in ways that support local ownership and transparency and eliminate mixed motives and unnecessary transaction costs.' [1]

Under a new Public Service Agreement (PSA), which sets out DFID's global priorities for 2001 to 2004, DFID's first objective is 'to reduce poverty through the provision of more focused and coordinated development assistance by the international community to low and middle income countries'. Under the PSA, DFID has committed to an increased focus on poor countries and 'particularly those with effective governments pursuing high-growth and pro-poor economic and social policies'.[2] This reflects the considerable influence within DFID of the 1998 World Bank report, *Assessing Aid*, which suggests that aid works best in reducing poverty in poor countries with 'good' economic policies and institutional structures.[3] According to Sir John Vereker, DFID Permanent Secretary, 'there is an increasing willingness…to target resources where they will have most effect. This means focusing financial resources on poor countries where there is genuine commitment to reform'.[4] An increasing percentage of DFID's bilateral programme is therefore to be channelled towards poor countries, particularly those with 'favourable policy environments'.[5] According to DFID's most recent annual report:

'Economic growth is essential for poverty reduction. It depends on having sound, market-based policies, which promote investment and deliver effective macroeconomic management. This means a continued commitment to economic reform and liberalisation. Well functioning markets require a strong foundation of effective governance institutions.'[6]

Selectivity, then, is the model that the UK has adopted in order to pursue the dual objectives of greater recipient ownership of development processes and a strong poverty focus to its bilateral aid programme. DFID has dropped the language of conditionality in favour of 'partnership': the aim now is to pursue dialogue and implementation of shared objectives with selected governments with whom they share a commonality of purpose and which have an effective policy framework or commitment to develop one.[7]

OECD

This is, in essence, is a merit-based system of positive conditionality: increased support for 'partner' governments with the right policies and commitment to poverty reduction, and, by implication, less for those with poor governance standards and little demonstrable interest in tackling poverty. In its most recent annual report, DFID argues that 'The quality of governance is critical… Where governments are unrepresentative, ineffective and where corruption is endemic, economic growth and development suffer'.[8] DFID's aid to countries with a high incidence of poverty but poor government commitment to poverty reduction is generally restricted and disbursed in ways that enable DFID to maintain close control or bypass the government altogether (see, for example, DFID's engagement in Nepal, as described in Box 11). For recipients who seriously transgress minimum accepted standards of governance and respect for human rights, there is the threat of government-to-government aid being frozen or cut altogether.

Rewarding past performance

The rewards and penalties for performing and non-performing countries are reflected in DFID's overall allocations to individual countries. For instance, Ethiopia received only about £7 million (about US$10.6 million) in bilateral aid from the UK last year, and nearly half of this was in the form of humanitarian assistance; no money was channelled to the government in the form of project, sector or programme aid.[9] By contrast, Uganda, the UK's front-running 'well-performing' partner, received more than £90 million in UK bilateral aid, of which 80% was channelled to government, and only half a million of which was humanitarian assistance. Similarly, Ghana received £52 million, of which only a tiny proportion was humanitarian assistance.[10]

DFID's aid programme to Kenya has fluctuated considerably over recent years in volume and form, reflecting uncertainty over the government's degree of commitment to poverty reduction and reform.[11] A key challenge for this policy of selectivity, of course, is how to identify *potential* pro-poor partner governments. Sir John Vereker has specified four key areas of reform that define a 'favourable policy environment':

- Economic and fiscal reform, which means managing the economy to secure sustainable growth;
- Social reform, to ensure that resources are allocated to maximise benefits for people living in poverty;
- Democratic, accountable government, to ensure that reform is sustained;
- Anti-corruption measures, to ensure that scarce public resources are not diverted.[12]

DFID may be ahead of many other development agencies in terms of working out what is meant by 'pro-poor' growth and including liberalised trade and macroeconomic efficiency, better regulation, fair competition, transparency and accountability.[13] But it is not clear whether, in practice, DFID applies any firm and consistent criteria to its assessment of recipient countries' political and economic and social policy environment.

On the economic side, DFID bilateral aid policy is still flanked to a great extent by IMF and World Bank economic conditionalities. Thus, a partner government may be free to lead policy in particular sectors and develop poverty reduction strategies in partnership with DFID and other donors, but it will continue to be controlled by broader IMF conditions in overall levels of public spending, and supporting policies to ensure macro-economic stability. While the UK emphasises the economic conditions/reforms necessary as a precondition for partnership, political governance issues have been more prominent in recent decisions taken by the UK to postpone, restrict or cease bilateral aid to particular governments – e.g. in Ethiopia (during the conflict with Eritrea), Pakistan (following the military coup) and Kenya (due to the government's faltering commitment to reform).

A major problem that DFID faces in selecting development partners is that the world is not neatly divided into well-performing and poor-performing countries, and many countries may be performing well in some respects and badly in others. Uganda, for example – one of DFID's most important partner countries – has a very good record on poverty reduction, but a shakier record on governance and human rights with regard to its military involvement in the Congo conflict. In Pakistan, the regime that seized power in October 1999 had transgressed governance conditions by staging a military coup but, following the coup, it had some prospect of introducing more effective pro-poor reforms than the previous (democratically elected but very corrupt) government. The lack of explicit assessment criteria to support the policy of selectivity leaves some room for subjective and possibly arbitrary decisions over allocations, and creates space for other considerations, such as diplomatic concerns, to creep in. For example, the UK's renewal and enhancement of aid flows to Pakistan immediately following Pakistan's pledge to support the US and UK military campaign in Afghanistan – while hardly surprising – raises obvious questions about the standards and consistency that DFID applies to assessing the governance credentials of recipient governments.

It is probably inevitable that efforts to prioritise economic and social rights in recipient countries – now a clear priority for DFID – will come into conflict with counter pressures for tighter conditionalities with regard to civil and political rights. DFID has come under attack from several human rights organisations recently over its failure to apply stronger political conditions in its treatment of Uganda and Rwanda, due to concerns over these countries' continuing involvement in the conflict in Eastern DRC and evidence of human rights abuse in parts of DRC under their military control. On the other hand, DFID has been fiercely criticised by humanitarian agencies for, they claim, applying political conditions to the disbursement of emergency aid in Sierra Leone, Afghanistan and Yugoslavia. While the UK Government has rejected this charge, DFID's most recent annual report states that it 'responded to the change of government in Yugoslavia in late 2000 by providing a £10 million package of immediate humanitarian assistance to provide food and medicines for the winter period'.[14]

The overall shortage of governments and sectors ready for partnership means that aid allocations could become distorted in ways that undermine DFID's ultimate objective of reducing global poverty and achieving the MDGs. There are obviously dangers of donor resources becoming over-concentrated in particular sectors and countries in ways that might undermine the sustainability and local ownership of the policies and institutions concerned, or that might divert resources away from certain key 'sectors', such as natural resources, that do not have clear institutional representation in the public sector. There is also a risk of complacency in a policy that focuses resources in 'good-performance' sectors and countries where it is easier to achieve positive impacts, when one of the greatest obstacles to achieving the MDGs is mass poverty in the majority of the poorest 'poorly performing' countries where 'partnership' just isn't a feasible option for donors.

Probably recognising these problems, the UK has abandoned any exclusive focus on ideal partnerships to allow for a more pragmatic approach to engagement in environments where full partnership is either not preferable or possible.[15] In these contexts, DFID has opted for a selective approach, seeking to work with those parts of government (including sub-national levels) that are undertaking reforms and where it considers its support is most likely to make a difference, and/or trying to engage through non-governmental organisations and wider civil society (see Box 11). Last year, DFID created new 'Policy and Performance Funds' for Africa and Asia to introduce greater flexibility into the allocation of resources to well-performing or improving countries or institutions; for example, in 2000, when prospects for reform appeared relatively favourable, DFID allocated £28 million (about US$42.4 million) to Kenya from the Africa Fund in support of a new government commitment to poverty reduction.

Where the development context is very poor due to severe governance problems and/or violent conflict, DFID tries to remain engaged through support for local and international non-governmental organisations, institution-building and support for conflict reduction and prevention efforts. Working in partnership with the UK's Foreign and Commonwealth Office and Ministry of Defence, DFID aims to deliver 'coherent, complementary policies and interventions in order to defuse tensions, reduce violence, tackle the factors that underlie armed conflict and build governments and institutions capable of sustaining peaceful and democratic societies'.[16] Continuing engagement in these difficult policy environments is essential if any real progress is to me made towards achieving the Millennium Development Goals. However, like other donors, DFID still faces very severe challenges in attempting to translate its policy aspirations into comprehensive and effective poverty reduction strategies in these contexts.

Where partnership is considered possible, DFID's preference is to channel resources through governments' own systems. Indeed, the UK has become one of the most active bilateral promoters of direct budget support (DBS), on the grounds that it enhances the ownership, effectiveness and accountability of poverty reduction efforts in partner countries. So far, DBS accounts for around 20% of DFID's bilateral country programmes. The UK is committed to increasing the proportion of its aid that is channelled through partner government budgets (see Box 12) but this depends on partners having sufficiently robust and transparent financial planning and other administrative processes in place. An increasing proportion of DFID-supported technical assistance is, therefore, focused on strengthening the systems to support DBS, in both existing and potential partner countries and institutions, and among donors.

As a key step towards achieving greater partner control of development resources and facilitating sector and budget support, and sending a powerful message to other donors that it means to honour its promises in this respect, the UK government took the crucial step of removing all tying restrictions from its bilateral aid programme, with effect from 1 April 2001. As argued by Clare Short, the UK Secretary of State for International Development, aid tying 'makes effective coordination much more difficult…It wastes money, it distorts objectives and makes more difficult the great increase in effectiveness that an output-driven international development system could give us'.[19]

There are risks associated with budget support, of course, which are recognised by DFID. These include the possibility that the partnership approach will become centrally driven and technocratic, and that, as a consequence, the priorities and perspectives of local stakeholders, including people living in poverty, will be marginalised[21] . While sector and budget support have the potential to strengthen partners' ownership of development programmes, they do not guarantee a poverty focus in those programmes, and they do not ensure that impoverished communities will be directly involved in the development of policies and programmes that will affect them.[22] For this reason, the UK is very

Box 11. Pragmatic approach to choosing partners

DFID's pragmatic approach to engagement with government in countries where full partnership hasn't been established is reflected in its programme in India, where DFID focuses its engagement at state rather than national level. DFID's programme in India is built around partnerships with the State Governments of Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. DFID reports that, by working at state level, it is ' able to have a more substantial impact in India and, with other development agencies, is able to encourage and support reform – State Governments in India are responsible for setting and implementing many key development policies and are key agents of change and reform.'[17]

Where it is difficult or impossible to establish partnerships with any part of government, DFID's engagement is far more restricted and selective, working primarily with NGOs and civil society. In Nepal, for example, DFID is supporting an Enabling State Programme, aimed at governance reform, 'working with the Nepalese on their own ideas for governance change', and aiming 'to foster the development of new influential Nepalese who will advocate change'. By DFID's own admission, 'This approach will take a long time – at least a decade. But if it is successful, the country will be ready to undertake real locally-owned policy and institutional change.'[18]

Box 12. Sectoral budget support favoured

DFID is seeking to channel more bilateral funds through government or individual ministry budgets in partner countries with sufficiently robust budget processes and strong accountability mechanisms.

For example, in Mozambique, DFID is one of a number of donors providing direct financial assistance to the government's budget to support its PRSP priorities. DFID is simultaneously in dialogue with the government to try to encourage better management and transparency in government financial accounting.

In Tanzania, DFID has funded the Poverty Reduction Budget Support Facility, a new multi-donor mechanism to provide budget support and finance poverty-focused government expenditure.

In Uganda, DFID has provided budget support to implement Uganda's Poverty Eradication Action Plan. DFID has also invested £67 million (US$101.5 million) in Uganda's education sector over five years (1998-2003). Alongside six other donors, DFID channels aid through a consolidated fund managed by the Government of Uganda.

In Malawi, DFID is supporting the Ministry of Education's Policy Investment Framework to the tune of £63 million (US$95.4 million) over the next five years.[20]

concerned to see SWAps and DBS linked very closely to robust and inclusive (partner-led) Poverty Reduction Strategies (PRS), and to have its own country strategy processes tied into country-led poverty reduction processes.

Indeed, the UK has become something of a champion of PRS processes and sees itself as a key player in ensuring that poverty reduction strategies are nationally owned and fully participative. The UK has therefore adopted an explicit influencing agenda towards the international financial institutions (IFIs), with the chief objective of promoting poverty reduction to the highest priority of multilateral policies towards developing countries, including through the Comprehensive Development Framework and Poverty Reduction Strategy Papers (PRSP). DFID has been working with a number of countries to help them produce strong Poverty Reduction Strategy Papers. In Rwanda, for instance, the UK has pledged £63 million over the next three years to the government's central budget to help (among other things) with the development, implementation and monitoring of a new PRS.[23]

DFID's approach to PRSPs is summarised in the internal guidance paper, *Poverty Reduction Strategy Papers: DFID Expectations*. The emphasis is very much on the *process* dimensions of PRSPs. Thus, for DFID, the Poverty Reduction *Strategy* – which is approved by domestic governance structures and for which the government is accountable to its citizens – is probably more important than the final strategy paper. Participation is central to DFID's concept of process in this context. As set out in two DFID Strategy Papers published last year – *Realising Human Rights for Poor People* and *Halving World Poverty by 2015: economic growth, equity and security* – a central priority for DFID is to ensure that poor people are consulted in discussions about policies that might affect them. This, in turn, reflects an inclusive concept of 'ownership', which extends beyond central government to include a wide range of stakeholders at different levels, who should be enabled to participate in the development and implementation of national poverty reduction strategies. For this reason, DFID has been keen to channel resources into supporting the participation of a wide range of stakeholders in PRS processes. In Mongolia, Kenya, Rwanda and Uganda, for instance, DFID has supported participatory poverty assessments to feed into and inform national PRS processes. It is not entirely clear how effective and genuinely participative these processes are [24] but DFID is certainly committed to trying to strengthen and improve broad stakeholder participation.

There is an underlying tension, which is doubtless acknowledged by DFID, between its dual concern with poverty reduction and ownership. The two do not automatically go hand-in-hand, and DFID's efforts to ensure poverty focus in policy processes that it seeks to support can easily result in forms of 'soft' conditionality that implicitly undermine local ownership. Andrew Norton and Bella Bird quote a DFID official admitting that:

> *'Partnership requires overlapping objectives, but they will not usually coincide totally, and we often have an agenda of our own which we are trying to persuade our partners to embrace. This need not be a hidden agenda: it will usually aid understanding to be quite open about it, and negotiate a common programme which tries to reflect the different preferences of partners.'* [25]

Reconciling livelihoods with sector support

One area where this tension has been particularly obvious is in relation to debt relief. The UK government has been instrumental in linking debt relief for Highly Indebted Poor Countries with national PRS, so as to ensure that the benefits of debt relief will directly benefit people living in poverty. Already, of course, the PRSP is a key requirement for countries hoping to access DFID and other donor support. By linking PRS directly with HIPC debt relief, the timetables and conditions of the external donor community bear down even more directly on national poverty reduction processes. DFID's imposition of its own timetable under its Public Service Agreement to achieve PRS in all IDA countries by 2004 could conflict with the intention to build on genuinely local poverty reduction processes.

The difficulty of reconciling the goals of poverty reduction and local ownership is also reflected in the tensions between DFID's approach to sector support and a second core policy priority – the 'sustainable livelihoods' approach. Whereas DFID's approach to sector-based partnership emphasises and supports macro-level policy and planning processes led and controlled by dominant state institutions in discrete sectors, the livelihoods approach stresses that people do not live in sectors. Rather, it encourages dynamic, people-centred multi-sector and cross-sectoral working at the local level, and a focus on the full diversity of strategies by which people living in poverty sustain their livelihood. Whereas the partnership approach encourages poverty reduction through direct sectoral 'social expenditures' (education, health, etc.), the livelihoods approach highlights the need to support and facilitate people's access to a wide range of assets and services, including markets, equitable justice systems, etc. Whereas sector support encourages local ownership, it may not guarantee poverty focus. The sustainable livelihoods approach, on the other hand, is implicitly poverty-focused, but does not necessarily encourage local ownership.

DFID recently commissioned a study into the potential for using livelihoods approaches in PRSPs[26] . It concluded that if partnerships and sector support were to replace project-based aid, the scope for introducing sustainable livelihoods approaches would depend on persuading partner governments of their merits, considering that DFID's new role is to influence and support partner government strategy.

The key to integrating the two approaches – and thereby helping to reconcile the tensions between ownership and poverty focus that run through much of DFID's current programming – is likely to be through encouraging the incorporation into nationally-owned PRSP processes of the core principles and methods that define the livelihoods approach. These are that policy and interventions are sustainable, people-centred, responsive and participatory, multi-level, dynamic and conducted in partnership. The strongest model for this type of approach to PRS processes is currently provided by Uganda's Plan for the Modernisation of Agriculture, which used livelihoods analysis to help identify those living in greatest poverty and define strategies to help them overcome it (see Box 13). The key challenge for DFID will be to replicate this model in other countries and contexts.

DFID has shown it is committed to strengthening the local ownership of development and poverty reduction programmes in recipient countries through a shift to channelling resources through government systems and more positive forms of conditionality,

Box 13. Livelihoods approach to poverty reduction in Uganda

In Uganda, DFID helped the government to design its Plan for the Modernisation of Agriculture (PMA) using livelihoods approaches. The PMA represents a key component of the national strategy for eliminating poverty (Uganda's PRS). Since 1998, the PMA has been coordinated by the Ministry of Finance. Although it exhibits many features of a livelihoods framework, this has arisen principally through the government's enhanced understanding of poverty rather than through DFID's explicit promotion of the sustainable livelihoods framework. The Plan seeks to strengthen decentralisation by empowering local government and rural people. Implementation of the PMA should give impoverished communities greater control over the use of public resources, and will provide new mechanisms by which policy and action at the centre is informed by those living in poverty. The PMA has supported the transfer of financial resources on a non-sectoral basis to local government, with incentives to allocate funds on the basis of the priorities of local communities.[27]

supporting partnership with governments committed to pro-poor reforms. But if this policy of positive conditionality and partnership is to be combined with substantive progress towards achieving the MDGs, DFID needs to continue to address how it and other donors can effectively tackle mass poverty more effectively in difficult policy environments where partnership is not an option.

Notes

1 Department for International Development (DFID), *Departmental Report 2001*, CM 5111, London: HMSO, 2001, p.14.

2 DFID's Public Service Agreement and Service Delivery Agreement for 2001-2004 can be accessed on the DFID website: www.dfid.gov.uk

3 World Bank, *Assessing Aid: What Works, What Doesn't and Why?*, Washington DC: World Bank, 1998. See also D. Dollar and C. Burnside, *Aid, Policies and Growth*, Policy Research Department, Washington DC: World Bank, 1997.

4 'Reducing World Poverty: the Key to Stability and Progress', address by Sir John Vereker KCB, Permanent Secretary, DFID at The House of Representatives, Washington, Tuesday 18 April 2000.

5 DFID's Public Service Agreement 2001-2004, Objective I.

6 DFID *Departmental Report 2001*, p.32.

7 Aiden Cox et al., *DAC Scoping Study of Donor Poverty Reduction Policies and Practices*, Paris: OECD, 1999, p.xxxiii.

8 DFID *Departmental Report 2001, p.35.*

9 DFID had been running a £4-7 million per annum core programme in Ethiopia in the mid-1990s and were planning to provide sector aid. DFID put these plans on hold when the war started with Eritrea, but continued providing technical assistance. DFID are now resuming plans to step up aid to Ethiopia.

10 DFID Departmental Report 2001, Annex 3, Table 1, 'Bilateral Aid by Country 1999/2000..

11 See *Statistics on International Development 2001 Edition,* Table 7.1, London:DFID, 2001 (can be accessed on the DFID website: www.dfid.gov.uk).

12 Address by Sir John Vereker KCB, Permanent Secretary, DFID, at the India State Reform Forum 2000, New Delhi, 23 November 2000.

13 Cox et al., *op cit.*

14 Ibid., p.108.

15 Cox et al., *op cit.*, p.84.

16 DFID *Departmental Report 2001, p.88.*

17 Ibid., p.103.

18 Ibid., p.104.

19 'Disposing of a Dinosaur', address by the Rt. Hon Clare Short MP at the Adam Smith Institute, London, 2 December 1999.

20 *Ibid.*, pp.96-97 and p.82.

21 Andrew Norton and Bella Bird, *Social Development Issues in Sector Wide Approaches*, Social Development Working Paper No.1, London: Social Development Division, DFID, 1998.

22 Cox et al., *op cit.*

23 DFID *Departmental Report 2001*, p.33.

24 Cox et al., *op cit.*

25 Quoted in Andrew Norton and Bella Bird, *op cit.*, footnote.

26 Andrew Norton and Mick Foster, *The Potential of Using Sustainable Livelihoods Approaches in Poverty Reduction Strategy Papers*, London: Overseas Development Institute, July 2001.

27 DFID *Departmental Report 2001*, p.58; and Andrew Norton and Mick Foster, *op cit*., p.15.

Part VI
World Aid Trends

Never richer, never poorer

Tony German and Judith Randel, Development Initiatives

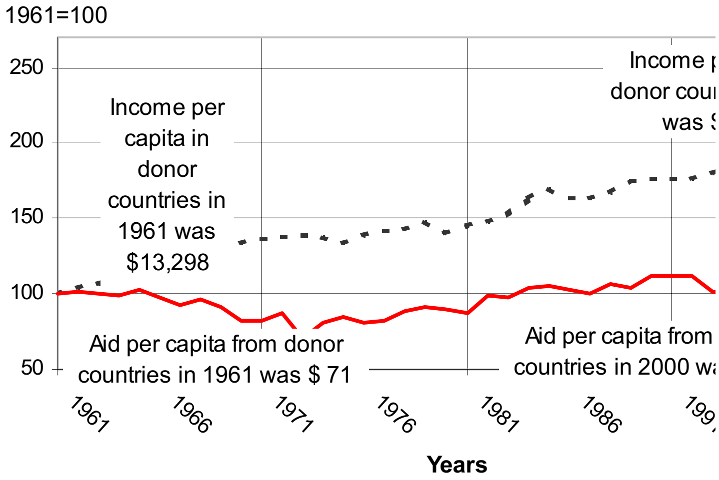
The world's donor countries arriving at the UN Financing for Development Summit in Mexico have never been richer. Wealth per person has more than doubled between 1961 and the year 2000. But the aid given per person is actually less than it was four decades ago. (See Graph 14)

The fall in aid has been most pronounced during the 1990s. Having peaked ten years ago in 1992, the year of the Earth Summit in Rio, aid has declined in real terms by almost 12%. (See Graph 15)

Total aid from all 22 DAC donor countries in 2000 was US$53.7 billion, down 0.4% in real terms from 1999. Japan and the USA were the largest donors in cash terms, with Germany the UK and France also giving from US$4 billion to just over US$5 billion. (See Graph 16).

While donors from G7 countries with large economies show up towards the top of the list of aid donors in terms of volume, their performance looks much worse when aid given is measured as a share

Graph 14. DAC Donors–richer but meaner
The gap between income and aid per capita
(at 1999 prices and exchange rates)



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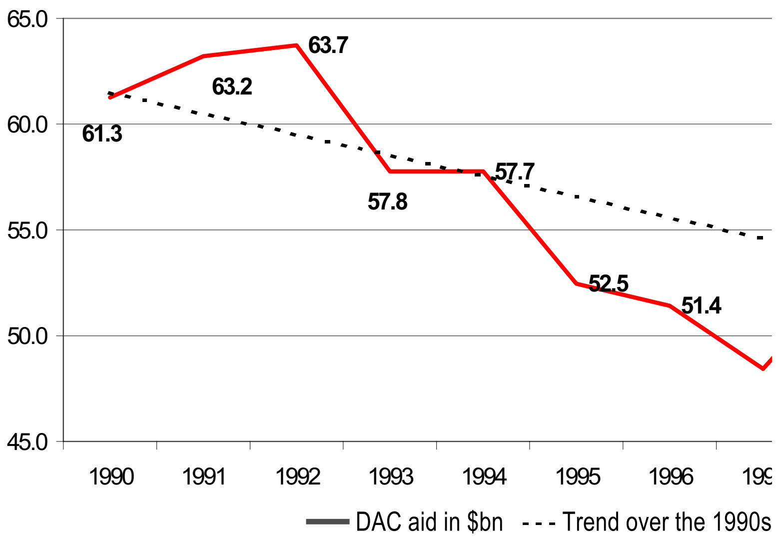
of donor GNI. (See Graph 17). Only five donors – Denmark, Netherlands, Sweden, Norway and Luxembourg – meet the UN 0.7% target for aid as a share of national income, established in 1970[1].

Countries such as the United States and Italy give a pitiful share of their wealth in aid. Most G7 donors have allowed their aid to decline as a share of their growing wealth over the last ten years. Even as the Financing for Development Summit approached, G7 donors allowed their aid to fall by 3% in real terms between 1999 and the latest available figures covering the year 2000. On average the G7 countries, Canada, France, Germany, Italy, Japan, the UK and the USA now give just 0.19% of GNI in aid – even lower than their 0.21% figure for 1999.

Looking at the long-term trend in aid, (see Graph 15) donors go into the Ffd meeting never haven given less in aid. Through the 1980s donors managed to maintain aid at around half the UN 0.7% GNI target figure, and even a decade ago aid as a percentage of GNI was stable at 0.33%. But any optimism that the end of the Cold War would result in a new world order in which the fight against poverty was prioritised quickly evaporated, with aid declining sharply to an all time low of just 0.22% of DAC GNI. Optimism that a post September 11 world may result in a stronger commitment to reduce poverty and deprivation must be seen against this salutary background.

Over the last decade, only five donors have managed to maintain or increase their aid as a percentage of GNI. Sixteen DAC donors have let their aid decline (see Graph 17). Several DAC members have targets for increasing aid – Canada, Greece, Ireland, Sweden, Switzerland and the UK. But these commitments must be seen in their proper context. The UK is the largest donor committed to increases and it is making substantial progress. But even so, if current targets are achieved, it will still mean that UK aid as a percentage of GNI is well below the level achieved when the Labour government last left office in 1979. CCIC in Canada argues that Canadian aid is unlikely to rise above 0.30% – far below the level maintained from 1970 to the mid-1990s. Sweden plans to reach 0.81% of GNP in 2003 but it does not have a timetabled commitment to return to the previous level of 1% of GDP achieved in both 1982 and 1992. The Swiss NGO coalition notes the ‘soft’ nature of government commitments to

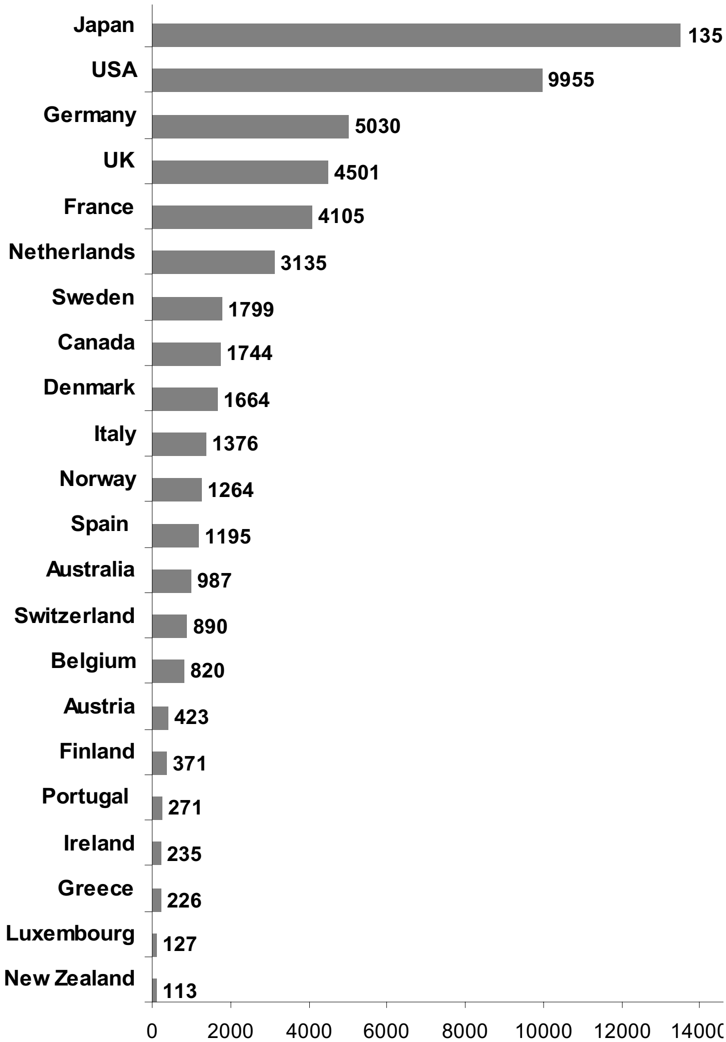
Graph 15. The fall in DAC aid in US$ billions in real terms



make progress towards an interim target of 0.4% – which in any case is below the figure achieved in 1992. In September 2000 Ireland made a commitment to the 0.7% target by 2007. But *Reality of Aid 1994* noted a government commitment to 0.05% increases each year in order to reach 0.4% in 1997– but Ireland only achieved 0.31% in 1997 and its aid in 2000 is slightly lower at 0.30%. So while planned increases are welcome, there is a clear record of DAC governments failing to deliver on volume commitments, and many of the commitments are in any case to reach levels lower than those achieved at an earlier date. Perhaps the bleakest part of the picture approaching the Financing for Development Summit is the fact that five of the G7 donors – the USA, Italy, Germany, France and Japan – show no real sign of reversing the major declines that have occurred in their aid.

One of the excuses donors have used for allowing aid to fall is that there was an urgent need to

Graph 16. Aid from DAC donors in 2000 in US$ millions



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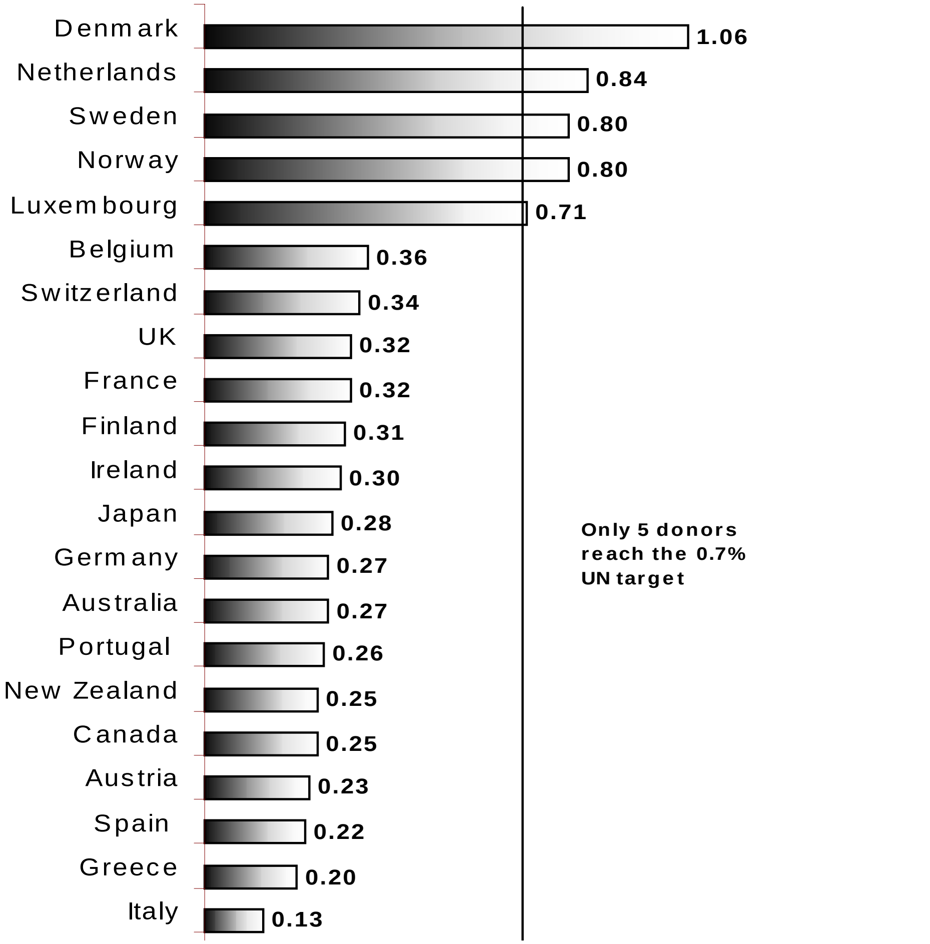
cut budget deficits in OECD countries. But this argument does not accord with the facts for two reasons. First, there is little sign that as OECD countries get their economies back in shape they take action to restore aid. Second – and perhaps more serious, is the evidence that aid as a share of central government spending has fallen from 0.82% a decade ago to 0.58% now (see Graph 18). In other words, aid spending has taken more than its fair share of cuts. Simply, the people living in greatest poverty in the world are having to pay the price of getting rich countries' economies in order.

The total failure of the majority of rich countries to honour the commitments they have made to increase aid towards 0.7% in order to achieve the Millennium Goals for 2015 contrasts sharply with the growing wealth of OECD countries. Graph 11 can be summed up simply in the phrase 'richer but meaner'.

At the level of policy statements, bilateral donors are highlighting the need to ensure that aid is directed

Graph 17. ODA as a percentage of DAC donors' GNI 2000



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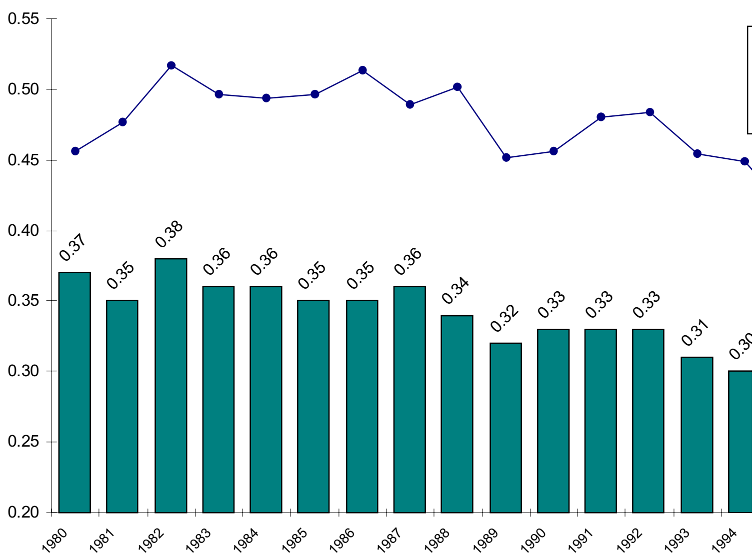
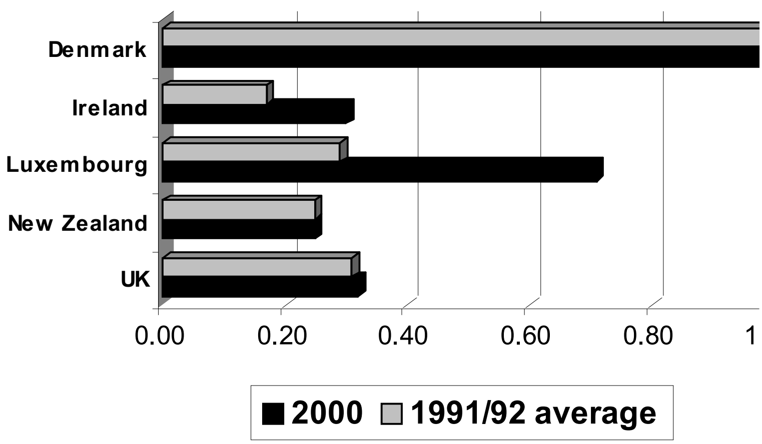
to poverty reduction. But efforts to reduce the commercial and political priorities that have kept aid tied to donor interests are very slow – and most aid spending is still not focused on the sectors that are most likely to benefit those in greatest need (see Graph 19). Although 31% of bilateral commitments in 2000 were for the social sectors, only 1.5% went to basic education and 2% to basic health – the kind of spending likely to benefit directly people living in poverty.

As national reports from OECD countries in this *Reality of Aid* explain, several donors are talking of the need to concentrate aid on fewer countries but the distribution of spending by country is still skewed by

Graph 18. Aid from all DAC donors as a percentage of GNP: the long-term trend



Graph 19. Aid as a % of GNI now and a decade ago -- donors who are giving more in 2000



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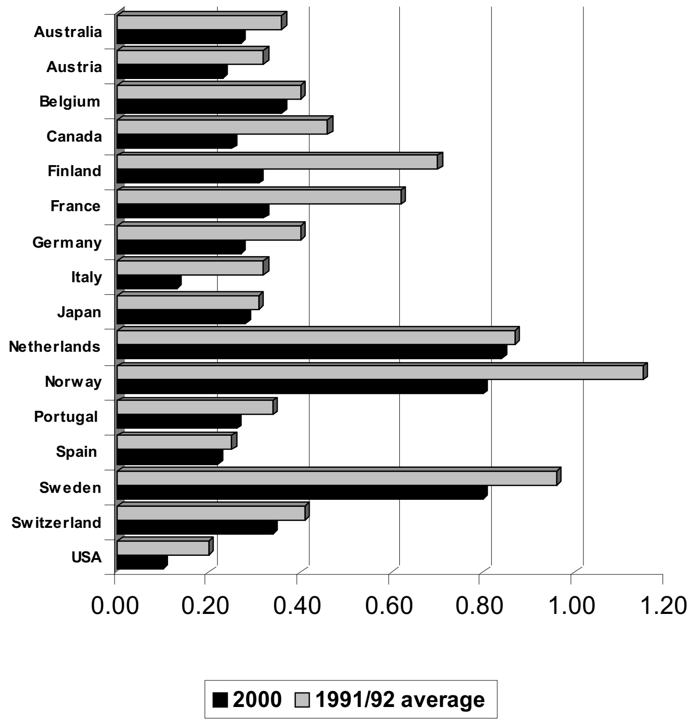
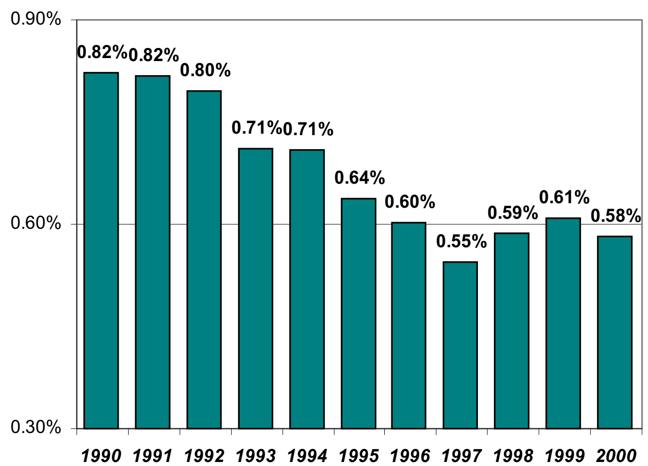
Graph 20. Aid as a % GNI now and a decade ago - donors who are giving less in 2000



Graph 21. ODA as a percentage of donor government expenditure



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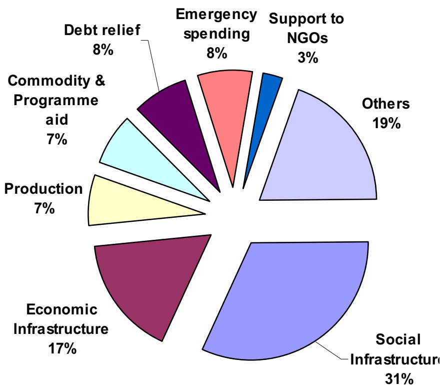
Graph 22. DAC bilateral aid commitments in 2000: which sectors were given priority?



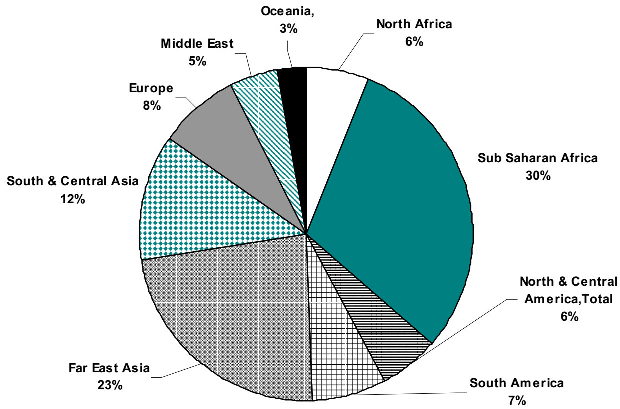
donor interest. Most of the world's poorest people live in South Asia and Sub Saharan Africa. But as Graph 20 shows, well under half of world aid, only 42%, went to these regions in 2000.

Graph 21 shows how aid is allocated to different income groups. One positive achievement on aid distribution is that since 1998, High Income countries no longer receive any official development assistance. But more effort is still needed to target aid towards those regions that need it most. The Least Developed Countries (LLDCs) receive only 29% of global aid allocable by income group.

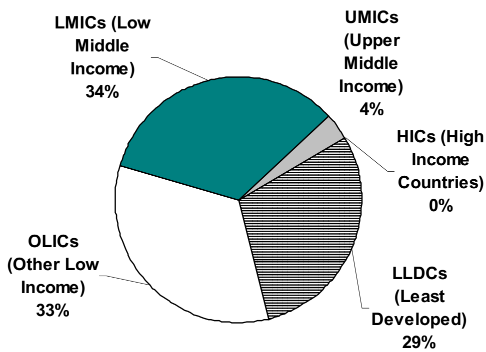
Other Low Income Countries, including India, receive one third of aid spending. In both cases the share is less than that received by the world's Middle Income Countries (LMICs and UMICs).

The Africa section in this *Reality of Aid* report explains why African countries would prefer not to depend on aid that is highly conditional – but how the need for external assistance remains in the face of debt, lack of finance for basic rights, such as education, and newer threats such as HIV/AIDS. But Graph 22 shows that aid in recent years has fallen well below the levels maintained during the early 1990s. The recent World Bank Strategic Partnership with Africa Report, *Africa at the Millennium*, noted the 'Africanisation of global poverty' since the late 1980s. But aid to Sub-Saharan Africa over the last four years has been lower than any year since 1984.

Graph 23. Where was aid from DAC donors spent in 2000?



Graph 24. Share of Aid to the Poorest Countries 2000



As Graph 23 shows, despite the efforts of the Jubilee Coalition and many expressions of political concern over the impact of debt on the people living in greatest poverty, the trend in aid to HIPC Countries was actually downwards during the decade to the year 2000.

The world's Least Developed Countries include the very poorest nations, such as Sierra Leone, Niger, Mali and Burkina Faso. Thirty two of the 35 countries in the lowest category of UNDP's Human Development Index are LLDCs. On average, 15% of children born in LLDCs do not survive to their fifth

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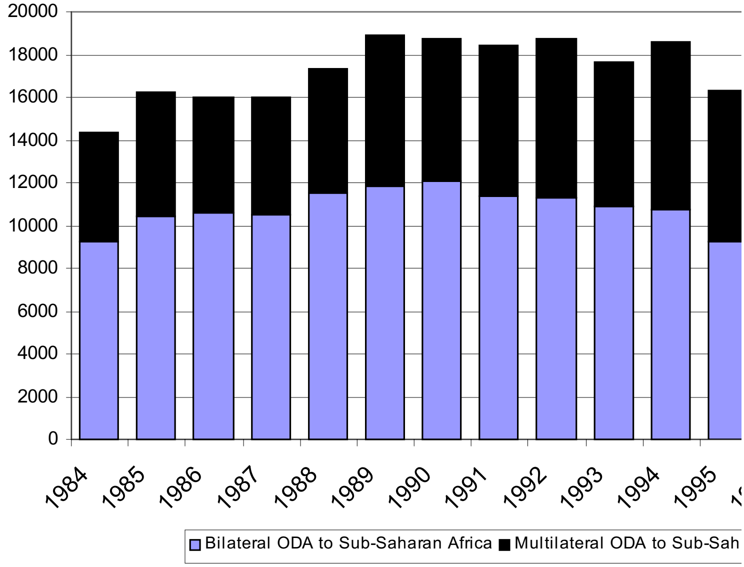
Graph 25. Total ODA to Sub-Saharan Africa 1984-2000 in real terms (US$ millions)



birthday[2]. During the 1980s, aid per person in LLDCs was steady at around US$33. But during the 1990s this figure fell by more than a half so that now people in LLDCs receive an average of just US$20 a year each from people in rich countries whose income per capita in 2000 was approaching US$30,000 (see Graph 24).

Graph 25 shows the relative wealth of low-income, middle-income and high-income countries, and how this has changed during the last two decades. Wealth in low-income countries, including India, has grown almost imperceptibly during the last 20 years. By comparison, high-income countries, including all DAC donor countries, have seen their income grow rapidly over the same period.

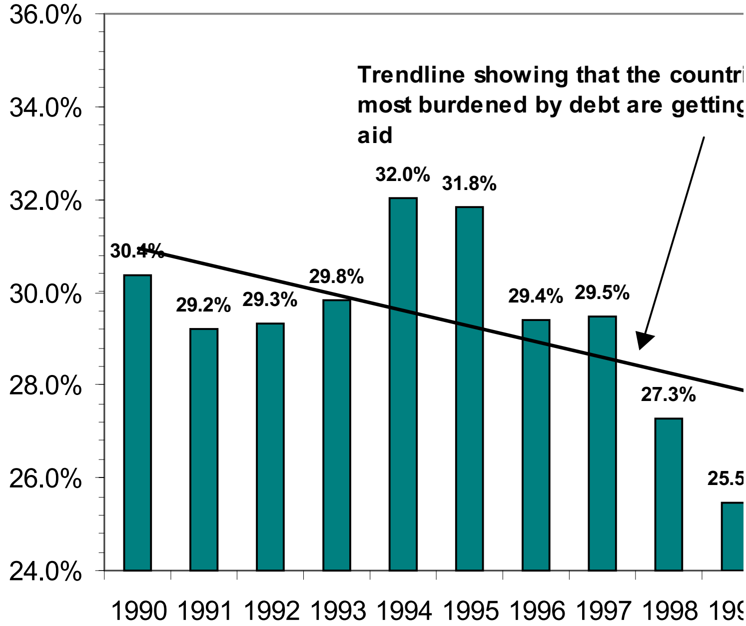
There is an enormous difference between household income in low-, middle- and high-income countries. In 1999, household income (measured as the amount people spend on food, goods, services and housing) per person living in high-income countries was US$16,055. In middle-income countries it was $1,226 and in low-income countries it was just $296 dollars. (See Graph 26)

Since the 1960s, the share of aid given multilaterally has grown from around 13% to about one third of global aid. (See Graph 27)

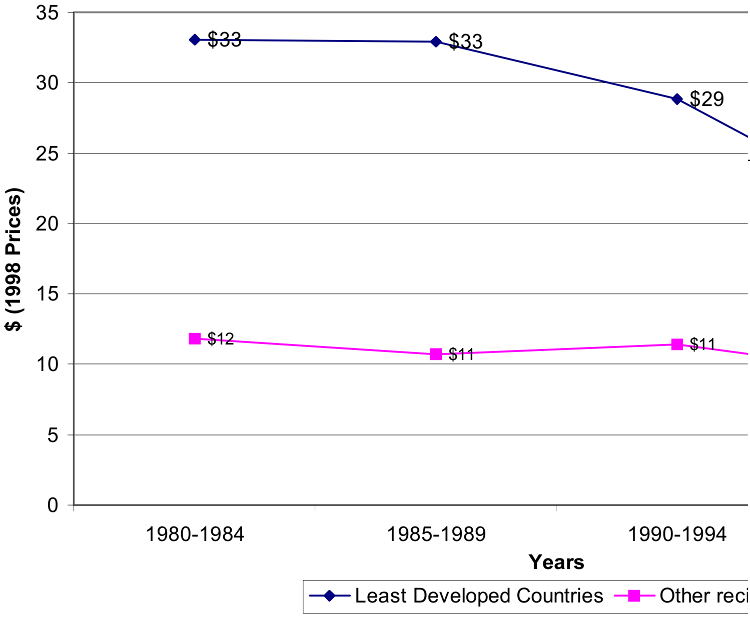
In theory, multilateral aid should be less tied to donor interests. But in recent years the rise in conditionality imposed by the IMF and World Bank has been accompanied by the falling share of multilateral aid channelled through the UN. Graph 28 shows the stagnation in spending through the UN compared to the growing funds channelled through the EC and the Development Banks.

Of course the influence of developing countries within the UN is much stronger than within the Bretton Woods Institutions, where the voting power is heavily skewed in favour of developed countries. (see Graph 29 and 30) Each country that is a member of the IMF has 'basic voting rights' of 250 votes plus voting rights based on its capital subscription or quota. Since the Bretton Woods Conference in 1944, quota-based voting rights, reflecting economic strength, have grown, but basic voting rights have remained the same. This means that the relative weight of basic voting rights has

Graph 26. ODA to HIPC as a share of Total ODA



Graph 27. Aid per capita to the Least Developed Countries falls more steeply than aid to other recipients



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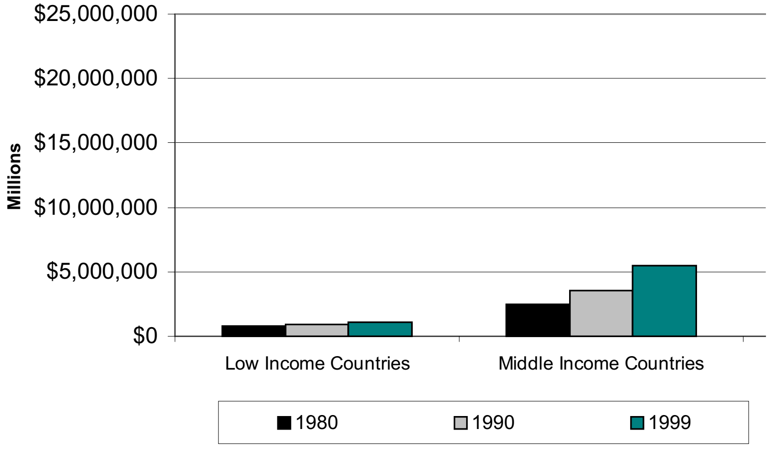
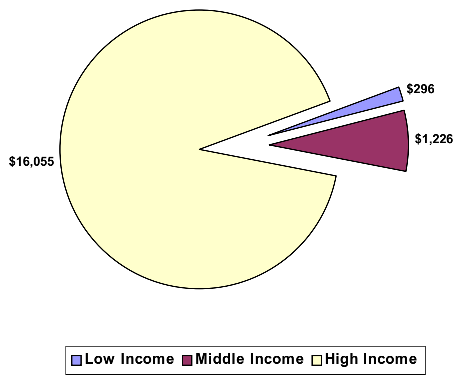
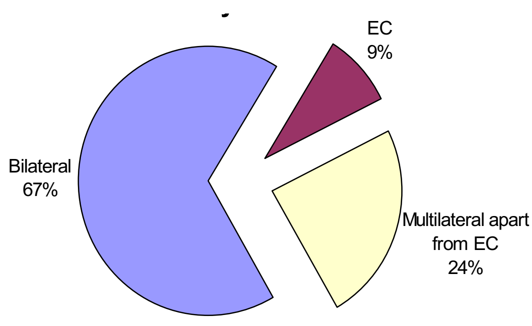
Graph 28. Relative wealth of different country income groups– and how their wealth has changed over 20 years



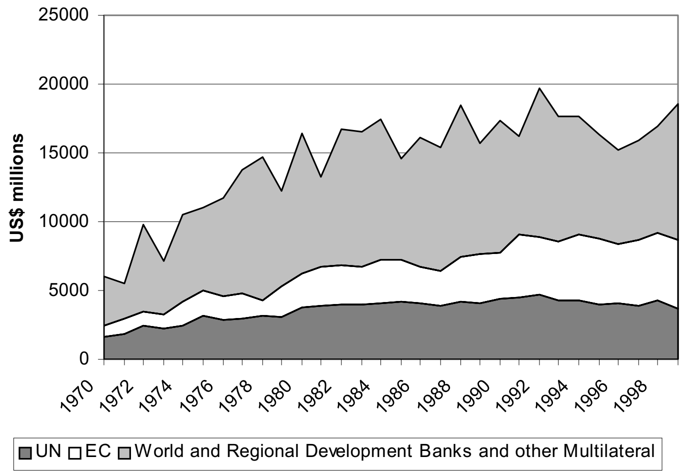
Graph 29. Household consumption US$ per capita 1999



Graph 30. How much aid was spent bilaterally in 1999?



Graph 31. Multilateral ODA through the World Bank, UN and EC in real terms

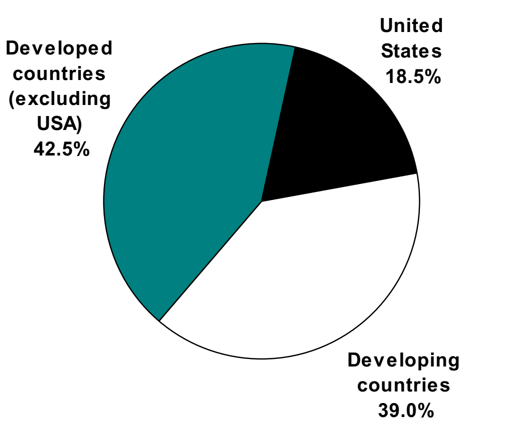


declined from 15% of the total to just 2% – substantially eroding the influence of the majority of smaller, economically weak countries. G7 and EU countries, with 14% of the world's population, control 56% of IMF Executive Board votes.

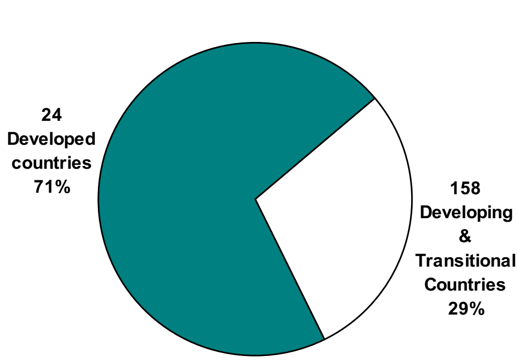
Through the 1990s, both aid and military spending by rich countries declined, but aid declined faster. Graph 34 shows how much more money most OECD countries spend on arms and the military than they spend on aid. Every donor except Denmark spends at least twice as much on the military as they spend on aid. The UK spends eight times as much, France nine times as much, Italy 15 times as much, Greece 23 times as much and the USA 33 times as much. Government is said to be about making choices, and it is clear that the OECD chooses military spending over poverty reduction every time.

This year's *Reality of Aid* report has referred to the consensus that aid is likely to be most effective if it is controlled by local communities and if

Graph 32. Voting power within the IMF

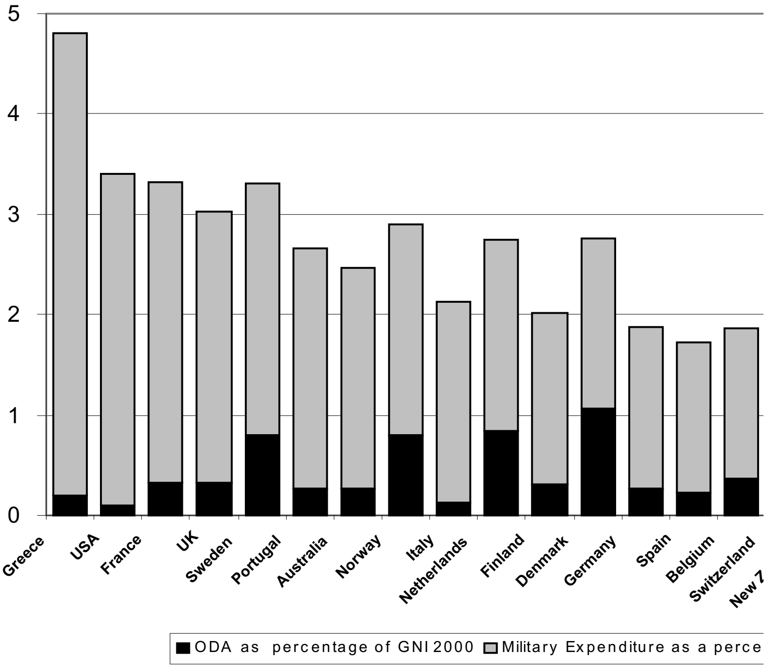


Graph 33. Voting power within the World Bank



World Aid Trends

Graph 34. ODA and military expenditure as a percentage of donor countries' GNI, most recent year available



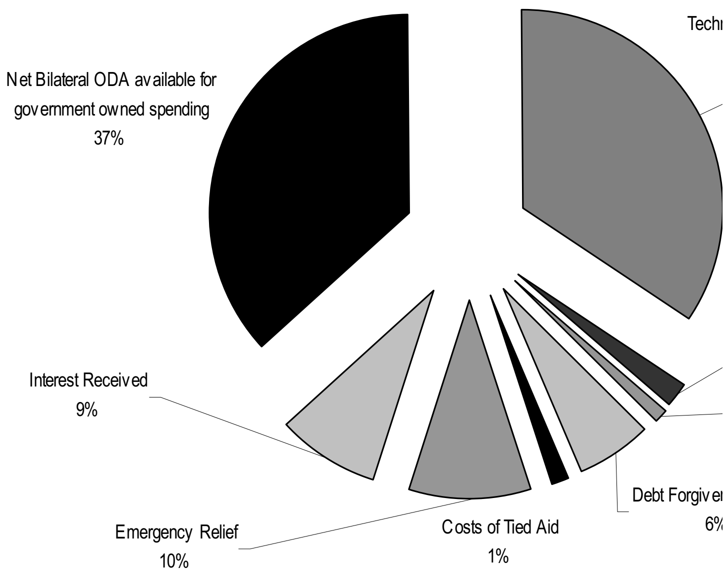
southern governments are responsible for developing and implementing policies and programmes to reduce poverty. But progress towards fostering local ownership is obstructed by the fact that the majority of aid spending is effectively beyond the control of southern governments. Because of distortions in the way that aid is managed and accounted for, less than half can really be said to be under local control – as Graph 35 illustrates. A lot of aid in practice is spent within the donor country – for instance funding consultants under technical cooperation and paying for refugees in donor countries and imputed student costs.

Taking the recent record of donors on aid spending, together with such commitments as they have made in advance of Financing for Development, there must be grave doubt that donors are prepared to provide their share of the funds needed to achieve the Millennium Development Goals. This unwillingness to share in the global effort to reduce absolute poverty is especially evident among the majority of G7 donors, who are the best able to afford the resources and, it seems, least willing to do so.

Note

1 The Pearson Commission Report recommended the 0.7% GNP target in 1969, and the target was adopted by the UN in 1970.

Graph 35. Bilateral ODA available for government-owned spending 1999



Australia

Box 14. Australia at a glance

How much aid does AUSTRALIA give?

AUSTRALIA gave in 2000	US$987m or 1,704m Australian Dollars
That means that each person in AUSTRALIA gave	US$52 or 90 Australian Dollars
In 2000, aid from AUSTRALIA rose by	US$5m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 8.4% in real terms

How generous is AUSTRALIA?

AUSTRALIA gave 0.27% of its national wealth in 2000. This compares with the average country effort of 0.39% and AUSTRALIA's previous own highpoint of 0.65% in 1975.

AUSTRALIA was less generous than 13 other donors but more generous than in 1999 when aid was 0.26% of GNI.

How much of AUSTRALIA's aid goes to the poorest countries and people?

48.7%of total bilateral aid (US$369.19) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of AUSTRALIA's aid was spent on basic health, basic education, water supply and sanitation?

AUSTRALIA spent
4.22%of its bilateral aid (US$32.01m) on basic education
5.66%of its bilateral aid (US$42.87m) on basic health
3.19%of its bilateral aid (US$24.21m) on water and sanitation

Figures inflated by defence spending

Andrew Nette and Mic McClellan, ACFOA

The 2001/02 budget saw the ODA/GNP ratio continue to languish at an historically low 0.25% of GNP, cementing Australia's place in the bottom half of the OECD donor table, at the same time as announcing a major defence increase.

In a significant change from past practice, in 2001/02 the Government added funds under the heading 'Total Australian assistance to developing countries' to give what it claimed was an ODA/GNP total of 0.40%.

This was made up of activities undertaken by Commonwealth and state departments in addition to the bilateral aid funder, AusAID. This mainly covered defence expenditure and Australian Federal Police activities in East Timor and the Pacific, and Government revenue forgone for tax deductions to members of the public contributing funds to NGOs providing overseas aid.

Australian NGOs heavily criticised this move for giving a false impression of Australian generosity on overseas aid, noting that no other OECD nation includes these areas as part of ODA. The Government justified it on the grounds that it gives a broader idea of official resource flows to developing countries.

While critical of the Government's lack of commitment to increasing the overall level of aid, Australian NGOs have welcomed improvements to the quality and direction of Australian aid, particularly the increased focus on poverty reduction and human rights areas.

Other key issues for the Australian aid programme over 2001/02 included:

- AusAID's adoption of a poverty reduction strategy to guide its operations. Entitled *Reducing Poverty: The Central Integrating Factor of Australia's Aid Program*. The policy was among the recommendations of a major review of the aid programme carried out early in the current Government's first term. According to the strategy, poverty reduction, not commercial or diplomatic objectives, should be the key determinant of the aid programme. Australian NGOs have welcomed the policy and hope it will enable AusAID to better articulate the linkages between poverty and the aid programme.
- The announcement by the government of an initiative that aims to help bridge the 'digital divide' in developing countries by using communication technology to improve basic education through teacher training. It is not clear whether this will be funded through new money, however, or from the existing aid budget. The announcement followed a study conducted jointly by the World Bank and AusAID.
- The completion of a joint survey by AusAID and NGOs on Australian public opinion on overseas aid, which found that 85 %of Australians supported overseas aid. In addition to an increase in the general level of support for aid, there was a significant increase in the number of people who 'strongly support' the aid programme. There was also an increase in the percentage of people who believe Australia does not spend enough on overseas assistance.

Australia

Box 15

Impact of 11 September

Two weeks before the tragic events of September 11 and the subsequent international intervention in Afghanistan, long-simmering concerns in Australia over the threat posed by asylum seekers to the security of the country's borders developed into a full-blown national debate.

The immediate cause was the Conservative Liberal/National Party Coalition government's refusal to accept 460 mainly Afghan asylum seekers, who had been rescued from a stricken vessel of the coast of Australia by the Norwegian container ship, MV Tampa. After a lengthy standoff, agreement was reached with New Zealand to take 100 of the asylum seekers. The rest were diverted for processing to the tiny Pacific Island of Nauru. Subsequent boatloads of Middle Eastern asylum seekers coming to Australia via Indonesia have been diverted to Papua New Guinea and a number of other Pacific nations have been pressed to accept them in what the Australian Government has referred to as the 'Pacific Solution'.

The humanitarian crisis in Afghanistan and the Australian government's hard-line stance on asylum seekers have significant implications for Australia's overseas aid programme.

As of November 6 2001, the Australian Government had set aside a total of $A23.3 million towards the delivery of humanitarian assistance to displaced and refugee populations in South West Asia. These funds have been allocated to UN organisations and NGOs involved in the delivery of emergency supplies and the establishment of emergency medical facilities inside Afghanistan and in neighboring countries.

The humanitarian assistance announced so far has come from the current 2001/2 ODA budget. The government allocated $A16 million of ODA-eligible funds to Nauru in return for accepting asylum seekers. A further $A14 million in funding, additional to the aid budget, was earmarked for the UN High Commission for Refugees.

Public perceptions about refugee flows to Australia are out of all proportion to the actual size of the problem. Australia receives some 5000 requests for asylum a year, compared with 300,000 in Europe. Nevertheless, their tough stance on refugee issues was a major factor behind the re-election of the Liberal/National Party Coalition in early November 2001. The government has since claimed the 'Pacific Solution' to be a major success in deterring asylum seekers and that there are no plans to scrap the policy. It has been criticised by Indonesia as well as by many of Australia's Pacific islands neighbours, who say its treats the Pacific as little better than a dumping ground.

Of particular concern to Australian aid agencies are the negative implications of these policies for Australia's international human rights obligations and our responsibilities under the UN Refugee Convention.

Recent changes to Australia's migration laws have excised certain outlying Australia territories from obligations under the UN Refugee Treaty, curbed access to courts by asylum seekers and allowed the Australian navy to intercept refugee boats and transfer them to detention/processing centres on Nauru and Papua New Guinea.

There are also concerns that the 'Pacific Solution' and associated measures will establish funding priorities under the 2002/3 ODA budget that have little to do with the aid programme's stated poverty reduction focus.[1]

Australia

Tied aid: a long way to go*

Tied aid became a major political issue in Australia in the mid-1990s due to the then Labor Government's strong support for using the aid programme to maximise trade and commercial benefits for Australian business.

Particularly controversial was the establishment of the Development Import Finance Facility (DIFF), to provide concessional financing to Australian companies competing for infrastructure projects overseas in the face of foreign aid supported competition.

Soon after taking office in 1996, the current conservative Government terminated the DIFF scheme as part of major cuts to the aid programme and initiated a major inquiry into the effectiveness of Australia's aid. The inquiry's report, *One Clear Objective: Poverty Reduction Through Sustainable Development*, made a number of recommendations regarding tied aid.[2] The major components identified in *One Clear Objective* as tied were the purchase of consultancy services, most food aid, aid-funded Australian tertiary scholarships, and the DIFF scheme.

A large number of industry and community groups made submissions to the inquiry, including Australian Council for Overseas Aid (ACFOA), which argued: 'Tying can result in unnecessarily high costs as well as inhibiting innovative measures which may improve the effectiveness and sustainability of Australian assistance.' [3]

In line with the report's key finding that 'the pursuit of short-term commercial or diplomatic advantage through the program can seriously compromise its effectiveness and should play no part in determining project and program priorities',[4] *One Clear Objective* examined and supported many of the criticisms made of the practice of tying aid.

In particular, the report noted that, while tying aid may generate jobs and exports for individual Australian companies in the short-term, it does so by restricting international competition, essential to productivity improvements, to innovation and to better and cheaper products. 'Tying the Australian aid program", it added, "directly or indirectly, sits awkwardly with the trade liberalisation trend.' [5]

Although noting that the importance placed on Australian identity in the aid programme complete untying in the short term, it nevertheless advocated that 'Australia should move towards greater untying of its aid in a gradual way, encouraging other donors to do the same.' [6] The report further recommended:

- That the government undertake a study of the economic impact of tying aid to discover the costs and benefits to Australia.
- That, in order to maximise the value of Australia's development assistance, AusAID should untie aid totally for the poorest countries and partially in bilateral programmes elsewhere, to allow procurement of goods and services from recipient country suppliers where this would be cost-effective.
- That Australia work with the Netherlands, Britain, Japan and other like-minded donors in the DAC countries to encourage all donors to untie their aid.
- That the procurement of food aid should be partially untied, so that food commodities may be purchased either from developing countries or from Australia and New Zealand, whichever is the most cost-effective source.

In its formal response to the recommendations, the government committed in principle to work with other donors to untie their aid.

Precise figures on the percentage of tied aid in the Australian aid programme are hard to obtain. In the first half of the 1990s, around 70% of Australia's aid was tied.[7] In the last couple of years this has dropped to about 50%.[8] This is due to several factors, including:

- The discontinuation of the DIFF programme.
- The introduction by the government of some flexibility in the procurement of consultancy services to encourage participation of recipient country personnel in the delivery of aid. Limited provision has also been made for the greater use of international experts where there is a shortage of expertise in Australia or New Zealand.
- An increased emphasis by AusAID on basic education, including redistributing funds to this area. Scholarships and higher education funding have dropped since 1996, as a percentage of both the education budget and the total aid budget, although

Australia

this appears to have levelled out over the last two years.

- A slight reduction in the amount of direct food aid as an overall percentage of the aid programme. The present commitment under the Food AidConvention is a minimum of 250,000 tonnes per annum from June 1999 to June 2002, down from 300,000 in the previous convention. This is in line with the recommendations made in *One Clear Objective* and a 1997 AusAID review of food aid which recommended lowering Australia's commitment to the Convention because it meant a significant part of the budget was inflexible. AusAID says that the current level of 250,000 tonnes is likely to be maintained in the new three-year convention.

The government claimed, in *Better Aid for a Better Future*, that 67% of food aid is untied,[9] although more recent information from AusAID claims that approximately two-thirds of the tonnage of food aid is still sourced from Australian suppliers.[10]

International comparative data is limited, but it appears that Australia's level of tying is higher than the average[11] and is likely to get worse. AusAID has indicated its readiness to support the recent commitment by DAC members to untie development assistance, other than food aid and freestanding technical cooperation, to least developed countries. However, a relatively low proportion of Australian aid goes to the least developed countries.

According to information supplied by AusAID to the 1999 DAC Peer Review of Australia's aid programme,[12] the procurement of goods is fully untied. At the same time, AusAID continues to express a strong preference for the conduct of Australian aid activities using Australian goods and services and personnel.

One Clear Objective's key recommendation was that the Australian aid programme should 'assist developing countries to reduce poverty through sustainable economic and social development.'[13] The government's official response modified this somewhat to make the main objective of the aid programme 'To advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development.'[14]

The Australian government believes that the preservation of national identity is a key aspect of maintaining public support for its aid programme. National identity is chiefly maintained in the Australian aid programme through technical cooperation. Therefore, the government intends that AusAID continue to engage primarily firms based in Australia to 'manage Australian aid projects. This will ensure a strong Australian identity for aid.'[15] The emphasis on Australian identity was reinforced in the late 1990s with the rise of a small but vocal conservative populist political force questioning the benefits of ODA.

Notes

ACFOA would like to acknowledge the assistance of Garth Luke in getting material on tied aid and the Australian aid programming

1 The full version of the article on Australian ODA post 11 September can be found on the Reality of Aid website.

2 *One Clear Objective Poverty Reduction Through Sustainable Development*, Report of the Committee of Review, 1997

3 Australian Council for Overseas Aid, December 1996, p 119

4 One Clear Objective p. 12

5 Ibid, p 190

6 Ibid, p 181

7 DAC CRS Database

8 Ibid

9 Better aid, page 40

10 AusAID, Aspects: Statistical Trends in the Australian Aid Progress, No 5, October 2000

11 DAC Policy Brief: Untying Aid to the Least Developed Countries, 2001

12 AusAid, Memorandum for the DAC Peer Review of Australia, 1999

13 One Clear Objective, p. 12

14 Better aid, p 16

15 AusAID, op cit

Austria

Box 16. Austria at a glance

How much aid does AUSTRIA give?

AUSTRIA gave in 2000	US$423m or 6320m Austrian Schillings
That means that each person in AUSTRIA gave in 2000	US$52.29 or 781 Austrian Schillings
In 2000, aid from AUSTRIA fell by	US$104m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 8.3% in real terms.

How generous is AUSTRIA?

AUSTRIA gave 0.23% of its national wealth in 2000. This compares with the average country effort of 0.39% and AUSTRIA's previous own highpoint of 0.38% in 1985.

AUSTRIA was less generous than 17 other donors and less generous than in 1999 when aid was 0.26% of GNI.

How much of AUSTRIA's aid goes to the poorest countries and people?

49.98% of total bilateral aid (US$188.66m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of AUSTRIA's aid was spent on basic health, basic education, water supply and sanitation?

AUSTRIA spent
0.46% of its bilateral aid (US$1.72m) on basic education
7.00% of its bilateral aid (US$26.43m) on basic health
6.72% of its bilateral aid (US$25.37m) on water and sanitation

New law brings few commitments

Elfriede Schachner,
Arbeitsgemeinschaft
Entwicklungszusammenarbeit (AGEZ)

At the end of the year 2000, the Austrian government again started an initiative to draft a new law for development cooperation (the present law dating from 1974). The president of the umbrella organisation of the development NGOs (AGEZ) presented the demands of the NGOs to the newly formed, but reconstituted and reduced, Advisory Committee of the Minister for Foreign Affairs, in the first half of 2001, accompanied by intensive lobbying for its three main demands. After discussions with the Ministry for Foreign Affairs about the draft, which included some of the AGEZ proposals, the NGOs issued their statement, demanding the State's commitment to a gradual increase in public expenditure on development cooperation to 0.7% of GNP by 2010, a strengthening of the role of the NGOs and anchoring work in the field of education and culture in this law. So far, only the last demand has been included in the draft. AGEZ, however, continued to strive for a quantitative and qualitative improvement in Austrian development cooperation.

Discussions of the new law took place in the Development Sub-committee of the Parliament in December 2001 and a decision was expected from the plenary meeting of Parliament in early 2002. NGOs are more optimistic about progress on aid volume since the November 2001 agreement by the EU to adopt a common calendar for the EU-members to make good on international promises to raise official development assistance to 0.7%.

The budget passed for 2000 for the bilateral project and programme aid, about half of which is implemented by NGOs, and which can be shaped by the respective Departments, was cut sharply to only ATS 775 million (in 1999 it was ATS 850 million).

The overall expenditures for bilateral projects and programmes are seen as discretionary. They constitute no legal obligation and were heavily reduced by the Minister of Finance in order to reduce Austria's deficit.

Development education and public relations expenditure is being cut by 22% from ATS 52,5 million to ATS 41 million over two years.

The repeated delayed funding of projects by the Ministry for Foreign Affairs in the first half of 2000 caused great problems for NGOs. The budget cuts led to lay-offs among NGO staff, while new projects in partner countries could not be launched.

In 2000, the Federal Ministry for Foreign Affairs published its sector policy on cooperation in the field of development education (in 2001 the topics will be tourism and water supply) as well as the country programme for Ethiopia (in 2001 it will be Rwanda and Burundi). The NGOs are demanding stronger involvement in the shaping of country and sector programmes. Austria is also actively supporting actively the PRSP process in, among other countries, Cape Verde and Mozambique.

By the end of 2000, three Catholic-orientated NGOs merged and formed a new organisation, called Horizont3000, thus becoming the biggest Austrian NGO in the field of development cooperation. The Ministry for Foreign Affairs welcomed the funding of bigger units and wishes that this model be applied to future mergers among NGOs.

The DDC has established regional offices in Nicaragua, Cape Verde, Senegal, Burkina Faso, Uganda, Ethiopia, Mozambique, Burundi, Palestine and Bhutan. NGOs continue to criticise the lack of clear terms of reference for the regional offices of the DDC. They want to have a say when it comes to establishing the competencies of the regional offices in the respective countries.

In 2000, the Minister for Foreign Affairs, Ms Ferrero-Waldner, launched an information initiative on Austrian development cooperation, called 'The future of development cooperation', by publishing various articles in the Austrian media. An event took place in which the Minster for Foreign Affairs, NGOs and Members of Parliament participated. The campaign was continued in Spring 2001 entering its second phase (TV-spots, advertisements etc.). NGOs told the Minister for Foreign Affairs that public relations work among the Austrian public was truly needed, in order to get more support for development cooperation and development policy.

However, there were differing views as to the details, especially concerning the topics dealt with in the TV-spots.

Approach to conditionality and ownership spelled out

The Three-Year Programme 2001-2003 of the DDC states: 'It is now widely recognised that development cannot be externally imposed. Decisions as to the speed and practicalities of development processes must be left to the governments and the people in the developing countries. The reason for this is not merely because it is the "politically correct" approach. Sustainable development and efforts to combat poverty are effective only where those affected take the initiative themselves. An open dialogue with all the parties concerned is vital to ascertaining real needs and hence to ensuring that projects match existent wishes and enlist broad support. It is therefore extremely important to involve women at every level of the decision-making process. It is not enough for a donor country to try to solve a problem by launching a succession of individual projects. What is needed is a comprehensive national strategy implemented by the government and civil society of the recipient country on the basis of consistent guidelines and joint control. A closely related factor is the trend towards untied assistance and financial involvement in sectoral development programmes rather than funding for individual projects. The medium-term goal is thus to devote up to half of the available financial resources to sectoral development. This will require a country-led poverty reduction strategy recognised by the community of donor nations, efficient administrative structures, and transparent allocation procedures. In these conditions, competitive Austrian implementing agencies would have a fair chance to play a part in such programmes.'

Since 1994, the DDC has established priority countries and cooperation countries. Seventy percent of bilateral aid is allocated to specific countries within five regions. Priority countries are those where development cooperation is based on consultation and common programmes with the government, and participation in progress on broad issues such as democratisation and gender. The priority countries can expect to receive between 4% and 8% of bilateral resources allocated to the five key regions listed below. Development Cooperation with Cooperation Countries is on a smaller scale.

The Ministry for Foreign Affairs plans to give more ODA as budgetary support in the future. The goal is to fund priority countries on a mid-term basis with 50% of the funding for bilateral projects and programmes going to budgetary support; at the moment this support is only about 4%.

The DDC is currently thinking about reducing the number of priority countries and cooperation countries, due to the limited budget. Such a reduction would only be accepted by NGOs if they were fully involved in the decision-making process and if the criteria for selecting these countries were transparent and applied to all countries in the same manner.

According to information given by a senior official of the Ministry for Foreign Affairs, analytic work is undertaken jointly with the developing countries. Austria is pursuing this process with six out of the eight priority countries - Cape Verde, Burkina Faso, Uganda, Bhutan, Mozambique and Ethiopia.

After the Austrian elections, aid to Eastern countries was integrated into Department VII of the

Austria

Region	*Priority Countries*	*Cooperation Countries*
Central America West Africa	**Nicaragua** **Cape Verde, Burkina Faso**	Costa Rica, Guatemala, El Salvador Senegal
East Africa	**Uganda, Ethiopia**	Tanzania and Kenya. The programme that ran in Rwanda until 1993 was suspended in the wake of the civil war and resumed at project level in 1997. Cooperation with Burundi, terminated after the military coup, resumed in 1998 as part of a reconstruction programme.
Southern Africa	**Mozambique**	Namibia, Zimbabwe, South Africa
Asia	**Bhutan**	Pakistan, Nepal

Ministry for Foreign Affairs, where development cooperation is also handled (in the Department for Development Cooperation-DDC).

There have been some changes in relation to the coordination of donor countries. There is a clear trend among development cooperation departments in industrialised countries to co-finance programmes, with the developing country assuming the leadership. Within the framework of bilateral and multilateral structures (CDF, UNDAF), as well as the European Union, Austria is supporting coordination in the field. Indicators of progress are set jointly, not only by Austria, but currently only at project level, not on a global level.

The Austrian government is working with other donors and Southern governments to achieve standard procedures for disbursing aid money and standard rules for accountability for aid, e.g. in Uganda. It also worked in Bhutan (with the Ministry of Finance), in Cape Verde (with the Ministry for Cooperation) and in Ethiopia (with other donors).

The Austrian government spent aid through Sector Wide Approaches (SWAps) in Ethiopia (health as an overall plan), Uganda (legal reform plan) and Bhutan (capacity building, human resources development).

In the different recipient countries, programme designers are involved and the implementation of individual projects is defined by officials in the country. These officials are recruited internationally and may also come from the country itself.

NGOs and other civil society organisations are participating in the projects, together with politicians, MPs and local authorities in the respective country. Austria also wants planning bodies to involve civil society in the PRSP process.

Austrian NGOs are not against direct budgetary support or bilateral official development co-operation as such – they rather stress that a State with a high level of efficiency is necessary in order to secure equal access to education and health services, to establish social justice and to ensure public security. But if this State apparatus is not subject to democratic control mechanisms, and if the social forces are lacking, the State will not be able to fulfil its fundamental tasks and profiteering or corruption by the ruling classes will arise.

A related flaw is the failure of local ownership of Public Sector Reform. The donors' tendency to arrive in a developing country with a ready-made 'blue-print' for Public Sector Reform undermines possibilities for genuine support from local leaders. Donors often operate from the false assumption that outsiders can build state capacity despite the lack of effective internal demand for more capable governments.

Austria tries to promote the model of Uganda: participation of civil society, information to the broad public. But Austria alone cannot make this happen, the other donor countries have to join in.

Austrian NGOs are demanding the active participation of civil society in the South at all levels, to ensure that policies are really made FOR the people concerned whether it is in individual projects, in sector programmes or national poverty reduction strategies. They stress that active participation means more than consultation and that national governments need to ensure that the positions of civil society are taken into account.

Conditionality – priority countries

The criteria of the Austrian DDC for maintaining cooperation with priority countries seek to uphold the partnership for as long as possible, even in the case of problematic developments such as violations of human rights. In such cases other instruments or a different method of implementation will be applied. There could be a suspension of cooperation with official bodies in a partner country and projects could be implemented directly with southern NGOs. The DDC is committed to responding to the concerns of people living in poverty. The most important goal/conditionality is to combat poverty. If there is a violation of human rights, as was the case in Ethiopia, projects are suspended. In the case of bad governance, as happened in Nicaragua, the Austrian Ministry does not agree on a bilateral framework. Due to the prevailing situation in Pakistan, no new DDC projects will be launched there but there has been increased humanitarian assistance following the events of 11 September 2001. New forms of conditionality through PRSP and agreements on debt relief are seen as a positive conditionality by the Austrian DDC. Austria is joining the HIPC-Initiative but has granted no further debt relief.

Untying aid

It is not easy for NGOs to say how much aid is spent in untied budget support. In recent years, Austria has reported estimates on its tied and untied ODA commitments to OECD/DAC. The submitted estimates depend on the portion of (tied) ODA export credits contained in each year. Aid policy can be applied directly only in the area of the core aid budget (DDC) – about one billion Austrian Schillings per year or 15-20% of total ODA; untying efforts, therefore, have to concentrate on this area. Precise data on tied/untied shares in development projects funded by the core budget have not been available for statistical analysis. There has been a move towards untying, due to changes in procurement practices. However, any progress made cannot be specified in precise ODA volumes.

Belgium

Box 17. Belgium at a glance

How much aid does BELGIUM give?

BELGIUM gave in 2000	US$820m or 35,894m Belgian Francs
That means that each person in BELGIUM gave in 2000	US$80.08m or 3,505 Belgian Francs
In 2000, aid from BELGIUM rose by	US$60m in cash terms. Because of inflation and exchange rate changes, the value of aid increased by 22.8% in real terms.

How generous is BELGIUM?

BELGIUM gave 0.36% of its national wealth in 2000. This compares with the average country effort of 0.39% and BELGIUM's previous own highpoint of 0.60% in 1975.

BELGIUM was less generous than 5 other donors and more generous than in 1999 when aid was 0.30% of GNI.

How much of BELGIUM's aid goes to the poorest countries and people?

47.29% of total bilateral aid (US$235.6m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of BELGIUM's aid was spent on basic health, basic education, water supply and sanitation?

BELGIUM spent
0.81% of its bilateral aid (US$4.06m) on basic education
6.48% of its bilateral aid (US$32.3m) on basic health
1.99% of its bilateral aid (US$9.91m) on water and sanitation

Regional policy may not deliver

Han Verleyen, 11.11.11,
Coalition of the Flemish North South movement

The main features of Belgian development cooperation are[1] :

- Overall objective: 'sustainable human development through poverty reduction'.
- 25 priority countries or regions, and five sectoral priorities (health, rural development, basic education, infrastructure and 'societal capacity building'). Cross-cutting themes are ecology, gender and social economy. Strategies will be defined in country or thematic strategy papers, but the drafting process is very slow.
- Integration of development cooperation within the Ministry of Foreign Affairs. Budgets, however, are separate for the time being.
- Separate institutions for policymaking (directorate general for international cooperation) and implementation (Belgian technical cooperation).
- Lack of internal evaluation mechanisms.
- More than average focus on LDCs compared to other DAC countries.
- Openness towards Belgian civil society.
- The partial transfer of responsibility for development cooperation away from federal government to regional government

Priorities of the current State Secretary for Development Cooperation, Eddy Boutmans (Green Party), are sustainable development, AIDS and urban poverty reduction.

The major policy change has occurred outside the realm of development cooperation. The government has decided to transfer a number of competencies of development cooperation to regional governments, from 2004 onwards. Academics, NGOs and the current (federal) state secretary for development strongly opposed this policy decision. In its recent evaluation of Belgian development cooperation, the DAC expressed serious concern with this 'Belgo-Belge' approach: the rationale for regionalisation is purely Belgian, the decision has not in any way been motivated by the effectiveness or quality of aid, nor by the interests of our partner countries.

In other federal states, as in Belgium, regional governments share competencies with the federal level, but the federal level remains the major player. Nowhere has the involvement of regional players in development cooperation aimed at dismantling the federal level.

The regional Flemish development cooperation has been very disappointing so far.

Defederalisation means:

- Reduced policy coherence at the federal level. Foreign Affairs and Finance will be federal competencies, development cooperation will partly be transferred to regional levels.
- Pressure to re-introduce tied aid may increase. Foreign trade has also been defederalised and is now the competence of the regions.

Belgium

- The position of Belgium in international institutions will weaken. Regions are not represented in international organisations. If competence for multilateral co-operation is transferred to the regions, representation and participation in international discussion will have to be preceded by internal Belgian consultations and procedures to decide which level will represent Belgium in international fora. Other levels will remain a federal matter. The federal Minister of Finance will represent Belgium within the World Bank but there will be even less consultation with the different levels responsible for development cooperation in Belgium.

There is an urgent need for stability. Belgium has gone through numerous reforms since 1997 (integration in foreign affairs, separation of policy and implementation, new priorities and assignments with the 1999 law and reforms within Belgian Cabinets and ministries).

Implementation of policy: challenges and recommendations

The State Secretary for Development Cooperation has difficulty standing his ground vis-à-vis the Belgian Foreign Affairs Minister and has to devote a lot of energy to promoting his ideas. External factors such as the defederalisation of development cooperation do not enhance his position.

One of Boutmans' accomplishments was the establishment of a separate structure, the Belgian Investment Company for Development, to promote private sector investment in developing countries. It is unclear if this structure, operating under the auspices of development cooperation, will be able to divert investment decisions towards development goals, rather than profit. The structure was not fully operational by the end of 2001.

Boutmans is sensitive to cultural issues and aims at promoting African culture through local African initiatives and a large-scale exhibition in Belgium in 2003.

The following recommendations to the State Secretary for development are proposed to address some of the constraints he faces:

- Prepare good strategy notes for priority countries and themes, in close cooperation with both government and civil society in the partner countries;
- Ensure developing country leadership in defining policy and in implementation.
- Take into account other ongoing consultation procedures in the country concerned e.g. the PRSP process;
- Play a significant part in priority issues and areas such as debt relief and Central Africa. Currently, Foreign Affairs and Finance are the major players in these areas, not Development Cooperation;
- Implement the investment structure to stimulate the private sector in partner countries. Ensure that development is the decisive factor in the decision-making process of this body;
- Operationalise the human rights approach to development;
- Create internal evaluation systems and optimise the external evaluations;
- Defend the separate budget for Development Cooperation. Make sure the government's promises to increase the budget by 19 billion BEF over a four-year period are fulfilled;
- Guard the quality of aid in the discussion on how to organise a defederalised cooperation model.

'Supportive' approach to partnership preferred

State Secretary for development cooperation Boutmans is careful when talking about conditionality. He strongly emphasises respect for the partner country. This should imply that it is unacceptable for conditions to be set unilaterally by the donor country. This goes for economic conditions but also for conditions in the field of good governance and even human rights. One of the guiding principles of his policy is that sanctions should be the very last resort because genuine dialogue and partnership are never compatible with unilateral conditions. Boutmans stresses that sanctions are not an appropriate response to bad governance, because they enforce the factors that lead to bad governance. Instead he will try to provide flexible support for initiatives 'supportive of a sustainable development policy. Depending on the quality of governance he opts for either budget support (in good-governance countries) or 'policy support': commitments by Belgium then depend on the commitment by the partner country to have a genuine sustainable development policy.

Boutmans does not completely escape the conditionality trap. Aid and positive action are still defined in terms of performance in his priority areas. While both sides set priorities when entering an aid relationship, genuine partnership includes attempts to find common ground in each other's priority areas. If the cooperation is based upon mutual interest, it no longer fits the definition of conditionality.

Selection criteria set out

The law on development cooperation prescribes a concentration on 25 partner countries. Selection criteria are:

- Poverty, measured by the level of socio-economic development, the human development index and the human poverty index;
- The experience of Belgian development coopera tion with the country concerned: this relates to both the amount of ODA disbursed by Belgium and the relative position of Belgium among donors;
- Socio-economic performance: this performance is measured by an index composed of income per capita, the HDI, and the education and health budget of the country concerned;
- Good governance: the law refers to 'respect for the principle of good governance'. This could give rise to strict conditionality for the selection of partner countries. The 'principle of good governance' refers to the rule of law, to respect for human rights, to steady public services and to an independent judiciary. A study clarifying the meaning of the criteria, however, emphasises the process rather than the result. A country is eligible as a partner country when it takes the principle of good governance *into account*. Still, it is recognised that good governance is hard to measure: indicators comparable to the Freedom House Index, World Bank criteria, all refer to aspects of governance, but do not entirely cover them. The bottom line is whether bilateral aid can be useful. Governance is used as a criterion for exclusion, not for positive selection. This is a pragmatic form of political conditionality: no aid if aid is unlikely to be effective.
- Possible Belgian contribution to conflict resolution: there are no immediate criteria available to assess whether Belgium can play a role in conflict resolution if and where necessary. It clearly refers to the possible role of Belgium in Central Africa;
- Regional integration and cooperation;
- Gender and equal opportunities: measured by access to education and access to health care.

Research had to quantify and 'objectify' the choice of possible partner countries and academics came up with suggestions for a list of partner countries. In the end, however, the choice of partner countries will be political.

The Vanvelthoven law of 1994 requires a linkage between development cooperation and human rights. The law obliges the Belgian government to draft reports on the human rights situation in its partner countries, which are to be submitted to parliament. This allows parliament to suggest appropriate measures – either sanctions or positive measures – if and when human rights are violated in partner countries. The law is tailored to enable development cooperation to apply political conditionality. However, the reports are scarce, of differing quality and the assessment of human rights is not systematic.

Conditionality and crisis: the case of Central Africa.

Belgium has thoroughly explored the possibilities of political conditionality towards Central Africa. The direct bilateral aid relation with Congo (then Zaïre) was suspended in 1990, after a bloodbath at the university of Lubumbashi. The indirect cooperation continued, however, and Zaïre/Congo remained among the most important recipient countries of Belgian aid. Direct bilateral aid has not officially been resumed, but the Belgian government will try to use 'the windows of opportunity' created by the change of president and government.

In Rwanda, aid has always been strictly targeted, especially after the genocide in 1994.

Belgium

In Burundi, aid was suspended soon after the murder of president Ndadaye in 1993. The coup in 1996 that brought Buyoya to power led to a new suspension of direct bilateral aid. Bilateral aid has not officially been resumed, though important initiatives related to humanitarian aid have been taken up since the December 2000 donor conference. Resumption of direct bilateral aid has been promised if Burundi lives up to the Arusha peace accord

In a recent policy note on the Great Lakes region, State Secretary Boutmans acknowledged that a sanctions approach, or even positive measures, in combination with diplomatic efforts, are effective only in a limited number of cases.

Enhancing ownership

In policy declarations, the State Secretary aims at increasing ownership. He identifies budget support as a means to enhance ownership in countries that attempt to set up a sustainable development policy. He successfully used budget support to Niger, enabling the government to pay teachers and school staff. In less stable countries he considers this impossible. There, Belgium will concentrate on indirect cooperation and multilateral programmes.

Ownership does not contradict dialogue: Boutmans will still put forward principles and priorities in discussions on the aid programme.

The proof of the pudding is, however, in the eating. The long-term policy towards partner countries is to be defined in country strategy papers. These papers are prepared by the representatives of Belgian Development Cooperation in the partner countries. They will serve as a basis to determine the outlook for cooperation in joint commissions. The joint commissions will try to match the National Development Plans prepared by the partner countries with the strategy papers prepared by the Belgian Development Cooperation. The partner does not have to approve of the strategy paper; it is not a public document. Moreover, part of the document, containing the analysis of the social, political and economic situation in the partner country, is not even discussed with that 'partner'. The value of strategy papers would increase if they were drafted together with the partners. As it is, Belgium subscribes to the principles of partnership and ownership but does not fully accept the consequences.

Note

1 Law on international cooperation, May 1999

Canada

Box 18. Canada at a glance

How much aid does CANADA give?

CANADA gave in 2000	US$1,744m or 2,590m Canadian Dollars
That means that each person in CANADA gave in 2000	US$57.20 or 84.95 Canadian Dollars
In 2000, aid from CANADA fell by	US$45m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 1.4% in real terms

How generous is CANADA?

CANADA gave 0.25% of its national wealth in 2000. This compares with the average country effort of 0.39% and CANADA's previous own highpoint 0.54% in 1975.

CANADA was less generous than 16 other donors and less generous than in 1999 when aid was 0.28% of GNI.

How much of CANADA's aid goes to the poorest countries and people?

24.24% of bilateral aid (US$342.3m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of CANADA's aid was spent on basic health, basic education, water supply and sanitation?

CANADA spent
1.14% of its bilateral aid (US$16.07m) on basic education
1.75% of its bilateral aid (US$24.74m) on basic health
2.85% of its bilateral aid (US$40.31m) on water and sanitation

NGOs assess CIDA's focus on social development

Brian Tomlinson,
Canadian Council for International Cooperation (CCIC)

An eight-month process of internal and public ministerial consultations on strategic policies to strengthen the effectiveness of Canadian aid was completed by the Canadian International Development Agency (CIDA) in September 2001.[1] After more than five years of uncertainty, largely because of substantial budgetary cuts between 1995 and 1997, a newly appointed Minister (Maria Minna) and President (Len Good) have renewed the policy framework for CIDA and its role in Canadian international cooperation.

Following her review of CIDA's widely dispersed programme, Minister Minna launched an initiative, in September 2000, to focus Canada's aid on four social development priorities – basic education, health and nutrition, protection of children and HIV/AIDS. Over the next four years, more than 40% of CIDA's current programming resources could be shifted to meet ambitious disbursement targets for each of these four priorities.

Canadian NGOs welcomed the social development initiative and participated in consultations to elaborate CIDA's specific approaches for each priority. These priorities will increase concentration on activities that directly affect poverty. Nevertheless, NGOs cautioned against too narrow a focus. CIDA's approach lacks reference to a more comprehensive and integrated analysis of the causes and approaches to poverty, within which to situate individual priorities and establish the linkages necessary to ensure realisation of social development goals.

The December 2001 Federal Budget provides Cdn$1 billion for Canadian international assistance over the next three years, including a Cdn$500 million Trust Fund for Africa. While the scale of resources committed were strongly welcomed by Canadian NGOs, unfortunately this increase focuses on one-off initiatives that do not add permanent aid resources for sustained poverty reduction through CIDA. The overall focus of this Budget was on the economic and security fall-out from the terrorist actions of 11 September . Canadian NGOs have been calling for an approach to terrorism that includes heightened attention to the vast economic and political disparities that are conducive to armed conflicts around the world. CIDA is an essential resource for Canadian expressions of human solidarity.

Poverty reduction and 'enlightened self-interest' drive policy

Parallel to the process of establishing the social development priorities, the Minister and CIDA's President have set out proposals, in a policy paper, *Strengthening Aid Effectiveness* (SAE), for improving CIDA's overall aid effectiveness. These new directions will align CIDA more closely with policies to reform national aid programmes at the OECD and in other donor countries[1]. Core elements of the Canadian approach include the following:

- The overarching purposes of Canada's international cooperation efforts are to advance *both* poverty reduction and Canada's 'enlightened self interest' in developing countries. The International Development Targets and CIDA's social development priorities underlie these purposes.

- CIDA's *SAE* accepts, without question, the recent consensus among *donors* on the requirements for aid to have an effective impact. CIDA will more closely harmonise its country programming approaches with the World Bank's Comprehensive Development Framework (CDF), the IMF/Bank initiated Poverty Reduction Strategy Papers (PRSPs), and donor coordinated Sector Wide Approaches (SWAps).
- While recognising the development roles of civil society and the private sector, CIDA will be increasing its commitments to programmatic approaches, coordinated with other donors, and largely involving government-to-government partnerships. The *SAE* paper is sceptical of the impact of one-off projects. Canada's 'enlightened self-interest' will also be achieved through increased support for 'global public goods' initiatives in the multilateral realm.
- New approaches will require a strengthened field presence for CIDA, more efficient means to assure accountability for CIDA resources, consideration of options for significant untying of Canadian aid, and increased geographic concentration of its program ming resources (perhaps reducing the number of core countries from 30 to between 15 and 20).
- The *SAE* paper recognises that civil society organisations play an increasingly important role in international cooperation, bringing not only their own contributions but also generating new ideas and approaches, that are later taken up by other development actors. For the past 30 years, and in the early years almost alone among donors, CIDA has maintained strong responsive funding mecha nisms in support of Canadian NGO partnerships in the South and in promoting international cooperation in Canada. Ignoring lessons from this history, the *SAE* paper proposes to align this NGO-initiated programming to CIDA's own bilateral country priorities, significantly reducing the current flexibility of CIDA's responsive programming mechanisms and distorting current partnership relationships for Canadian NGOs. This is due to the president of CIDA is seeking greater administrative order and more control by CIDA over programming.
- CIDA's *SAE* acknowledges the inter-dependence of public policies and their impact on the lives of people in developing countries. It calls for stronger policy capacities for CIDA in inter-departmental policy processes. It suggests that the government review the impact of its policies on developing countries and assess opportunities for improved coherence. CIDA will pay special attention to trade policies and their bearing on poverty reduction.

Benchmarks for improved effectiveness

Although the *SAE* paper reflects many issues and directions long proposed by the Canadian NGO community as fundamental to achieving poverty eradication[2], in the September 2001 public consultations, a number of critical weaknesses were noted and concerns were widely shared.

While the final version of the paper is not yet available, Canadian NGOs will be measuring the resulting CIDA strategies against several critical NGO benchmarks:

1) *An affirmation of poverty eradication as the only purpose for CIDA.* The calamitous attacks in September 2001 focussed attention on human security, which is intimately connected to expanding human solidarity, and choosing justice, acting together with those who are excluded from the benefits of the global order. Aid is a vital channel for expressing human solidarity and CIDA is privileged among government ministries, as it *can choose* to focus all its resources and intelligence on the imperative to end poverty.

2) *A poverty lens for making choices for sectoral and geographic concentration.* For a middle income donor, geographic concentration of relatively small disbursements of resources may not achieve greater impact. Instead, impact and effectiveness may depend more on the role that CIDA adopts in a given country than on the dollars available to pool with others. But if choices are to be made, NGOs will be looking for a poverty rationale for selecting 'core countries', anchoring

Canada

such decisions in poverty analysis (so far not present in the *SAE)*,not on geopolitical and Canadian economic considerations.

3) *CIDA country strategies, directed by poverty plans, but with critical distance from World Bank/IMF PRSPs.* CIDA country programme strategies and activities must be explicitly guided by an understanding of poverty, authentically rooted in inclusive country process for determining priorities for reducing poverty. For the most part, PRSPs are imposed processes lacking real engagement and legitimacy for social and political actors, particularly those marginalised by economic or minority status. Equal caution is also required for participation in SWAps, where little attention is paid to civil society roles, and where CIDA as a small donor may better play a 'niche' role (e.g. promoting gender equality issues or ensuring roles for civil society).

4) *Untying provisions for Canadian aid, which promote aid purposes contributing to improved channels for poverty reduction.* CIDA has wide scope for further untying the procurement of goods and services used in implementing Canadian aid It should do so in a manner that gives special preference to developing countries' technical skills and goods (including the local/regional purchase of food for food aid). Aid untying is not an end in itself. Without changing the terms of contracting to recognise improved capacities for reducing poverty in the South, untying may simply open access to Canadian aid resources for large institutions in other developed countries, with global bidding capacities, while preserving existing patterns of aid that diminish ownership in developing countries. Untying CIDA's responsive mechanisms that support the civic expression of Canadian public commitment to development and global citizenship would undermine the purposes for these mechanisms – strengthening the intrinsic value of organisational partnerships that engage Canadians.

5) *A comprehensive operational framework for public engagement of Canadians.* The *SAE* paper lacks any substantive discussion of the public engagement of Canadians and their role as global citizens. Strategies for effectively tackling global poverty require changing ourselves, as well as the lives of people living in poverty. Public engagement strategies, undertaken by both CIDA and other civil society organisations, that build on ethical foundations for aid and poverty eradication will resonate with Canadians. Disparate one-off communications and education projects, and periodic public relations opportunities not only fail to address comprehensive strategic goals but will also undermine needed public support for influencing policy that CIDA might want to achieve within government.

6) *Strengthening the role of responsive programming for effective citizen-to-citizen development cooperation.* Programmes to reduce poverty will not be effective in the absence of strong participation and ownership by communities and social movements representing people living in poverty. Civil society organisations are key agents for democratisation. Strategies to reduce poverty cannot be condensed to a single roadmap that guides all CIDA-funded development relationships. The allocation of development resources is highly contested and fraught with human rights violations in the South. Many southern NGOs and citizen organisations look to their relationships with northern counterparts for solidarity and sources of funds. CIDA funding mechanisms should not erode the flexibility and capacity of Canadian NGOs to support creative initiatives of community and national counterparts, who are often working in precarious situations.

7) *A substantial re-investment of financial resources in Canada's aid budget.* Canada ranked 17th among 22 aid donors in the year 2000, a shameful drop from 6th in 1995. CIDA's commitment to reduce poverty through more focused and strategic directions, including the social development priorities, will not be realised without sustained growth in the budget for CIDA and Canadian ODA. In order to raise Canadian ODA to 0.35% of GNP by 2005/06, as a step towards the international target of 0.7%, CCIC has estimated that cumulative increases of at least Cdn$400 million are required for each of the next four years. The December 2001 Budget Plan added Cdn$100 million for Afghanistan in 2001/02, but no increase for CIDA in 2002/03 and an additional Cdn$285 million in 2003/04. The Cdn$500 million Trust Fund for Africa is a significant response to urgent development needs in Sub-Saharan Africa and an

important signal to other G7 countries, but will be administered outside of CIDA as a one-time allocation of resources. CCIC;s analysis of the Budget projects Canada's ODA/GNP ratio to increase to approximately 0.30% for 2001/02, but then to slip back below 0.30% in the next two years.

CIDA is renewing itself. Publication of CIDA's *Strengthening Aid Effectiveness* in 2002 will be an important benchmark. Ultimately, however, aid effectiveness will be tested, not only by the designs of a strategy paper, but also by the quality of our aid relationships, engaging and acting in solidarity with communities of people living in poverty. International development cooperation is a critical resource for human solidarity and justice to which the donor nations, Canada among them, must bring the full measure of generosity and intelligence. Thirty or more years of development cooperation has taught us that there are no blueprints; we cannot assume answers. And theoretical policies must be tested against the real experience and practice of aid in the South.

Notes

1 CIDA's draft paper on *Strengthening Aid Effectiveness: New Approaches to Canadian International Development Assistance* is available on the CIDA site (www.acdi-cida.gc.ca/aideffectiveness). A final version of this document, with revisions based on comments and public consultations, was due to be presented to Cabinet late 2001 and published in 2002. CCIC's analysis of the draft aid effectiveness paper is available on development policy page of CCIC's site (www.web.ca/ccic-ccci)

2 See the Canada chapters in previous editions of *The Reality of Aid*.

Denmark

Box 19. Denmark at a glance

How much aid does DENMARK give?

DENMARK gave in 2000	US$1,664m or 13,460m Krone
That means that each person In DENMARK gave in 2000	US$312.83 or 2,530 Krone
In 2000, aid from DENMARK fell by	US$69m in cash terms. Because of inflation and exchange rate changes, the value of aid increased by 7.3% in real terms

How generous is DENMARK?

DENMARK gave 1.06% of its national wealth in 2000 - the highest percentage it has ever given. It compares with the average country effort of 0.39%.

DENMARK was the most generous of all the 22 donors and increased its aid from its 1999 level of 1.01% of GNI.

How much of DENMARK's aid goes to the poorest countries and people?

57.34% of total bilateral aid (US$538.71m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of DENMARK's aid was spent on basic health, basic education, water supply and sanitation?

DENMARK spent
4.77% of its bilateral aid (US$44.78m) on basic education
1.54% of its bilateral aid (US$14.43m) on basic health
4.64% of its bilateral aid (US$43.56m) on water and sanitation

Receding support for the 1% target?

Lars Anderskouv,
Mellemfolkeligt Samvirke

The level of Danish ODA was maintained at around 1% of GNP in 2000 and 2001,[1] and there still seems to be popular support for this even if the political support has, at least temporarily, diminished. Reductions in the range of 10-20% were proposed by the former opposition – now government – parties during negotiations for the 2002 budget.[2] An opinion poll carried out during the 2001 elections indicated that such a cut was not supported even by a majority of their own voters.[3]

The distribution of multilateral (44%) and bilateral (51%) aid has also been in line with the previous years.[4] Out of the 18 programme countries receiving bilateral aid, 16 are low-income countries (11 LDCs) and about 80% of the bilateral aid goes to low-income countries. The new government has declared that it wishes to give priority to the UN and international cooperation and security in general but has not yet specified what this implies in budgetary terms.

On top of the ordinary ODA budget, the Environment, Peace and Stability Facility (EPSF) grew to 0.25% of GNP in 2000 and was on track to reach the target of 0.5% by 2005 set in 1993.[5]

Denmark played a leading role in the recent initiative to ‚road-map' the increase in ODA for all EU countries to reach the 0.7% target. Despite this, the new liberal-conservative government insists on a reduction of the total aid budget (i.e. including the EPSF) by kr1.5 billion (about US$168.5 million) in 2002.[6] This will cut 12% of the planned ODA budget (and bring it to about 0.88% of GNP) or about 9% of the ODA and EPSF budgets put together.

It has not yet been decided where the cuts are going to be made but it is likely that a large part will be made in the EPSF and the rest in the bilateral budget frames. This may include one or more of the country programmes, based on an assessment of their human rights record and support for the US coalition against terrorism.[7] The reactions to 9/11 were fast and strong but primarily focusing on the short-term, security implications. Very few (politicians as well as others) connected terrorism to the global imbalances and widespread poverty.[8] The initial declaration of intent by the new government does not make any explicit link between terrorism and development either.[9] In one of his first interviews, the new Minister of Foreign Affairs stated, "The principle will be that they [aid recipients] move forward in the aid queue if they support the struggle of the global anti-terror alliance" and, in relation to human rights in general, "Countries moving in the wrong direction will lose aid, while those moving in the right direction will get aid."[10]

The development part of the EPSF facility is administered jointly by DANIDA and DANCED (in the Ministry of Environment).[11] While about 80% of the bilateral budget supports low-income countries, the EPSF is being criticised for largely supporting activities in middle-income countries. A substantial part of the EPSF has been spent on programmes aiming to integrate refugees in Denmark and can as such not be considered ODA. Another part is used for transitional assistance to Eastern Europe and the Balkans, while the rest has been spent on environmental programmes and

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peace and stability activities in developing countries, mainly in Southern Africa and South-East Asia.

The EPSF was originally proposed to secure funds for the purposes indicated *without* diverting funds from the multi- and bilateral budget frames. However, in 2000, 3.5% of the bilateral budget frame was used for transitional assistance to the Balkans, and 5.7% of the multilateral budget for humanitarian assistance in Europe. Budget figures for 2001 indicated that this would continue to be the case.

Denmark supports the accelerated HIPC II initiative and has, besides the commitment to reduction of bilateral debt, made a total contribution of kr600 million to the multilateral portion. The outstanding bilateral debt is mainly accumulated export credits amounting to kr570 million, of which 470 million will be cancelled as part of the HIPC initiative. NGO proposals for 100% cancellation have been rejected.[12]

Ownership strategy includes civil society

After more than a year's research, consultations and workshops, the new Partnership 2000 strategy was adopted by parliament with a large majority in October 2000.[13] The strategy is based on previous experience and a careful assessment of the trends of globalisation and marginalisation affecting developing countries. The major elements in the strategy are:

- The *level of aid* will remain unchanged, the 50-50% distribution on bilateral and multilateral aid, as well as the concentration on up to 20 country programmes, will be maintained.
- *Poverty reduction* remains the overall goal and should be reflected in the choice of LDCs as programme countries and in an increased emphasis on the social sectors.
- *National ownership* of the programmes is a key strategy and ownership is seen in a broader sense with not only governments but also civil society as partners.
- Support to *civil society* development will form an integrated part of all country programmes and a complementary strategy for this has been developed.
- *Democratisation* and *human rights* will play a more prominent role both as a conditionality and as an area of support.
- *Coherent international efforts* will be promoted, linking foreign, trade and development policies and working for developing countries' interests in general and market access in particular in WTO, EU and other international contexts.
- Better *donor coordination* and documentation of short-term and long-term results.

National ownership is the key concept in the new strategy; the partnership process based on mutual respect thus becomes the focal point. As a consequence, the country strategy development has to a large extent been decentralised and is supposed to include not only the ruling élite but also national and local partners, resource persons and civil society representatives. This has worked quite well in most countries but depends, of course, on the political environment as well as the capacity of the parties involved. Evaluations have pointed out that the intention to secure national ownership can be easily undermined if the donor pushes the process where local capacity is insufficient to cope with it.

Sector programme support seems to be a good way to promote national ownership, due to its long-term and comprehensive nature but it is, for the very same reasons, also the most demanding in terms of planning and administrative capacity. DANIDA has now signed 43 sector programme agreements and they consumed 25% of the bilateral budget in 2000. The evaluation of ten years of health sector programmes in various countries shows mixed, generally positive results but clearly points to the importance of patience and emphasis on capacity building.

The evaluation of the Rakai programme in Uganda (ten years' support to local government administration and development of infrastructure and services in a marginal district) tells the same story but also praises the programme for its long-term nature and impact in terms of securing national ownership through capacity building and linking national and local administrations.

Balancing conflicting interests

To balance national influence and interests with formal and informal conditionalities is, of course, crucial for a partnership to become meaningful. The new strategy's

Denmark

emphasis on governance and human rights does not facilitate this. Critics point to inconsistent treatment of the partner countries (e.g. less pressure on Uganda than Kenya and Zambia), slow reaction to the developments in Zimbabwe and neglecting the human rights record of Egypt. DANIDA meanwhile maintains the importance of critical dialogue, support for governance reforms and development of the potential of civil society.

The new government has declared that it will introduce a, governance and human rights unit 'in DANIDA. It is yet to be seen whether this will lead to more consistent conditionalities, including a definition of democracy that can satisfy the different socio-economic environments, and more support for strengthening governance, or if it will just be an instrument for singling out a few countries to effect budget reductions.

Another problem in relation to ownership will be to maintain the practice of using the Danish resource base (researchers, business, interest groups, NGOs etc.) in developing country strategies. Some of these groups have vested interests in particular sectors and activities, and may not look primarily at the interests of the partner country. The broad popular support for the high level of aid is, on the other hand, to some extent based on this practice and it may be a delicate task to balance these interests.

Informal tying – the principle of high returns

According to the latest DAC report, Denmark has been quite successful in untying aid; 19.5% of the bilateral aid was tied in 2000 compared to 39% in 1996.[14] Efforts have been made to purchase more locally and the increase in sector programme support has facilitated this. Part of the reduction, however, is due to more detailed accounting where a larger number of small activities requiring less equipment have been included.

These figures do not include technical cooperation, which grew by 38% from 1997 to 2000. An indication of who benefits from Danish aid is that Danish suppliers in 2000 delivered 29% of the bilateral and 16% of the multilateral budget in goods and consultancy services.[15] An 'informal tying' principle – around 50% of the bilateral aid budget should 'return' in the form of procurements – was part of the national compromise when the high level of ODA was agreed upon. Increasing ownership will probably lead to more pressure against this principle even if formal tying is reduced further.

Part and parcel of the Partnership 2000 strategy is the Civil Society Strategy,[16] which aims at supporting the development of an active civil society to secure popular participation in and ownership of the development efforts. The strategy emphasises the importance of involving civil society in both policy formulation and implementation of programmes, and in practice indigenous as well as Danish NGOs and individuals have for several years been involved in the preparation of country strategies.

Until now most support for civil society in the partner countries has been channelled through Danish NGOs and in 2000 they received and administered 13.9% of the bilateral and 9.4% of the multilateral budget (humanitarian aid). It is expected to continue at that level. A new priority in the Civil Society Strategy is the emphasis on advocacy work and creation of international networks to enable civil society to influence not only domestic but also international policies and mechanisms affecting development.

Notes

1 Denmark's Development Assistance, DANIDA Annual Report 2000 (in Danish, latest version available in English is 1999), available at http://www.um.dk

2 Proposals for the national budget for 2002, "Tid til forandring" (The Liberal Party) and "Vilje til fornyelse" (The Conservative Party), October 2001.

3 Jyllands-Posten, 9/11-2001; opinion poll by PLS Rambøll indicates that 53% of the Liberal Party's voters and 55% of the Conservative Party's voters are against reductions in ODA.

4 The 5% balance covers administrative costs. Danida Annual Report 2000.

5 When the Environment and Disaster Relief Facility (EDRF) was introduced in 1993 it was set to reach 0.5% in 2002. In 1998 this was postponed to 2005, due to new national accounts practices which increased ODA considerably, and the facility was renamed Environment, Peace and Stability Facility (EPSF) to broaden its scope.

6 The declaration of intent by the new government, "Growth, Welfare — Innovation", published on 28/11-2001 states, "... Denmark shall continue to be in the lead when it comes to support for development in other parts of the World and promotion of human rights and

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democracy .... the government will reduce the budgets for assistance to development and environment in developing countries by a total of 1.5 billion kr. .....Denmark will still be in the absolute top .... and far above the .... target of 0.7% of BNI". During the campaigns the cut in ODA was further motivated by the interesting statement, that it would encourage other countries with low ODA levels to increase their aid.

7 Jyllands-Posten 13/11-2001 quotes Jens Hald Madsen (Liberal Party member of the Foreign Affairs Committee) who mentions that aid to four specific countries will be stopped or drastically reduced due to bad governance or warfare. This was later modified by other members of the party: "We cannot yet single out any specific country. We shall carefully examine our assistance to all countries and determine where we are supporting undemocratic and corrupt regimes ...."

8 The immediate steps taken, besides full support for the anti-terror coalition, included proposals for tighter security measures and legislation. Calls for tighter screening of refugees and other immigrants, and for more restrictive immigration policies followed.

9 Same source as [6] "In the fight against terrorism, Denmark will show solidarity and willingness to contribute, also in a military context. Closely connected to this is the need for stronger efforts against spreading weapons of mass destruction" and in the ODA section "There is need for an examination of Danish development assistance, not least in light of the events after the 11th September, to ensure the most efficient effort in this area"

10 Politiken 29/11-2001 and Jyllands-Posten 29/11-2001. Interviews with the new Minister of Foreign Affairs Per Stig Møller.

11 Miljøbistand til udviklingslandene. Årsberetning 2000. DANIDA and DANCED. Latest annual report in English (1998) can be found at http://www.mst.dk/danced

12 The Danish North-South Coalition.

13 Denmark's Development Policy, Partnership 2000. Strategy and Analysis documents. October 2000. Available at http://www.um.dk

14 Personal communication with DANIDA's statistics section.

15 DANIDA Annual Report 2000.

16 Strategy for Danish Support to Civil Society in Developing Countries including Cooperation with the Danish NGOs. Analysis and Strategy Document, Partnership 2000. Available at http://www.um.dk

Impact of reforms unclear

Mirjam van Reisen and Simon Stocker, Eurostep

The year 2000/2001 has been one of transition for the European Community's development programme. Major changes are being made in policy, the structure of the budget and the management of the cooperation programme. The impact of these will only start to become apparent in two to three years' time.

Policy developments included:

- EU Member States confirmed that the reduction, and eventual eradication, of poverty was the main objective of EC development policy.
- Increased emphasis was given to a results-oriented approach, the involvement of civil society and the needs of Least Developed Countries.
- Prominence was also given to the need for country programming that is 'owned' by developing countries.
- The Member States also endorsed proposals to concentrate Community actions in six sectors in which they considered they could provide added value: the link between trade and development; regional integration and cooperation; macro-economic policies; transport, food security and sustainable rural development; institutional capacity-building, particularly for good governance; and the rule of law. The EU is thus seeking to increase complementarity between Community actions and those of individual Members.

The Council has asked that the Commission produce an annual report on community development policy each September, starting in 2001, and a programme of action each April, starting 2002. The 'zero' edition of the report was published just prior to the Development Council meeting on 8 November. Its quality is acknowledged to be poor by the Commission but this was justified by the claim that it was produced as a kind of prototype.

The EuropeAid Cooperation Office was established in January 2001 to implement the European Commission's external aid instruments. The creation of the new office is part of the European Commission's reform of the administrative management of its external programmes. Its aim is to reunite the entire 'project cycle' for all of the Commission's external aid programmes, with the excep-tion of humanitarian aid, aid in countries seeking to join the EU, macro-economic assistance, the Common Foreign and Security Policy and the Rapid Reaction Force.

The core staff of EuropeAid come from the Development and External Relations Directorates. While the Development Directorate remains theoretically responsible for development policy and political dialogue with partner countries in the Cotonou Agreement, its much-reduced size raises questions about its long-term viability. As part of the reform, an inter-service Quality Support Group has been estab-lished to improve the quality of country strategies.

The next stage of the reform process is to decentralise management to the 90 or so Delegations of the European Commission in developing countries. This requires the recruitment and training in Brussels of significant numbers of new European staff before they are deployed around the world.

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The reform process has greatly diminished the portfolio of the Commissioner for Development, as well as reducing the tasks of the DG Development. It has been suggested that the Commission is undertaking a process in which development becomes subordinate to the Commissioner of External Relations. The danger is that, in the next Commission, development may cease to exist as a separate policy area with its own specific objectives and instruments.

Implementation disrupted

The reform of the Commission has led to some disruption in the implementation of the EC programme. There remains a considerable backlog in the disbursement of EC aid committed in previous years, largely because of the Commission's lack of capacity in the planning and processing stages. Evaluations carried out in the last two years of the implementation of country Support Strategies (CSS) have been positive about achievements in some sectors. They have pointed to inadequately defined strategies and a lack of capacity in EU Delegations as being serious constraints. The evaluation reports conclude that there is a need for increased attention to be given to good governance and to defining benchmarks that can be monitored.

During 2000, the European Parliament sought to rationalise the annual budget by incorporating a results-oriented approach and translating the new policy paper presented by the Commission into the 2001 budget. Sectoral targets were introduced into the regional budget lines (including the cooperation with African Caribbean and Pacific (ACP) countries). These, together with the structure of the budget, seek to make it compatible with the DAC classification system. It allows the large regional programmes to be defined in terms of the expected outcomes in various sectors. Particular emphasis was placed by the Parliament on basic health and education, with a target of doubling the level of commitments made in these areas.[1] After the budget was adopted in December, the European Commission placed a reservation on these targets, arguing that they were unworkable and would restrict its flexibility. This was surprising as the targets were based on figures – provided by the Commission – of actual disbursement in these sectors.

There has been continued pressure from the Council to direct resources to Kosovo and the Balkans, at the expense of budgets for developing countries. In the end, for the 2001 budget the Parliament prevented significant diversion, with additional funding be made available in various ways.

Cotonou stresses role of civil society

The Cotonou Agreement, which governs cooperation between the European Union and the 77 countries of the ACP group, was signed in June 2000. Its aid component provides for • 15.2 million, covering the period 2000 to 2005, of which • 13.8 million will be provided by EU Member States. While the use of these resources cannot start until after ratification – which is expected sometime next year – the process for programming EU support to ACP countries began with a series of regional seminars towards the end of 2000. This was followed by the drafting of CSSs. Two of the 77 CSSs had been agreed by August 2001; most of the rest were expected to be considered during the following months.

The recognition of non-state actors as legitimate partners was seen as an important new aspect of the Cotonou Agreement. It makes provision for the participation of civil society actors in all aspects of the Agreement's implementation. The opportunity to test this came with a series of regional seminars in the closing months of 2000. An analysis of civil society participation showed that, in the six meetings, around 50 of the 77 ACP countries included a civil society representative, although some of these seemed also to be government officials. The total of 64 listed civil society representatives included 19 women.

It is still too early to identify the level of civil society involvement in the national processes to produce CSSs. In one or two cases, civil society actors have played a prominent role, even to the point of being commissioned by their government to help in drafting the strategy. In most instances, involvement has been limited to an invitation to a consultative meeting. Although there is a stated intention to make these available once agreed by the EU, this also depends on the ACP country concerned. By December 2001, none of the CSSs had been made publicly available. However, initial indications suggested that in many of the strategy papers transport had been identified as a priority sector.

Politically, there is continued emphasis by the European Union on the importance of civil society involvement. As President of the EU, the Belgian government organised a seminar on ACP civil society participation. It resulted in a Declaration and an Action Plan that have been presented to the EU Council of Development Ministers, as well as the ACP Council of Ministers. At the same time the European Commission is drafting a Communication on ways to ensure civil society involvement takes place.[2]

A Commission strategy towards Asia was adopted in September 2001. Its core objective is to strengthen the EU's presence in Asia.

Trade terms far from free

While in principle the EPAs are to be defined by ACP countries, the Commission has identified the levels of regional integration it considers necessary, and has therefore effectively defined the regions with which it is willing to negotiate.

In the lead-up to the WTO Ministerial meeting in Doha, the European Commission has been actively seeking support from developing countries for the launch of a comprehensive new trade round.

The hosting of the Third UN conference on Least Developed Countries in Brussels in May can be seen as related to this strategy. In the lead-up to the conference the EU adopted its 'Everything but Arms' initiative to give almost complete tariff and quota free market access to LDCs. This was intended to be a demonstration by the EU of its willingness to implement previous commitments. However, the total abolition of barriers for the most sensitive products – such as sugar, banana and rice –which would offer most potential to many LDCs, has been delayed until 2006 to 2008.

This coincides with the final date fixed for the introduction of Economic Partnership Agreements (EPAs) between the EU and ACP regions, in which many of the LDCs of the ACP group are likely to be involved. The identification of regional groups for EPAs within the ACP is a major unresolved issue. While in principle these are to be defined by ACP countries, the Commission has identified the levels of regional integration it considers necessary, and has therefore effectively defined the regions with which it is willing to negotiate. These would be regions already established as Customs Unions, or with sufficiently binding free trade agreements.

A revision to the EU's General Scheme of Tariff Preferences (GSP) was adopted, covering the period 2002 to 2004. This incorporated the 'Everything but Arms', provisions for LDCs but also included incentives for countries to respect core labour and environmental standards. Respecting these standards could lead to benefits that are double those provided under the general arrangement.

Enlargement has wide implications

A first possible enlargement of the Community can be expected in 2004 at the earliest. From the negotiations currently taking place with pre-accession countries[3], some deductions can be made as to issues that might arise. Development cooperation is not included in the list of 31 topics covered in the screening exercise of accession negotiations. From the Draft Common Positions it appears that, if the subject has been touched at all, development cooperation falls under the Negotiation Chapter 26, External Relations. This is in line with the hypothesis that there is a process in the Commission of making development cooperation subordinate to foreign affairs policy. As the pre-accession countries have not been asked to make clear commitments on current development practices in the Community, they may not feel an obligation towards this process once they are members of the Community.

Moreover, in the history of the EU, enlargement has always encouraged the Community to stretch its activites to include new areas that are more closely linked to the incoming countries. This may also be the case with the current pre-accession countries. Recognising the complexity of the history of these countries, their links with, and knowledge of, various parts of the former Eastern Bloc must be acknowledged. This reality may well lead to them request more efforts towards these regions that currently enjoy little interest from the Community. In this case, the interest of the enlarged Community in regions such as Africa, and poorer regions in Latin American and Asia, may further

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decrease. There is a real danger that Least Developed Countries will receive less attention and fewer resources from the Community as a result.

Notes

1 See sectoral output targets in 2001 budget commentaries.

2 *ACP Civil Society Declaration, Brussels 5 July 2001* and the *ACP Civil Society Plan of Action, Brussels, 2 - 5 July 2001.* The Commission Communication is now expected to be presented to the meeting of the EU Council of Development Ministers in May 2002.

3 Of the 13 pre-accession countries Turkey, Romania and Bulgaria are not expected to fulfil the accession criteria for entry in 2004. The others are Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia.

Finland

Box 20. Finland at a glance

How much aid does FINLAND give?

FINLAND gave in 2000	US$371m or 2,393m Markka
That means that each person In FINLAND gave in 2000	US$71.74 or 462.84 Markka
In 2000, aid from FINLAND fell by	US$46m in cash terms. Because of inflation and exchange rate changes, the value of aid increased by 0.1% in real terms

How generous is FINLAND?

FINLAND gave 0.31% of its national wealth in 2000. This compares with the average country effort of 0.39% and FINLAND's previous own highpoint of 0.76% in 1991.

FINLAND was less generous than 9 other donors and less generous than in 1999 when aid was 0.33% of GNI.

How much of FINLAND's aid goes to the poorest countries and people?

49.92% of total bilateral aid (US$99.94m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of FINLAND's aid was spent on basic health, basic education, water supply and sanitation?

FINLAND spent
0.21% of its bilateral aid (US$0.43m) on basic education
1.91% of its bilateral aid (US$3.82m) on basic health
6.66% of its bilateral aid (US$13.34m) on water and sanitation

Resources needed to back ‘good intentions’

Folke Sundman and Mark Waller,
Service Centre for Development Cooperation (KePa)

In February 2001, the Finnish government released a new policy on Finnish development cooperation. This was the result of a review of Finnish bilateral aid and its multilateral contribution, implemented in 2000. The document ‘Operationalisation of Development Policy Objectives in Finland’s International Development Cooperation’ is a complement to two previous policy decisions by the same government coalition – the decision-in-principle on aid (1996) and the guidelines for Finland’s development policy (1998).

This new policy decision is definitely a step forward regarding the planning and monitoring practices of Finnish ODA. The document introduces clearer criteria for selecting partner countries and instruments of cooperation, and elaborates Finland’s objectives and strategic tools in multilateral development institutions. The aim of the document was also to consolidate the economic and administrative resources available for Finnish development cooperation. But this part of the document is mainly about good intentions; it has not been backed up with substantial new financial resources by the government.

Following the decision, Finland’s bilateral aid programme will be grouped into two categories: cooperation with long-term partner countries; and other partnerships.

The aims and nature of the long-term partnerships are stated as reduction of poverty, active and continuing dialogue with the partner country at various levels, and provision of resources for the implementation of government programmes. The other partnerships are based on sectoral cooperation, with particular reference to environment, good governance, equality, human rights and conflict prevention, international trade issues, etc. The support is channelled to personnel and resource development in the public administration and/ or the private sector and civil society.

Long-term partners

The decision is exceptionally concrete when it comes to the analysis of the present major long-term partners and how that selection should be regrouped. At present Finland has 11 long-term partner countries (Egypt, Ethiopia, Kenya, Mozambique, Namibia, Nepal, Nicaragua, Peru, Zambia, Tanzania and Vietnam). According to the new decision, Mozambique and Vietnam will become the two major long-term partner countries. They are both countries that show ‘increased commitment to development and where the pre-requisites for effective development cooperation are improving’. Within the next 3-7 years, grant assistance cooperation with middle-income countries such as Egypt, Namibia and Peru will be phased out and replaced by other (commercial) instruments. Three countries, Kenya, Nicaragua and Zambia, are under particular and active monitoring regarding their compliance with the criteria for cooperation. And for the remaining three, Ethiopia, Nepal, and Tanzania, no major changes in their 'status' are foreseen. Burkina Faso and Honduras are mentioned as two potential new long-term partner countries.

There are more specific criteria and checklists set up to monitor and adjust this programming process. Time will tell how well the new mechanism will function. Two potential problems can be identified. The first one is how to manage the selection mechanism and guarantee a basic degree of consistency; the other is the need for transparency. The criteria and the individual conclusions must be logical and well-founded, and also discussed openly with the respective partner countries.

UN seen as leading 'global agenda'

For the multilateral part the decision includes some important new policy formulations. There is an explicit wish to emphasise and enhance the role of the UN system and its organisations in relation to the other multilateral actors, like the IFIs. "For international development dialogue, the UN is the appropriate leader. It has played a key role in the formulation of a common set of rules and goals in the development of the Global Agenda. For the operationalisation and financing of the Global Agenda, the development financing institutions are indispensable."[1]

An important practical conclusion of the above is that in the future Finland will make long-term financial commitments also to the UN agencies. So far this has been the case only with the IFIs and the EDF. This decision is included in the budget proposal for 2002.

Public pressure to increase aid grows

The 'long march' for an increase in the volume of Finnish ODA has been relatively successful but we are still only close to halfway back to 0.7% of GNP. The public pressure for a bigger increase has grown. One VIP after another has made public appeals to the government for increased aid. Parliament would gladly endorse bigger increases of the aid budget. The campaigns of major NGOs have continued to push for this. The budget proposal for 2002 is 479 million euro (around US$439 million), which includes an increase of 27 million euros from this year, and is based on an estimated growth in the GDP rate from 0.335% this year to 0.341% next year. A slightly higher increase proposed by the Foreign Ministry was supported by the other coalition parties but blocked by the Conservatives. If the Finnish growth rate stagnates in the near future in the way it has been envisaged recently, this might result in an (unexpected) increase in aid as a proportion of GDP in 2001-2002.

The NGO advocacy work of late 2001/early 2002 focuses very much on the preparations for the UN Conference on Financing for Development (FfD). The NGOs and Parliament are demanding that the Finnish government should issue a concrete long-term plan for returning Finnish ODA to 0.7% of GDP in advance of the FfD conference.

Conditionality by any other name

Conditionality is not mentioned by name in official government or foreign ministry development policy statements. It has also not been a direct subject of assessment by the ministry's Department for International Development Cooperation or any outside body acting for it. This does not mean that conditionality is absent from the Finnish aid regime; far from it. Finland follows the same conditions for giving aid as much of the rest of the donor community.

The prescriptive content of Finnish aid policy documents is couched in sweeping terms in three predominant policy papers. These are: the 1996 *Decision-in-principle on Finland's Development Cooperation*, the 1998 *Policy on Relations with Developing Countries* and the decision-in-principle, from 2001, on *Operationalisation of Development Policy Objectives in Finland's International Development Cooperation*. The 1996 document describes the goals of Finnish aid as the 'alleviation of widespread poverty, prevention of global environmental threats, and the promotion of equality, democracy and human rights'. It also specifies 'good government' in the latter group of goals.

The 1998 paper develops some of these ideas but focuses more on the context of economic globalisation. Here, the 1996 principles are reiterated with one more added upfront: 'support the integration of the developing countries into the world economy'. A little later the document spells out what this means: "It is essential to develop the international financial architecture to ensure stability on the international financial markets and create a foundation for policy on relations with developing countries." The prescribed economic development of Southern countries is seen by the government as a necessary part of the globalisation project, and development aid as one way to achieve it.

These broad prescriptions are both goals of Finnish development aid policy and conditions for partnerships with Southern countries. These are called variously 'prerequisites', 'criteria' and 'common values and aims'. Their conditional quality is that they constitute a package of aims that, simply put, have to be accepted by Southern partners for them to receive development aid. A fuller list of them is given in the 2001 decision-in-principle. These 'criteria for long-term partner countries' include:

- poverty reduction by promoting economic growth based on the principles of market economy, by expanding universal access to basic services, such as primary health care and education, and by promoting equal distribution of income;
- economic policy that provides an enabling environment for development cooperation;
- efforts to advance democracy and equality and to reduce corruption;
- commitment to improving the human rights situation;
- sustainable use of natural resources and the protection of the environment;
- efforts to integrate into the world economy and international trade systems in order to promote own development agenda;
- promotion of peaceful development in the region.

These are aspects of conditionality that need further study and analysis, both of their ideological and cultural contexts and ramifications, as well as of the way they are taken up in relations with the South. It is notable that gender issues are not listed here, though they are mentioned in more elaborate explanations of Finnish aid aims. Cooperation negotiations with a country may be suspended if any of these criteria is not fulfilled. An example is Kenya, where Finnish aid was stopped for a couple of years due to human rights and democracy problems and only resumed in 1999.

A recent study by the working group on Vietnam of the Advisory Board on Relations with Developing Countries (KESU), which is attached to the foreign ministry, looks, in part, at conditionality concerning human rights in Vietnam and Finland's aid partnership with the country. It lauds Finnish-Vietnamese engagement and dialogue as ways to advance the donor's concerns on democratisation and human rights, and sees this as preferable to trying to impose conditionality in the aid relationship – something that is, according to the study, difficult in the absence of a multilateral regime to implement aid conditionality.

A 'reality check' from the South on how conditionality is viewed would require extensive surveying and investigation. We can only offer a couple of rather superficial observations. A meeting of Zambian NGOs in 2000 produced a detailed set of demands of civil society. These mesh closely with the conditions or prerequisites of Finland's aid policy goals cited above, with the exception of the focus on economic growth fixed on a market economy and wedded to economic globalisation. In another context, Vietnam's general approach to conditionality concerning human rights has been to see it as interference in its internal affairs. Despite this, Finnish-Vietnamese discussion on this issue is reportedly constructive, which would indicate that this feature of conditionality is not viewed as an obstacle by the Vietnamese side.

Pursuing the ownership principle

The issue of ownership has received much attention and, during the 1990s, has become better-integrated into Finnish aid policy. An evaluation of ownership in 1996 reported progress and suggested ways to advance the trend further. In an interview for *The Reality of Aid*, Kalevi Ahti, deputy director general at the foreign ministry, said that this had happened: "Nowadays the discussion on ownership has advanced so that as a principle country ownership is the starting point of every activity. A more difficult question is how to implement the principle. The main means are to concentrate on supporting the countries' own policies and programmes." According to Ahti, the better the discussion between development partners, the more conditionalities become irrelevant.

Finland conducts analytical work jointly with its Southern partners. This works better with some than others. For example, dialogue with Nicaragua and Zambia is making little headway and is in a 'wait-and-see' situation. With Vietnam, on the other hand, joint work is proceeding apace. Indicators of progress are approved by Finland and its partners and attached to the agreements between the governments of Finland and the Southern country.

Finnish aid is spent through sector-wide approaches (SWAps) – for example with a focus on the education sector in Mozambique, Ethiopia, Nepal, Tanzania and Zambia; and on the health and agricultural sectors in Mozambique. In these programmes the sector wide approach is applied only in part, either because of country-specific conditions (such as the Ethiopia-Eritrea war) or because the programme is in its initial phase. The Nepal education SWAp is the most developed of its kind, but it is in Mozambique that Finland reckons the SWAp will be the most important form of cooperation. The conditions put on the approaches are that the partner country's budgetary and accounting systems are sufficiently transparent and that the sectoral policies are in line with the goals set out in the government policy documents, mentioned above.

Finland does not use any development aid for stand-alone projects or programmes carried out by Finland alone. Untied Finnish aid includes balance-of-payments and budget support. In 1999, Finland made a balance-of-payments support commitment of FIM 20m to Albania and Macedonia because of the refugee situation. In 2000, a budget support commitment of FIM 10,5m was made to finance the Tanzania Poverty Reduction Budget Support facility.

Note

1 Operationalisation of Development Policy Objectives in Finland's International Development Cooperation

France

Box 21. France at a glance

How much aid does FRANCE give?

FRANCE gave in 2000	US$4,105m or 30,043m Francs
That means that each person In FRANCE gave in 2000	US$69.46 or 494 Francs
In 2000, aid from FRANCE fell by	US$1532m in cash terms. Because of inflation and exchange rate changes, the value of aid decreased by 16.3% in real terms

How generous is FRANCE?

FRANCE gave 0.32% of its national wealth in 2000. This compares with the average country effort of 0.39% and FRANCE's previous own highpoint of 0.76% in 1965.

FRANCE was less generous than 7 other donors and less generous than in 1999 when aid was 0.39% of GNI.

How much of FRANCE's aid goes to the poorest countries and people?

36.95% of total bilateral aid (US$1260.65m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of FRANCE's aid was spent on basic health, basic education, water supply and sanitation?

FRANCE spent

1.47% of its bilateral aid ($50.05m) on basic education
0.53% of its bilateral aid ($18.15m) on basic health
3.47% of its bilateral aid ($118.57m) on water and sanitation

Notes

1 France has not recently formulated any official quantitative target with regard to the volume of assistance. In the debates that preceded the fixing of the 2001 budget, at the end of 2000, the minister for Foreign Affairs, Hubert Védrine, merely confirmed the French intention of 'consolidating' budgetary targets for 2001.

2 In 2001, France should give 32.56[8] billion francs to official development assistance (excluding overseas territories), which is 0.34% of its GDP. Almost 41% of the total ODA – that is 13.3 billion francs – should be delegated to multilateral institutions.

3 Africa (French-speaking Maghreb and Sub-Saharan Africa) is the main beneficiary of French assistance.

4 The figures for the year 2001 show the share of the budget devoted to French assistance is at a high of 10.2%. This marks the first year of recovery in French assistance since 1994. The tendency to multilateralise French aid, to the benefit of the European Union in particular, is confirmed in 2001.

The hint of a recovery?

Amelie Canonne, Observatoire Permanent de la Cooperation Francaise (OPCF) on behalf of the Centre de Recherche et d'Information pour le Developpement (CRID)

In 2001, France should devote 32.56[1] billion francs to official development assistance (aside from overseas territories), which is 0.34% of its GDP.

French aid has been decreasing since 1994 – when it peaked at 47 billion francs, or 0.64% of its GDP. In 2000, it fell to its lowest level (29.5 billion francs, or 0.32% of GDP). The forecasts for the year 2001 show an improvement in the level of investment in French ODA and an apparent willingness to reverse this long-term decline.[2]

Nevertheless, the forecasts remain well below the nominal target of 0.7%. This continues to show the difficulty France has in involving itself in any significant way in a strategy of international solidarity sustained by meaningful resources. France no longer gives target figures: at the very most, it confirms its intention of 'consolidating''[3] the budgetary priorities for 2001. The government concedes the need for France to increase its level of ODA if it wishes to live up to its pronouncements and the expectations of its partners. Yet it insists on the supremacy of policy quality to the detriment of aid quantity.[4]

The tendency towards multilateralisation of French assistance, seen in previous years, is confirmed in 2001. Almost 41% of total ODA (13.3 billion francs) will be spent through multilateral institutions (compared to 32% in 2000). The European Union is the main beneficiary (general budget and European Development Fund (EDF) together), then the IMF, World Bank and regional development banks, and the UN agencies.[5] The share of ODA given to multilateral cooperation is likely to continue to increase over the next few years. Not only does France want to maintain its position as the leading funder of European cooperation, it has strongly aligned its policies with the Bretton Woods institutions, openly aspiring to have a bearing on the policy issues at the heart of organisations like the UNO.[6]

The main beneficiaries of French bilateral assistance remain the same, with the exception of Tunisia, which has moved up to eighth position. The Ivory Coast, the top recipient in 1999, is currently subjected to sanctions by the European Union and its Member States which may affect the amount of French aid it receives. Egypt, Morocco, Cameroon, Senegal and Madagascar will all feature once again in the top ten recipients of French bilateral assistance (for 1999/2000).

Overall, Africa remains the priority for French assistance; in 1998/1999,[7] it received almost 65% of French assistance (including multilateral assistance), with two thirds of that going to Sub-Saharan Africa and the remaining third to the Maghreb. Middle Income Countries benefit more from French assistance (33.9% of bilateral aid in 1998/1999) than Least Developed Countries (21.4% in the same year).

France

The sector-based allocation of French assistance bears witness to priorities that remain far removed from meeting basic needs and fighting poverty. Just over 25% of bilateral aid was given to health and education in 2000 (bearing in mind that 'education' encompasses areas as broad as higher education, research, teaching of French and the promotion of the French-speaking world – sectors highly favoured by France). This same year, the reduction of debt absorbed more than a quarter of French bilateral assistance and 'productive' projects (transport and communication infrastructure, energy, and rural development) more than 15%.

Could the year 2001 mark the turning point awaited by the NGOs? If budgetary investment can give hope of a reversal of the inexorable downward trend that has characterised French ODA, then France ought to demonstrate political will and appropriate means in order to develop official assistance funds in coming years. As it is, French development assistance policy remains clouded by the institutional reform of 1998, which barely achieved its objectives, and by the double exposure caused by its strategies of cultural influence on the one hand and concern for solidarity on the other.

Strategic interest directs conditionality

For France, as for other donors (bilateral or multilateral), recourse to the principle of conditionality has always been considered legitimate. Besides the fact that the position of the donor naturally authorises it to make assistance conditional on how it will be used and the policies that govern it, donors also view conditionalities as a guarantee of aid efficiency, or, in the case of tied aid assistance (largely practised by France), the efficiency of direct counterparts.

Today, the way these conditionalities are viewed, as well as the way they are put into practice, seems to be developing. In the light of work by the IMF and the WB, which showed relative failures of conditionality, France's 'official' outlook is that conditionality should be removed.

However, in spite of changes in terminology, the multilateralisation of mechanisms of political decision-making and the reconsideration of methods of definition and practice, the application of French assistance policies appears to be largely dependent on diplomacy and French economical and strategic interests.

The analysis of French cooperation policies leads to the distinction of three types of conditionalities, implemented by different players in different circumstances.

Political conditionalities

For France, the definition of and return to these is based on the principles of democracy and the defence of human rights, adopted by all OECD donors. It seems that this type of sanction is applied more and more in coordination with other European donors, in accordance with the principles defined by the Cotonou Agreement. It therefore seems inconceivable that the suspension of all or part of a cooperation programme, even bilateral, would be the subject of a unilateral decision. Moreover, the usefulness of political conditionalities seems to be called into question at the highest diplomatic level. Recently,[7] when talking about the advisability of international sanctions with regard to the protagonists in the conflict that has been shaking up the African Great Lakes region since 1998, the Minister for Foreign Affairs, Hubert Védrine, acknowledged that 'no system of sanctions gives the expected results' and that 'in the majority of these cases, they even generate opposite effects, and rarely touch on those intended'.

The application by France (and all Western countries) of political sanctions tends to 'blow with the wind' and is dependent on French diplomatic strategies. For example, Chad has not been the subject of any suspension of French or European cooperation programmes, in spite of the massive fraud which marred the presidential ballot of 20 May 2001, whereas this was the case in Togo in 1993, and the Ivory Coast after the coup d'état of General Gueï in December 1999.

Macro-economic conditionalities

Although they have long operated around the Washington Consensus, which is difficult to bypass, such conditions have been reducing considerably. France seems attached to maintaining some basic limits in thisway but it has progressively moved on to retrospective conditionalities. When sector-based or macro economic perform-ance is not considered satisfactory, France can review the forms and volume of assistance. It is no longer a question of total suspension of programmes, but of reflecting on the practices and their relevance.

Technical conditionalities

This refers to conditionalities that relate to the programmes themselves and their implementation methods. Their application is subject to consultation with representatives of the donor and the implementing agency, representatives of the recipient country, technicians and local operators.

Whether they are financial and technical, or more political, conditionalities have been largely shaped by the beneficiaries of assistance and twisted by the donors themselves (they have continued to 'pay up' even when conditionalities are not met, when strategic, economical or political interests are overriding).

Is the failure of conditionalities the failure of assistance?

Today, France has set itself on a course of progressive removal of conditionality. By maintaining the minimum necessary level of conditionality, it can develop euphemisms such as 'contracts of objectives', vocabulary doubtless intended to underline the partnership aspect of assistance programmes. Over and above the genuine willingness to promote ownership by the governments and civil society in the beneficiary countries, the objective difficulties posed by the handling of conditionality today provoke questions at the heart of French diplomacy and cooperation. Besides the classical questioning as to its real social impact, the recovery of assistance in a country under sanctions is difficult (due to the changing political and social contexts, the crisis of confidence created, technical constraints imposed by a project being abandoned during execution etc.).

The quality of political dialogue between donors and recipients, advocated by the Cotonou Agreement, which should constitute the basis of a new developmental strategy supported by credible public policies, is, for the moment, very unequal.

Through the elaboration of anti-poverty strategies, the bilateral and multilateral debt reduction programmes of the PPTE (HIPC countries) are starting to give rise to new types of partnerships between donors and beneficiaries. Decisions on the reinvestment of credits arising from the PPTE (HIPC) process are made according to progress on sector-based policies, led by the governments of the South. This opens the way for hidden conditionalities: France will simply unilaterally stop its aid when it disagrees with a partner country's policies.

The vigilance of civil society, North and South, will be the only guarantee that emerging forms of partnerships elaborated during the drafting of the CSRP (Cadres Stratégiques de Lutte contre la Pauvreté) and other debt-development contracts can be consolidated.

Notes

1 Sources: The figures given for 2001 come from the forecasts for budgetary execution of the finances law project in 2001. They therefore correspond to intentions. The 2000 figures come from the same document, but show the execution forecasts at the end of September 2000. Only the figures from previous years correspond to actual expenses and are definitive.

2 This progression must still be moderated by the recent budgetary freezes imposed by Mr Jospin and Mr Fabius of the General Management of the International Co-operation for Development: in all, there are 130 million francs of "reserve" measures. Cf. "Bercy fait passer le Quai à la caisse", *Le Canard Enchaîné*, 8 August 2001.

3 Examination by Mr. Hubert Védrine and Mr. Charles Josselin of foreign Business funds for 2001, Report n°5 of the Commission for Foreign Affairs, Wednesday 11 October 2000.

4 Report 34 of the Commission for Foreign Affairs, Tuesday 22 May 2001.

5 The latest data available on this subject is that of the DAC for the year 1998 (cf. O. BLAMANGIN, 'Introduction à la coopération multilatérale', *Rapport 2000 de l'Observatoire Permanent de la Coopération Française*, Ed. Karthala, Paris, 2000).

6 Examination study Mr. Hubert Védrine and Mr. Charles Josselin, op. cit.

7 Two year average, source: DAC of OECD, www.oecd.org.

8 "La France n'a pas déserté les Grands Lacs", Interview with *Le Figaro*, 16 August 2001.

Germany

Box 22. Germany at a glance

How much aid does GERMANY give?

GERMANY gave in 2000	US$5,030m or 10,675m Deutsch Marks
That means that each person In GERMANY gave in 2000	US$61.27 or 130 Deutsch Marks
In 2000, aid from GERMANY fell by	US$485m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 5.9% in real terms

How generous is GERMANY?
GERMANY gave 0.27% of its national wealth in 2000. This compares with the average country effort of 0.39% and GERMANY's previous own highpoint of 0.48% in 1983.

GERMANY was less generous than 12 other donors and more generous than in 1999 when aid was 0.26% of GNI.

How much of GERMANY's aid goes to the poorest countries and people?

40.03% of total bilateral aid (US$1,188.09m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of GERMANY's aid was spent on basic health, basic education, water supply and sanitation?

GERMANY spent
2.06% of its bilateral aid (US$61.22) on basic education
0.87% of its bilateral aid (US$25.85) on basic health
11.75% of its bilateral aid (US$358.61m) on water and sanitation

Red-Green coalition fails to reverse downward trend in ODA

Birgit Dederichs-Bain,
Deutsche Welthungerhilfe and terre des hommes[1]

In 1990, Germany spent 0.42% of its GNP on ODA; by 2000 this had shrunk to 0.27%. The medium-term projection[2] is as follows:[3]

- **2001** DM7.427 billion (3.797 billion Euro) or 1.56% of the federal budget. This shows an increase of DM325 million over the budgeted DM7.103 billion for 2000 (a year of drastic cuts). This, however, is mainly due to the shifting of other budget lines to the Federal Ministry for Economic Cooperation and Development (BMZ) budget (e.g. the TRANS-FORM programme for Central, East and South-East Europe is under the aegis of the BMZ, as is the stability pact in South-East Europe).
- **2002** DM 7.031 billion (3.595 billion Euro), being 1.45% of the federal budget. This budget projection presented by the Ministry for Finance in mid-2001 meant a reduction of 400 million DM, or 5.3%,compared to the previous year. After heavy protests from the top level of the BMZ, the prospect was held out of a further DM 200 million in the course of the budget consultation.
- **2003** Approximately DM7.004 billion (3.581 billion Euro), or 1.44% of the federal budget, a reduction of 0.4% compared to 2002 - is projected;

Table 16. Development of the BMZ-budget according to the mid-term plan

	2001 Budgeted Expenditure	**2002 Planned Expenditure**	**2003**	**2004**	**2005**
BMZ-budget (in billion Euro)	3.797	3.595	3.581	3.581	3.581
changes compared to the previous year		-5.30%	-0.40%	0	0
% of the federal budget	1.56%	1.45%	1.44%	1.42%	1.41%

Germany

- **2004** and **2005** stagnation is foreseen: DM7.004 billion (3.581 billion Euro), being 1.42% of the federal budget in 2004and 1.41% in 2005.

The mid-term financial planning of the BMZ budget, therefore, shows a rather bleak outlook. The development budget of the Red-Green coalition undercuts consistently by 500 million DM the effective expenditure of the last year of the Kohl-administration!

Changing priorities

In 2001, the BMZ budget showed planned spending as a share of bilateral aid allocable by region as follows: Sub-Saharan Africa 30.0%; East-/South-Asia (plus Oceania) 27.6%; Mediterranean and Middle East 18.7%, Latin America 14.8%; Middle East, European and Newly Independent States (NIS) 8.9%. Of the total, 28.3% went to the Least Developed Countries this is equivalent to DM 2.151 billion, up from 24.6%, i.e. DM 1.776 billion,[4] in 2000.

The top ten countries for projected volume of bilateral development cooperation in 2000 are listed in Table 17.[5]

In 2000, only one country from Sub-Saharan Africa was among the 'Top Ten' country list. In 2001 there are five.

There is a slight shift towards Sub-Saharan Africa in 2001. A total of 30% of the BMZ budget is projected for this region – more than for several years. This might be partly due to the announcements by the leadership of the BMZ, during the UNLDC III conference in Brussels in May 2001, and partly to the new 'Action Programme 2015' of the government, with its goal of halving poverty and hunger by 2015.

In 2001, funds earmarked for education rose from 6.3% to 9.9% of sectoral aid. Funds for basic education increased to 3.3% or DM80 million, compared to 2.78% in 2000. However, overall the budget shows a decline in the allocations for Basic Social Services. In 2001, the share was 13.5%, or DM324.8 million; in 2000 it was 16.5% (DM379.7m)[6] . This pulls German aid even further away from the 20:20 goal of the World Summit for Social Development.

Action without expenditure?

The German commitment to the 2015 International Development Targets (IDTs) was announced at the UN Millennium Summit (New York, 2000) by the Federal Chancellor. In 2001, an action programme was adopted by the German government (Programme of Action 2015: Poverty reduction – a global Responsibility). It describes ten priority areas for government. The BMZ took the lead in drafting while a number of NGOs were invited to participate. Deutsche Welthungerhilfe and terre des hommes welcome this as a step in the right direction and a remarkable policy initiative to implement the IDTs. However, there is no extra expenditure projected for 2002 to start the implementation of the Programme. There is not even an implementation plan stating financial targets and deadlines.

Germany – together with the rest of DAC donors – will go to the UN Financing for Development conference in 2002 proclaiming that they are committed to the 2015 targets – having never given less aid!

The widening gap between rhetoric and deeds promotes a lack of credibility. DWHH and tdh understand that the implementation issue will be an important matter for the 'dialogue forum' that is to be created on implementing the 2015 Action Plan.

At the recent international IFRPI (International Food Research Policy Instrument) conference 'Vision2020 – Sustainable Food Security for All by 2020', the German Federal President highlighted the importance of reaching the goal of 0.7% of GNP and of using these funds to fight hunger and poverty in the world.

A gradual shift of funds towards poverty reduction – the overarching goal of German ODA – within the existing BMZ budget over the coming years has been announced. This amounts to 65% of trans-sectoral bilateral funds for 2002; in 2001 it amounted to 51.6% of those funds. However, if the overall BMZ budget continues to decline or to stagnate, there is the danger that – in real terms – the funds available for poverty reduction will hardly increase. Furthermore, it is deplorable that the 2001 budget no longer includes a separate budget line for 'self-help oriented poverty reduction'. This is probably part of the process of adapting the budget lines to the DAC categories but it means that a decisive element of transparency has been lost.

The BMZ underlines the role of rural development and the focus on agriculture as a pillar of effective poverty

Germany

Table 17. Top ten countries for projected volume of bilateral development cooperation in 2000

	FinancialCooperation	Technical Cooperation	Total In million DM
China	100	35	135
Egypt	115	15	130
India	70	30	100
Bolivia	55	37	92
Ghana	60	30	90
Mali	55	32	87
Mozambique	50	35	85
Burkina Faso	55	30	85
Uganda	50	30	80
Philippines	51	22	73

reduction. However, overall (worldwide) support for agriculture, which is the main source of income for rural populations, has decreased over the past ten years by about two-thirds.[7] The percentage of expenditure on agriculture, forest economy and fisheries in the BMZ budget has decreased from 10.7% of sectoral funds in 1998 to 3.9% in 1999.[8] On the other hand, there is a tendency to engage more in global solutions in this sector via the multilateral aid programme.

In general, the BMZ argues, apart from the traditional level of ODA, the level of global structural policies (see *Reality of Aid* 1999/2000) has to be taken into consideration within the context of poverty reduction, e.g. debt relief, (the HIPC-Initiative, etc.).

Loosening ties?

At the UNLDC III conference, the German government announced discontinuation of (agricultural) protectionism. The 'Everything But Arms' (EBA) initiative was to be a first step towards this. The German government strongly supported the EBA initiative. However, crucial products like bananas, rice and sugar will be exempted from tariff-free importation for a longer transition, thereby reducing any direct benefits for the developing countries.

Tied aid – according to the conference decisions – is supposed to be a feature of the past. The current level still amounts to 15.3%,[9] as against an OECD-average of 11.5%. The percentage of funds allocated to LDCs rose from 24.6% (DM 1.776 billion) in 2000 to 28.3% in 2001.

The BMZ is also strongly advocating for involving the private sector in funding development cooperation, in an attempt to mobilise additional resources. The model of PPP (Public-Private Partnership) is strongly supported. The private sector definitely has a role to play in providing solutions to global problems. However, their investments need to be geared more towards a poverty and development focus, so that their involvement is really in the interests of people and not just commerce.

Conditionality strengthened

If your agency advocates for environmental or gender aspects as an integral part of its development work, the partner organisations are, after a while, expected to integrate these principles in their own work ethos as well.

Germany

The BMZ has prioritised poverty reduction as the overarching goal of its interventions. Fighting poverty means changing prevailing structures within developing countries (including for instance involving civil society in PRSP processes).[10] Given that internal political and economic conditions influence development, the German government has decided since the end of the cold war era in the 1990s to impose stronger conditionality in its ODA. Five criteria have been laid down as 'policy conditionality'.

1. Respect for human rights
2. Participation of the population in political decision-making
3. Institutionalised legal systems and legal security
4. Introduction of social market economy
5. Development orientation of state action.[11]

According to the BMZ, without these 'conditions for success' the goal of effective, sustainable use of funds in a given country could not be achieved. The assessment that precedes cooperation is based on indicators that identify trends and give a general picture. The principles are discussed with the partner country government. The overall goal is said to be to support the partner countries in their efforts to create the framework for efficient, sustainable development and to increase the efficiency of development cooperation.

This policy conditionality has been further elaborated by the new government's introduction of the 'ILO core labour laws/norms and basic social standards' as additional criteria under condition 4, introduction of a market economy.

With regard to instruments, Country Concepts are more regarded as an internal management instrument of the BMZ, whereas Country Sector Strategies for the priority sectors are agreed upon jointly. The linking of the HIPC initiative and the PRSP process to poverty reduction is also seen as fostering participation of recipient countries in sustainable development.

Overall, the German government regards development cooperation as a partnership based on ownership and participation.[12] Of course, the decisive question is: What happens, if a country fails to meet the criteria? Sanctions are seen as a negative approach. Priority is given to economic cooperation as a constructive approach to foster social change in the long run. One could argue that this type of 'positive conditionality' as a shared system of values is indeed important for the success of development work and the promotion of democratic, participatory systems. This type of positive conditionality has also been introduced by a number of European NGDOs. If your agency advocates for environmental or gender aspects as an integral part of its development work, the partner organisations are, after a while, expected to integrate these principles in their own work ethos as well.

Notes

1 The findings for part I + II are mainly based on the research of Dr. Walter Eberlei, University of Duisburg, Institute for Development and Peace; author of the German report *The Reality of Aid 2000/2001*.

2 Source: BMZ, Medium term Financial Planning, summer 2001, www.bundesfinanzministerium.de;

3 see footnote 1: Sources:

- 1998:see- Deutsche Welthungerhilfe / terrre des hommes: Die Wirklichkeit der Entwicklungshilfe. Siebter Bericht 1998/1999. Bonn/ Osnabrück 1999, S. 19 f (Reality of Aid –Germany-, 7th report)
- Ist-Werte 1998: BMZ, Soll-Ist-Vergleich 1998 zu Kapitel 2302 Titel 866 01 und 896 03, Bilaterale Finanzielle und Technische Zusammenarbeit mit Entwicklungsländern, Juli 1999 (bilateral financial + technical co-operation with developing countries)
- Deutscher Bundestag, Bundeshaushaltsplan 2000, Einzelplan 23, Geschäftsbereich des Bundesministeriums für wirtschaftliche Zusammenarbeit und Entwicklung (German Parliament, Federal Budet, here: Budegt of the BMZ)
- BMZ-publications,u.a. www.bmz.de
- Bericht zur Entwicklungshilfe der Bundesregierung (11th Report about the Development Aid of the Federal Government)
- Development Assistance Committee (OECD/DAC), Development Cooperation, Annual Report

4 Projected figures bilateral allocations, technical cooperation and financial cooperation

5 BMZ, Vertrauliche Erläuterungen 2001 zu Kapitel 2302, Titel 86601 + 89603, September 1st, 2000, Bilaterale Finanzielle und Technische Zusammenarbeit mit Entwicklungsländern in: Eberlei, Walter, ebd., Chart no 10;

6 Source: for 2000 and 2001: BMZ, Informationsvermerk für den Bundestagsausschuss für wirtschaftliche Zusammenarbeit und Entwicklung zu den Vertraulichen Erläuterungen für die bilaterale Finanzielle und Technische Zusammenarbeit mit Entwicklungsländern 2000 bzw. 2001, interne Vermerke, sowie Mündliche Auskünfte, table 3, Eberlei, W. a.a.O.

7 Rural Poverty Report 2001, IFAD

8 see draft: Scherrer, B./Gürtner,S.: 'Perspectives of Financing Sustainable Rural Development', in: ROA, Germany, 2000/2001

9 figure see: Eberlei, Walter, draft "The Reality of Aid" (Germany), chapter B

10 BMZ press bulletin 4/4/2001 Berlin

11 BMZ Materialien No 97, Basic Principles of German Development Cooperation

12 BMZ: 11th Report on the Development Policy of the German Government.

Ireland

Box 23. Ireland at a glance

How much aid does IRELAND give?

IRELAND gave in 2000	US$235m or 201m Irish Pounds
That means that each person In IRELAND gave in 2000	US$62.67 or 53.55 Irish Pounds
In 2000, aid from IRELAND fell by	US$10m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 5.6% in real terms

How generous is IRELAND?

IRELAND gave 0.30% of its national wealth in 2000. This compares with the average country effort of 0.39% and IRELAND's previous own highpoint of 0.31% in 1999.

IRELAND was less generous than 10 other donors and less generous than in 1999 when aid was 0.31% of GNI.

How much of IRELAND's aid goes to the poorest countries and people?

70.39% of total bilateral aid (US$108.93m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of IRELAND's aid was spent on basic health, basic education, water supply and sanitation?

IRELAND spent
6.19% of its bilateral aid (US$9.58m) on water and sanitation.

IRELAND does not report its spending on basic education or health.

Managing growth to meet 0.7 target

Cary Gibson and Howard Dalzell,
Concern Worldwide

The DAC review of Ireland's Aid in 1999 cited two 'main issues' for the government's consideration: how best to grow and how best to manage that growth. The report advised: "Managing a sustained and significant increase in aid requires setting an orderly growth path, with a clear target, and milestones along the way."

In September 2000, the Taoiseach (Prime Minister) gave a commitment at the United Nations that Ireland would reach the 0.7% GNP target for ODA by 2007. This would be achieved by a series of three-year agreements between the Departments of Finance and Foreign Affairs (ODA Ministry). The first agreement covers 2000-2003 and seeks to achieve the required increase in percentage terms while allowing for the currently rapid, but rather unpredictable and variable, annual increases in GNP. The financing plan will be reviewed annually so that adjustments can be made as appropriate. There is an awareness that the high levels of growth of 2000 are unlikely to be sustained. Taking account of this and the expected effects of a weak euro, the government has taken a cautious, and probably prudent, approach to GNP projections. The predicted percentage for 2003 is 0.48; a continuation of this rate of increase, if achieved, should be adequate to meet 0.7% by 2007. Cautiousness aside, the projection for 2007 sees a five-fold increase over expenditure in 2000. The Euro/Dollar exchange rate in 2000 changed so much that a greater than 16% increase in Irish terms resulted in a marginal increase in dollar terms

The commitment to achieving the UN target has resulted in increased attention to the management of the Ireland Aid programme, and the role NGOs will play in its expansion. In late 2000, a formal and consultative review of the programme was planned. In effect this addresses the DAC review's second main issue, 'How to best manage growth'. The outcome was expected in late 2001.

Discussion began within larger NGOs on a Multi-Annual Programme Scheme based on three-year budgets and three-year strategic targets. This arrangement would integrate NGO work more fully into the national programme and add accountability for developmental impact to the current financial reporting requirements.

During the year there was considerable development in thinking within Foreign Affairs on a progression from Sector Wide investment to Direct Budget Support and this was expected to give rise to some direct budget support for one country in 2001.

On the management front, there was a very significant development of a greatly enhanced software system, which has led to far superior levels of statistical analysis than were previously available. Increasing the analytical capacity of the programme was aptly timed given the expansion that lies ahead and the need to direct resources with greater accuracy and monitor the effectiveness of different strategies.

Partnership stressed over conditionality

Irish development aid policy is described as an 'integral part of foreign policy' in *Promoting Ireland's Interests: strategy statement of the Department of Foreign Affairs 1998-2000*, and *Challenges and Opportunities Abroad: White Paper on Foreign Policy (1996)*. The 1999 DAC review highlighted a major

Ireland

strength in the 'strong [foreign relations] policy basis, which serves as a guiding strategy for the Irish Aid programme'.

Irish policy has been to focus on promoting the development of the poorest developing countries, with particular emphasis on Sub-Saharan Africa. This is evident in the bilateral funding to Ireland Aid's 'priority countries': Ethiopia, Lesotho, Mozambique, Tanzania, Uganda, and Zambia. The main emphasis is on reducing poverty and meeting basic needs (defined as health care, education, clean water supplies and food security). In addition to the Priority Country Programmes, bilateral aid is provided for specific projects in a number of other countries, such as South Africa and Zimbabwe.

Both the White Paper and the strategy place emphasis on the principles of partnership and of poverty eradication through sustainable development. In this regard, the White Paper reads: 'There is also a greater understanding of the need for the process to be a real partnership, with the beneficiary countries and communities being fully involved, instead of having models of development imposed upon them.' (Section 9.14). Similarly, Foreign Affairs strategic objectives include: 'Ensure that [aid] programmes are carried out in partnership with the governments and people of developing countries, and are in line with their priorities so that they can meet the test of sustainability.'

Focus on integration and delegation

With the appropriate national PRSPs providing overall context, various levels of national government are involved in the preparation and implementation of three-year Country Strategy Papers. These are described in the White Paper as follows: "With a view to achieving greater coherence in the country programmes, a more programmatic approach is being adopted. This involves a broader approach to programme and project planning, with particular priority sectors in each country targeted for support, greater integration between and within projects and, most recently, a country review and planning process which maps out a coherent country programme on a sectoral and geographic basis for a three-year period. These country programmes will be developed in close cooperation with the host governments and communities and they are intended to lead to greater effectiveness in aid coordination and delivery for both partners." (Section 9.49).

Sectoral programmes are set jointly by Ireland Aid and host governments – officials cite examples in Ethiopia, Mozambique, Uganda, and Tanzania. Local authorities are also involved in preparation of proposals.

There exists a high level of delegation of day-to-day management of Ireland Aid spending to in-country officials of the programme. The Country Strategy Programme (which determines expenditure) has its origins at embassy level and works upwards, rather than being dictated from Ireland. This approach facilitates participation of local government in design and management of programmes. Final programme, and hence budgetary approval, is authorised from Ireland but once this has happened in-country staff at embassy level manage the funding in conjunction with local government departments.

Gender equality features in all proposals and in Country Strategy Papers as a cross-cutting issue. This has developed since a review of Ireland Aid's gender policy and programme carried out in the mid-1990s. Strategic actions include ensuring that all bilateral programmes respect best practice on gender equality and environmental protection.

Foreign policy states that the government 'will ensure that all aspects of human rights are an integral and indispensable part of policy dialogue with developing countries, including the priority countries. There is no wish on the Government's part to contribute to the imposition on developing countries of preconceived western models of political and social development. At the same time, the Government will hold to the fundamental standards enunciated in the UN Charter'. (White Paper).

The consequent strategy is intended to ensure that all bilateral country programmes contain an element aimed at improving democratic processes and institutions.

In recent years, Ireland Aid has developed a separate budget line on Human Rights and Democratisation.

Ireland

Standards for financial accountability sought

Working with other donors and Southern governments to develop standard financial procedures and standard rules for accountability for aid, Ireland Aid has representation on the Financial Management and Accountability sub-group of the DAC Taskforce for Donor Accountability. In addition to other donors, the Tanzanian, Mozambique, and Ugandan governments are part of the dialogue process of this sub-group. Ireland Aid states that recipient governments are informed on an ongoing basis of the developments of this task force and in this way the Southern perspective is brought to the task force agenda. While this is a positive beginning, it is hoped that this consultation might be strengthened, and opportunities taken to develop the role southern governments play in measuring donor accountability, which is currently don by essentially a self-monitoring task force. Ireland Aid has supported the Ugandan government in the development of accounting systems and, with other donors, has been involved in several countries in reducing duplication in financial reporting while improving standards of accountability as part of the implementation of sector-wide programmes.

Aid stays untied

Ireland Aid funds a Sector Wide Approach (SWAp) on health reforms in Lesotho, as part of the agricultural sector programme in Mozambique, and a small legal sector SWAPs project in Uganda. Officials state that no conditions are attached. Ireland Aid cooperates with other donor governments and multilateral agencies in the development and implementation of SWAPs.

As a country without a strong manufacturing base, Ireland has never had to face the problem of tying aid to home-produced goods. In recent years, the movement to prioritising the use of local consultants and working through SWAPs has almost entirely removed the element of investment connected to technical assistance from Ireland, so that the programme is to all intents and purposes untied.

Italy

Box 24. Italy at a glance

How much aid does ITALY give?

ITALY gave in 2000	US$1,376m or 2,891m Lire
That means that each person In ITALY gave in 2000	US$24.11 or 50.65 thousand Lire
In 2000, aid from ITALY fell by	US$430m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 13.8% in real terms

How generous is ITALY?

ITALY gave 0.13% of its national wealth in 2000. This compares with the average country effort of 0.39% and ITALY's previous own highpoint of 0.42% in 1989.

ITALY was less generous than 20 other donors and less generous than in 1999 when aid was 0.15% of GNI.

How much of ITALY's aid goes to the poorest countries and people?

35.51% of total bilateral aid (US$258.82m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of ITALY's aid was spent on basic health, basic education, water supply and sanitation?

ITALY spent
0.03% of its bilateral aid (US$0.24m) on basic education
1.75% of its bilateral aid (US$12.78m) on basic health
7.10% of its bilateral aid (US$51.72m) on water and sanitation

All trends down except debt relief

José Luis Rhi-Sausi, Marco Zupi, Movimondo

- In 2000, available resources for grants amounted to 1068 billion lire (US$508 million): 617 billion (plus 55 billion for administrative costs) for the on-field activities, 51 billion for compulsory obligations to international and national organisations, plus 400 billion Lire, which had been transferred from the revolving fund.
- At the end of 2000, Italy's ODA was 2,875 billion Lire (US$1368 million), equal to 0.13% of its national wealth in 2000. This compares with the level of 0.15% in 1999, representing a decrease in real terms of 14.3%.
- In 2000, Italian ODA confirmed its trend towards a geographic concentration. A dozen countries in the Balkans in particular, North Africa, the Middle East, and Southern Africa have represented the bulk of recipients of bilateral ODA.
- Most DAC donors have failed to implement their commitments to allocate 20% of ODA resources to basic social services and Italy is among the worst. In 2000 its contribution for basic health care, basic education and water and sanitation was only 5.2%, less than the average contribution of all bilateral DAC donors (7.3%). Italy spent 0.05% of its bilateral aid (US$0.3m) on basic education; 2.1% (US$13.1m) on basic health; and 3.1% (US$19.3m) on water and sanitation.
- A striking aspect of Italy's bilateral aid, considering that it has decreased steadily in absolute terms, is the high level of debt relief. The Italian Parliament approved a law in July 2000, on Measures for the Foreign Debt Reduction of Countries with the Lowest Levels of Income and Highest Levels of Debt. The following sums were established by law as the target for debt cancellation:
  a) a minimum 3000 billion lire (around US$1.42 billion) and a maximum of 4000 billion lire (around US$1.9 billion) relative to aid credits;
  b) insured credits held by the Italian Export Credits Guarantee Department (SACE) of not less than 5 thousand billion lire (around US$ 2.37 billions) and no more than 8 thousand billion lire (around US$3.8 billion);

- Combined, these total of 8000-12000 billion lire (between US$ 3.8 billion and 5.69 billion).This costs Italy nothing - it simply writes the debt off in its national accounts.
- The DGCS' limited staffing has contributed to preventing the expansion of bilateral aid. Nevertheless, the Italian NGO programme is on the upswing in a number of activities, even though the funding trend is not yet clear
- Another innovation, in 2000, was the financing of international development cooperation projects at local government level, by regions and municipalities. Some municipalities and regions have started to use decentralised cooperation mechanisms, although with limited funding and capacity.

During 2000, there were four main developments, which defined Italian aid policy.

First, the approval of the law on debt relief, which is the main outcome of the Italian commitment to reduce poverty in developing countries.

Italy

The purpose of this law is to make operational the understanding reached by creditor countries at multilateral level regarding the treatment of the foreign debt reduction of the developing countries with the lowest income and highest debt levels.

The developing countries eligible for Italian debt cancellation are those that qualify for soft loans from the World Bank's International Development Association (IDA). Therefore the Italian programme for debt reduction potentially encompasses a larger group of countries (66) than that considered in the multilateral negotiations, which were restricted to the Heavily Indebted Poor Countries (41). Furthermore, in relation to the latter group, the Italian law reserved to government the capacity to negotiate debt reduction bilaterally and concede debt cancellation under terms, timing and conditions different from those agreed between the creditor countries at multilateral level. The government proposes to resort to the International Court of Justice for an opinion on the legal aspects of foreign debt reduction in order to proceed in accordance with the general principles of law and within a human rights framework.

To qualify for debt cancellation, potential candidates must commit themselves to respect for human rights and fundamental liberties, to the repudiation of war as a means to solve international conflicts, and to the pursuit of full human and personal development, particularly with regard to the reduction of poverty. In the event of natural catastrophes and serious humanitarian crisis, credits relative to financial aid on the part of Italy may be totally or partially cancelled.

The main risk of this law is that rather than being net additional resources to be made available by bilateral activities for poverty reduction, it may become a substitute for ODA for poverty reduction.

Second, the new law embodying Italian bilateral ODA policy reforms has been delayed, meaning that progress in aid management, quality and quantity of resources is uncertain.

Third, if the bilateral channel is expanded relative to the multilateral one, having reached an all-time low, and given the absence of new legislation, it is likely that the NGOs, decentralised cooperation and multi-bilateral contributions will hold a prominent position.

Fourth, the first broad programme for poverty reduction was launched with an initial allocation of US$120 million. The initiative will consist of regional programmes in Central America, South America (Brazil and Andean countries), the Maghreb, the Middle East, the Horn of Africa, Sahel, Southern Africa and India. The initiative aims to provide support to the poverty reduction strategies in two/three partner countries in each of the above regions, within the framework of a consistent regional and international approach. Such programmes will define broad poverty reduction frameworks that should bring together different types of projects financed by Italy through bilateral and multilateral assistance.

Guidelines drawn up on conditionality and ownership

The main progress of the Italian government, towards supporting ownership, can be found in its very general political guidelines. Notable among these guidelines, which have been set up in a number of areas and sectors, are:

(i) those on poverty reduction, based on the work of a poverty reduction task force, which has produced in October 1999 a working paper based on the draft DAC guidelines and on the work of DAC Informal Network on Poverty Reduction and guidelines for the design and implementation of poverty reduction programmes;

(ii) those issued in March 2000 by DGCS on decentralised cooperation (*Linee di indirizzo e modalità attuative*), which set the framework for work in this field.

These guidelines have been added to those approved in 1998 on Gender Issues and on the Protection of Children and Adolescents.

When we look for evidence of operationalisation of these political commitments, there are several points to be stressed.

First, the bulk of projects are typically of a multi-bilateral character (where an international organisation is charged with implementing the project). In fact, not only does Italy still provide two thirds of its ODA through the multilateral channel – the highest percentage among DAC Members – but it also implements part of its *bi*lateral programme through the multilateral channel by contributing liberally to trust funds and to multilateral-bilateral projects. The nature of these projects, involving trilateral negotiations between the MFA, the governments of developing countries and international organisations, suggests *de facto* a high degree of collaboration with governments of recipient countries before disbursement, more than in the case of bilateral programmes.

In this context, the main programme is the 2000-02 initiative, of nine regional programmes to fight poverty in the Mediterranean countries, in Sub-Saharan Africa, South and Central America, as well India. Their launch has been delayed by managerial problems, but they will be implemented in close cooperation with international organisations and, as 1995 CIPE (Inter-ministerial Committee for Economic Planning) Guidelines call for "jointly with the developing countries themselves".

Another example of developing country involvement from the beginning of the project cycle is Italy's decentralised human development programmes, financed through trust funds to international organisations, mainly the UNDP, and executed by the United Nations Office =for Project Services (UNOPS). These multi-bilateral initiatives, subject to direct monitoring by the DGCS, have been under-taken with a high level of dialogue in specific regions in Cuba, Mozambique and Tunisia, as well as in Albania. These are significant for their high level of recipient country ownership, linked to a very low degree of political conditionality, as the Tunisian and Cuban cases demonstrate.

Italy does not undertake any form of direct budget support – which is the more advanced form of ownership – even though it has been declared the auspicious way for the future, when institutional capacity of governments in the recipient countries will provide reliable credibility. Currently, the only example of full involvement of the government of recipient countries in the management of money is the scholarships programme for students in South Africa and Mozambique, which is completely administered by local authorities. However, this is financed from out-of-budget funds, which can not be considered budget support.

All of the projects implemented by Italian ODA, are realised in the framework of general government-to-government agreements, which are three-year plans and which should avoid the risk of stand-alone projects.

Italy is planning to introduce a number of pilot experiences in sector-wide approaches (SWAps) in the social sectors, such as Health and Education. This is an innovation, in light of the past prevalence of a project-by-project approach, but it has not yet been translated into practice.

However, Italy is not imposing high degree of conditionality, compared to other bilateral cooperation approaches. Within the context of improving project cycle management, the main conditionality imposed on all the projects is their effectiveness.

Within the framework of the project cycle, a crucial step is represented by the evaluation phase, which could provide concrete mechanisms of local ownership. But the Italian evaluation system is still insufficient to fully capture lessons learned. Evaluations are not used to promote dialogue with partners and they are based on independent evaluations, contracted to Italian private companies, which are not particularly used to involving local counterparts, particularly in the definition of terms of reference. Moreover, the evaluation phase does not imply involvement of other domestic stakeholders, who have not taken part in the control process since 1993, when the Advisory Committee was suppressed. However, in January 2000, the structure of the DGCS was adjusted and an evaluation unit was established, the Secretariat and Technical Evaluation Unit, a body directly accountable to the Chairman of the Steering Committee (*Comitato Direzionale*). This body should control the quality of the project preparation.

Concerning the possibility of delegating more responsibility at the local level, the current legislation is very restrictive. New legislation still has to be passed in the legislature.

No formal authority is vested in the UTLs (Unità Tecnica Locale: Local Technical Unit), which have been established at the field level, attached to the local Italian Embassies, and whose directors are experts of the UTC (Unità Tecnica Centrale: Central Technical Unit). Italian cooperation has established 20 UTLs (eight in Sub-Saharan Africa, four in the Mediterranean and Middle East), which appear to be understaffed.

UTLs have no formal authority for decision-making. All decisions concerning approval of new initiatives and/or amendments to ongoing projects are taken at central level by the DGCS in Rome. Funds transferred locally can be

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spent only within the limits of project documents previously approved by the DGCS.

However, a new approach has been launched order to develop stronger partnership relationships in the field; and Rome takes most suggestions made by the UTLs and diplomatic missions into account in project preparation and appraisal, and to adjust approved projects. Since 1999, more responsibilities for project preparation and appraisal have been delegated to field offices.

Japan

Box 25. Japan at a glance

How much aid does JAPAN give?

JAPAN gave in 2000	US$13,508m or 1,456m Yen
That means that each person In JAPAN gave in 2000	US$106.62 or 11,490 Yen
In 2000, aid from JAPAN fell by inflation and aid fell by 15.1%	US$1815m in cash terms. Because of exchange rate changes, the value of in real terms

How generous is JAPAN?

JAPAN gave 0.28% of its national wealth in 2000. This compares with the average country effort of 0.39% and JAPAN's previous own highpoint of 0.35% in 1999.

JAPAN was less generous than 11 other donors and less generous than in 1999 when aid was 0.35% of GNI.

How much of JAPAN's aid goes to the poorest countries and people?

37.79% of total bilateral aid (US$5234.95m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of JAPAN's aid was spent on basic health, basic education, water supply and sanitation?

JAPAN spent
0.32% of its bilateral aid (US$44.76m) on basic education
0.54% of its bilateral aid (US$74.89m) on basic health 13.58% of its bilateral aid (US$1881.42m) on water and sanitation

NB Japan does not report its figures for basic education and health

Major cut expected

Akio Takayanagi,
Japan NGO Center for International Cooperation (JANIC)

Despite the recent increased emphasis on poverty reduction, the past several months have been a disappointing time for Japan's aid because of the government's aid cut plan and the series of scandals in the Ministry of Foreign Affairs (MoFA).[1]

- The Cabinet that came into power in April 2001, under Junichiro Koizumi, has been emphasising 'structural reform', aiming at reviewing all government roles and spending, considering the government's huge deficit. Official Development Assistance (ODA), along with large-scale public works, has been named as one of the targets for a major budget cut. In early August 2001, the Cabinet, in its guideline for the FY 2002 budget, decided to cut ODA by 10%. According to the decision by the Ministry of Foreign Affairs (MoFA), in mid August, the worst hit would be multilateral aid, while cuts to aid for social development and human resource development would be minimised.
- A series of scandals in the MoFA – misappropriations of the ministry's discretionary fund and other government funding for private purposes, leading to the arrest of several ministerial officials – and conflict between the new Foreign Minister, Makiko Tanaka, and officials in dealing with the scandals, and personnel changes, have strongly damaged public credibility of the ministry and brought about media criticism.
- There has been mounting criticism of aid to China, the second largest recipient of Japan's ODA among some politicians in the dominant Liberal Democratic Party (LDP), because of China's rapid military build-up and the increasing export of agricultural products from China to Japan, which has seriously affected Japanese farmers.
- Japan's ODA showed a rapid decrease in 2000. Total ODA was US$13,062 (a 17.9% decrease from 1999) and the ODA/GNP ratio fell from 0.35% in 1999 to 0.27%. This was due to Japan ending its special funding to Asian countries hit by the 1997 economic crisis.
- The increased emphasis on poverty reduction and on achieving the international development targets in *Shaping the 21st Century* (S21C) again failed to be reflected in the actual aid distribution.
- Sectorally, distribution to meet basic human needs (BHN), even according to a definition I have always criticised in *Reality of Aid* for being far too wide, went down slightly from 30.8% in 1998 to 30.2% in 1999.
- Geographically, aid to Asia increased after the 1997 crisis. Although aid to this traditionally the most important region of Japan's ODA once went down to less than 50% before the crisis, more than 60% was disbursed there in 1998 and 1999; Southeast Asia received 37.3% of Japan's ODA in 1999. Because of this special aid to Asian countries, aid to Least Developed Countries decreased from 15.1% in 1997 to 10.5% in 1999, while Lower Middle Income Countries enjoyed some increase. (Statistics for 2000 were not available at the time of writing.)

The Japanese government and some academics (those who are supportive of the government's aid policy) have continuously written that the philosophy behind Japan's aid policy is to support *jijo doryoku*, that is 'self-help efforts' in developing countries. Self-help, according to former OECF senior staff members Akira Nishigaki and Yasutami Shimomura, is 'the conviction that economic development of a country can only be achieved through the efforts of the government and nation of the respective country to change the status quo.[2] Toshio Watanabe, an economist and currently the Chair of MoFA's Second Consultative Committee on ODA Reform, writes that for self-help to succeed, a build-up of economic infrastructure, skilled labour force, entrepreneurs and technocrats are necessary, and a national effort towards achieving these goals is indispensable.[3] The next section examines the characteristics and problems of Japan's aid policy with regard to conditionality and ownership.

Self-help principles reveal conditionality

The Japanese government's view on economic conditionality has been complex. One characteristic of the aid philosophy of 'self-help', again in the words of Watanabe, is that aid is in principle request-based, with as little conditionality attached as possible.[4] Another factor is the historical fact that Japan was itself a 'developmental state' in which a big government (or more precisely speaking, the bureaucracy) played a leadership role in Japan's rapid growth and industrialisation. Japan did not necessarily share the views of the IMF and the World Bank, which imposed structural adjustment on many developing countries; it argued that too much emphasis was put on the role of the market and too little attention paid to the possible role of government.

At the time of the 1997 Asian economic crisis, Japan not only funded the countries under crisis in concert with IMF and other multilateral institutions, but it also provided additional funding independently. While the IMF emphasised reform of financial and corporate systems, the Japanese emphasis was on industrial structural reform and support for small and medium enterprises. In late 1998, the Japanese government accused the IMF of an inappropriate response to the crisis

Ironically, since the early 1980s, reform, based on neo-conservative thinking, including privatisation, deregulation and liberalisation, has been the agenda for Japan itself.

The Japanese government had been very reluctant to impose political conditionality until the early 1990s, but included in the ODA Charter (1992) the following principles:

- Any use of ODA for military purposes or for aggravation of international conflicts should be avoided.
- Full attention should be paid to trends in recipient countries' military expenditures, their development and production of mass destruction weapons and missiles, their export and import of arms, etc.
- Full attention should be paid to efforts to promote democratisation and introduce a market-oriented economy, and the situation regarding the securing of basic human rights and freedoms in the recipient country.

NGOs were critical about the lack of coherence in the application of the principles; they were applied to countries in Africa and Latin America (such as Kenya, Nigeria, Malawi, Haiti and Guatemala) with bad human rights records, but not to the major recipients in Asia like Indonesia under Suharto.

Ownership changes meaning

The Japanese government until recently translated the word ownership as *jijo doryoku* which, as mentioned earlier, means 'self-help effort'. The government seems to have considered that when ownership started to be emphasised in international documents such as *S21C*, it was an endorsement of what they had been doing. But the way it interprets ownership seems to have changed: in the government's annual report on ODA in 2000, ownership was not translated as *jijo doryoku*, but explained as 'active initiative by the recipients'.

I have heard aid officials saying that since Japan has long maintained its 'request-based principle', it has respected the ownership by the recipients. The reality on the ground is that there have been cases in which Japanese businesses identified projects (for their own interests) and helped the host governments to prepare requests, especially in countries whose

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governments lacked capacity or were unaccountable and corrupt.

Japan has long taken part in donors' consultative groups or coordination conferences for a number of countries (hosting or chairing some of them). In the mid-1990s, the request-based principle was reviewed and a new principle of "joint policy formulation' was adopted, in which "while respecting 'self-help effort' of the recipients, Japan would also propose country policy and the recipient and Japan would jointly formulate aid plans and projects".[5] Country policy guidelines for 15 countries and aid plans for nine countries have been made in this manner at the time of writing.[6] Although respect of the recipients' initiative is the principle of this process, analysis of the process of making country policies is becoming necessary – to see which side took the initiative.

Conclusion

'Self-help effort', which was considered by aid officials and economists supportive of the government as the key concept in aid philosophy, has made Japan's view on conditionality and ownership somewhat different from other donor agencies. The Japanese government has to some extent been critical about the way economic conditionality has accompanied structural adjustment lending by multilateral institutions. Also they had a view that it is not the donors that identify the development needs.

What has really been happening on the ground, in project findings and formulating proposals, and recently in dialogues for country policy, must be examined.

More important is that we need to see the differences between the Japanese government's vision of 'self-help' and NGOs' vision of self-reliance. Although this has started to change, the self-help vision tended to look only at the economic aspect of development. It was oriented towards growth and industrialisation, as evident in the vision's emphasis on economic infrastructure, skilled labour force and entrepreneurship.

The self-help vision has also tended to be state-centred. The Japanese government always talked about the self-help effort of nation states. Active state roles and the importance of the role of technocrats were emphasised. How the Japanese government sees the role of civil society is ambiguous.[7] This is an important point, as NGOs and other civil society organisations, while emphasising the importance of Southern ownership, have pointed out that not a few Southern states and governments are unrepresentative and unresponsive to the needs of their populations; some are deeply divided, and many lack the will or capacity to consult with civil society. For authentic ownership, participation of civil society organisations, in the setting of the development agenda, is indispensable. It must be ensured that civil society organisations are involved in formulating the country policy guidelines, aid plans and procedures of the Japanese ODA programme.

Notes

1 It should be noted that while MoFA is the lead agency in aid policy, decisions are made jointly with other governmental agencies, especially the Ministry of Finance and Ministry of Economy, Trade and Industry (METI).

2 Akira Nishigaki & Yasutami Shimomura, *Kaihatsu Enjo no Keizaigaku (Economics of Development Assistance)*, Tokyo: Yuhikaku, 1997, pp165-171. The authors are former senior staff members of the Overseas Economic Cooperation Fund (OECF) which dealt with yen loans, while it is stated that the book is written in their personal capacities. OECF merged with Japan Export-Import Bank in 1999, and is now Japan Bank for International Cooperation (JBIC).

3 Toshio Watanabe, *Shin Seiki Asia no Kousou (Initiatives for Asia in the New Century)*, Tokyo: Chikuma Shobou, 1995.

4 *Ibid.*

5 MoFA, *Wagakunino Seifu Kaihatsu Enjo (Japan's ODA) 1997*, p.104.

6 Country aid plans more concretely define priorities for Japan's aid in the respective countries for five years. Japanese NGOs have been able to participate unofficially in the drafting processes of the plans for some countries, through consultations and submitting papers.

7 Although this view is not shared by the government, some economists, such as Watanabe, have tended to prefer authoritarianism to democracy, arguing that authoritarianism, in which the development agenda is set by a small number of technocrats and the nation is mobilised, is more efficient than democracy, where coordination among various interests must take place.

Netherlands

Box 26. Netherlands at a glance

How much aid does NETHERLANDS give?

NETHERLANDS gave in 2000	US$3,135m or 7,496m Guilders
That means that each person In NETHERLANDS gave in 2000	US$198.29 or 474.16 Guilders
In 2000, aid from NETHERLANDS rose by	US$1m in cash terms. Because of inflation and exchange rate changes, the value of aid increased by 12.2% in real terms

How generous is NETHERLANDS?

NETHERLANDS gave 0.84% of its national wealth in 2000. This compares with the average country effort of 0.39% and NETHERLANDS's previous own highpoint of 1.07% in 1982.

NETHERLANDS was the second most generous donor and was more generous than in 1999 when aid was 0.79% of GNI

How much of NETHERLANDS's aid goes to the poorest countries and people?

30.88% of total bilateral aid (US$875.15m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of NETHERLANDS's aid was spent on basic health, basic education, water supply and sanitation?

NETHERLANDS spent
3.45% of its bilateral aid (US$97.76m) on basic education
1.74% of its bilateral aid (US$49.24m) on basic health
1.42% of its bilateral aid (US$40.32) on water and sanitation

Policy reflects stress on governance

Anne Kempers, Novib

The principal aim of Dutch development cooperation policy is sustainable poverty reduction. A sum of 8.2 billion guilders has been earmarked for the development cooperation programme in 2001, 600 million Dutch guilders (NLG) more than the year before.[1] Approximately a third (NLG2.7 billion) of the development budget is reserved for bilateral development cooperation with the 21 countries from the country list in 2001. A change took place in this country list[2] that maintains a structural bilateral relation with the Dutch government. Because of the difficult political situation, and the poor results on good governance and policy (conditional to a structural bilateral relationship with the Dutch government), the Palestinian Territories were moved from the time-bound list (+4) of countries to a theme-specific instrument with the overall aim of improving governance. Aid will be channelled to activities in the field of human rights, peace building and good governance, mainly in cooperation with NGOs and UN institutions.

Although the continued growth in budget is positive, the quality of aid management is under pressure, due to the programme having relatively few staff compared to other donors. On average, there are 2.9 staff at the European Commission to manage US$10 million of aid, compared with 4.3 at the World Bank and up to nine in the major Member States. Of the larger donors only the Dutch have a lower staff/ budget ratio, namely 2.4.[3]

Donor coordination given priority

In 2000, multilateral support (30% of the overall budget) was reviewed. The Dutch government wants to push the UN organisations and the International Financial Institutions to improve their mutual cooperation, to concentrate on key activities and in particular on the poorest countries and to improve monitoring and evaluation systems. The Minister for Development Cooperation, Eveline Herfkens, favours more financial support to the multilateral agencies, provided that they function properly. In a debate, the national parliament was critical of the quality of some of the multilateral organisations – and critical of the Minister for pushing for an increase of multilateral aid while the quality of aid was questionable. The Minister consequently gave up her attempts to increase structural support to the multilateral channel. From a general point of view Novib strives for a 1/3 ratio per channel (bilateral, multilateral, and private), but puts quality in the forefront. The minister cannot plead for an increase in budget as long as quality is questionable. The minister should put effort into influencing the multilateral organisations to work in a more result-orientated manner.

To express the importance the Minister attaches to donor coordination, she now takes part in the Utstein group, together with the development ministers from Norway, Germany and the United Kingdom. The four ministers have formulated a joint agenda to collaborate on several key development issues and have visited Tanzania, the World Bank and IMF to put the promise of more donor coordination into practice. The first outcome of this new network of like-minded female ministers is a coordinated approach and input to international meetings (Development Council EU, World Bank meetings etc). The network is seen as a positive step in a more coordinated approach among donors.

In 2000 the NGO-support system (in total 20% of overall Dutch ODA), and in particular the co-financing system (10% of the budget) was also under review. Intensive consultation between the government and the NGOs resulted in a renewal of the support system, effective from 2003. An important change is the opening up of the system to other organisations that jointly represent certain constituencies in Dutch society and which are working in the area of structural poverty reduction. Once organisations comply with a clear set of criteria they can apply for co-financing status. Since 2000 the Dutch NGO Foster Parents Plan Nederland joined the group of four and more organisations are expected to enter the system. In addition, core funding of co-financing organisations will be increased from 10% to 11-14% of total ODA expenses. Advocacy in 'Northern' countries and awareness-raising are no longer excluded from the funding that NGOs receive from the government.

Support to basic education increased

In 17 of the 21 countries with which the Netherlands has a structural bilateral relationship, aid is focused on social development, especially education and health. Around 117 million guilders have been spent on health and around 133 million guilders on education in those countries. Although the financial aid to education has increased in recent years, Novib is urging the Minister to increase the contribution to basic education further, at both multilateral and bilateral level, in order to fulfil the 'Education for All' targets. In addition, the Global Campaign for Education, including both Oxfam International and Novib, is making strong efforts to develop a Global Initiative. The initiative aims to:

- mobilise additional aid for education;
- guarantee the formulation of national education plans in cooperation with civil society;
- conclude the finance gaps in education; and brief on the implementation of the Education for All targets.

As a result of lobbying by the Global Campaign, the World Bank has taken initiatives to develop a multilateral fund for education.

Selection criteria linked to sustainability

Ownership, good governance and 'good policy' take a central role in the aid policy of the Dutch government under Minister Herfkens and are important country selection criteria for structural bilateral development aid. Influenced by World Bank perspectives, the Minister justifies the importance of these criteria by stating that, 'as long as good governance and policy in development do not go hand-in-hand with the formulation and implementation of strategies for poverty reduction, donor countries are not able to contribute to the reduction of poverty.' Good governance and good policy, as explained by the Minister refer to sound macro-economic and socio-economic policy (governance) and promotion of human rights and democratisation (policy).

Central to this policy are the 'seven pledges'[4]. In short, the seven pledges embrace: to reduce extreme poverty by 50% by 2005; to ensure primary education for all by 2015; to end gender inequality in education by 2005; to reduce mortality rates for infants and children under the age of five by two thirds by 2015; to reduce maternal mortality by three quarters by 2015; to ensure basic health care services for all by 2015; and to achieve implementation of national strategies for sustainable development in all countries by 2005.

A report by the Scientific Council on Government Policy, published in April 2001 stated that good governance could be defined both as conditional and as an aim of development. From this point of view, in countries where government management is poor but developments in this area are positive, an intensive bilateral relationship should be considered by the Dutch government.

In a response to this critical note, the Minister argued that around 30 countries, in which developments in this area are positive, are on the list of more thematically defined recipients. She stressed that in order to develop a structural broad aid relationship with developing countries, good governance and good policy were necessary conditions, since external aid needed to be additional to the efforts of these countries to achieve development. The underlying assumption is that coherence and extended involvement, or

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responsibility of receiving countries will make aid more sustainable.

The Dutch government is in favour of donors harmonising their procedures and coordinating their aid efforts under the leadership of the recipient country. 'All too often recipient states have no idea what is going on in their country', says Herfkens. 'Donor coordination and ownership are essential if the situation is to improve.' In line with this thinking on ownership, the Dutch government promotes the use of country-owned strategies, in particular, the Poverty Reduction Strategy Papers (PRSP), and sector approaches, both formulated and selected by the priority countries. The PRSPs will be used as a framework for implementation, monitoring and evaluation, donor coordination and policy dialogue in priority countries.

In a speech in October 2000, Minister Herfkens explained her approach. She stated that 'Governments themselves draw up a well-constructed strategy for poverty reduction in their country. Where necessary – upon request – they can receive help from outside experts. This has to be a national strategy, debated and agreed by the widest possible cross-section of society. The government then discusses the plan with external financiers. Ownership does not therefore mean *carte blanche* for just any policy the government wishes to pursue. There will be no hard cash without hard and fast promises. Donors must also be happy with the plans and have confidence in them. They, too, are accountable to their taxpayers. But they no longer support their own projects, experts or programmes. They put all their funds in a 'common pool'[5] Accurate monitoring and reporting – preferably conducted by independent bodies from the recipient country itself, focused on reporting to its own population – keep donors informed of progress.'[6]

The restructuring of aid administration has been supported by a considerable degree of delegation of management responsibilities from the Dutch department to embassies. Dutch embassies are now to be the main partners for the policy dialogue with the host country's authorities and civil societies, discussing general policy issues, such as good governance and human rights. They have also been made responsible for managing aid programmes.

To a large extent, Novib and other Dutch development organisations agree with the policy line of the minister, but emphasise that good governance is more than just good govern*ment*. The use of PRSPs is seen as an effective instrument, as long as the whole process is based on ownership from the developing countries and the role of civil society is recognised. NGOs see it as crucial to involve civil society representatives in the whole process, from identification to implementation of the development aid process, because of the expertise in civil society organisations and the important role they play in poverty reduction. This point is taken into account by the Minister both in the domestic field as well as in the structural relationships with priority countries. The Minister has stated that 'the poverty strategies will be drawn up to the largest possible extent in cooperation with civil society in order to secure broad ownership'.

Novib is positive about the fact that both developing countries and the international donor community are supporting the PRSPs in mutual agreement and that these are aimed at reaching the international development targets, set out in the seven pledges. Novib stresses the importance of focusing aid on women in developing countries and on recognition of the key role women play in many societies. This role must be made a key issue in the formulation of policy.

Notes

1 Press release of the Dutch Department of Foreign Affairs, 15 September 2001.

2 The Netherlands maintains a structural bilateral relationship with 17 countries. These countries are Bangladesh, Bolivia, Burkina Faso, Egypt, Eritrea, Ethiopia, Ghana, India, Indonesia, Yemen, Macedonia, Mali, Mozambique, Nicaragua, Sri Lanka, Tanzania, Uganda, Vietnam and Zambia. Four other countries are entitled to the same rights and bilateral relationship, but only for a limited period of time, because GNP is above criteria limit. (These countries are Egypt, Indonesia, Palestine Territories and South Africa). See Reality of Aid 2000 for further explanation

3 Figures derived from the speech of Poul Nielsen, EU Commissioner to DAC, 27 March 2001, Amsterdam

4 During major UN conferences (Copenhagen, Beijing, Cairo, Rio etc) agreement was reached on the main objectives. These are now referred to as the seven pledges.

5 Derived from an essay on 'common pools' from Kanbur and Sandler. The minister referred in her speech to this essay to explain how ownership and coordination should ideally interconnect.

6 Speech by Minister Herfkens on 3 October 2000 at the presentation of the World Bank Report 2000/01

New Zealand

Box 27. New Zealand at a glance

How much aid does NEW ZEALAND give?

NEW ZEALAND gave in 2000	US$113m or 249m New Zealand Dollars
That means that each person In NEW ZEALAND gave in 2000	US$29.66 or 65.39 NZ$
In 2000, aid from NEW ZEALAND fell by	US$21m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 3.1% in real terms

How generous is NEW ZEALAND?

NEW ZEALAND gave 0.25% of its national wealth in 2000. This compares with the average country effort of 0.39% and NEW ZEALAND's previous own highpoint of 0.52% in 1975.

NEW ZEALAND was less generous than 15 other donors and less generous than in 1999 when aid was 0.27% of GNI.

How much of NEW ZEALAND's aid goes to the poorest countries and people?

33.85% of total bilateral aid ($33.85m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of NEW ZEALAND's aid was spent on basic health, basic education, water supply and sanitation?

NEW ZEALAND spent
1.72% of its bilateral aid (US$1.46m) on basic education
2.38% of its bilateral aid (US$2.02m) on basic health 1.33% of its bilateral aid (US$1.13m) on water and sanitation.

Review stresses poverty focus and targets

Pat Webster, Council for International Development/Kaunihera mo te Whakapakari Ao Whanui (CID)

A significant milestone in New Zealand Overseas Development Assistance (NZODA) has been achieved this year with the publication of the Ministerial Review of NZODA. The recommendations from the Review are far-reaching and include:

- a single focus on poverty eradication;
- incorporation of the International Development Targets;
- the building of a learning culture within the organisation;
- a primary focus on the Pacific;
- a reduction in the number of countries receiving NZODA; and
- the separation of NZODA from the Ministry of Foreign Affairs and Trade (MFAT).

The Review, entitled 'Towards Excellence in Aid Delivery', sets out the elements considered by the reviewers to constitute a good aid programme. These fall into two categories – aid design and aid delivery.

> *'[Aid design] builds on the long evolution of understanding the dynamics of poverty and the role of recipient governments and civil society in addressing those dynamics. It includes knowing that good governance, sound policy settings and strengthened local capacity are essential for successful national development. Addressing gender issues and ensuring recipient participation and ownership of aid programmes are essential. Aid only works if it is part of core sectoral reform.*
>
> *A core finding (in aid delivery) is the importance of having a clear single focus of poverty elimination for an ODA agency. This focus should be "mainstreamed" throughout the institution so staff are skilled in it, are offered further training in it, and are rewarded for successfully addressing it. Poverty elimination should define the objectives of the agency, it should underpin its policy framework and it should point to clear priorities in aid expenditure.' (Section 3.2, page 32).*

The reviewers assessed current ODA practice against the standards they had identified and found that while NZODA had a policy framework, 'Investing in a Common Future' (MFAT 1996), no clear goal was set out. They found that not only were staff, partners and stakeholders unclear about the overall goal and mission but that senior staff and management did not see poverty elimination as the principal purpose of ODA. They rather spoke of the principal purpose in terms of foreign policy, diplomacy, trade and commercial interests. Among the

New Zealand

views expressed on the purpose of ODA were building political capital, achieving New Zealand's national/self interests, constituency building, and promotion of commercial and trade opportunities.

The reviewers said that views held by senior MFAT staff still reflected a 1976 position taken by the then Secretary of Foreign Affairs and Trade, who saw aid as an instrument of foreign policy that should reflect and advance New Zealand's broad interests, as opposed to the 'bleeding heart' view of ODA that aid should go where it was needed and that its administration should be separate from MFAT. One official is reported as saying:

> *'… the central issue is self interest. It's not about altruism - if it were we would be giving everything to Africa, which wouldn't do anything for us. It's about New Zealand's interests. Poverty reduction was described as "a fad", "jargonism" …'* (Section 4.2.3 page 47).

'Investing in a Common Future' did, however, win praise from the reviewers for its conceptual framework, guiding principles and general statements which, they said, represented an impressive range of productive and appropriate development thinking, current at the time it was written and revised. The reviewers noted that OECD DAC had recorded a clear improvement in the quality of NZODA in the 1990s. Overall, the review pointed out a lack of strategic planning and policy development, few country strategies, and no particular basis for bilateral, multilateral or the regional allocation of funding.

One area that was particularly noted was education, which takes up a large proportion of ODA funding. NGOs have criticised the heavy scholarship emphasis of this programme in the past, and the New Zealand focus on expenditure.

The 2000 DAC review pointed out that the aid programme supplies some New Zealand universities with a steady stream of students to an increasingly market-oriented tertiary education system. However, the reviewers found that diplomatic relationship building was the primary driver of this programme. The developmental outcomes were unable to be measured and did not appear to be regarded as particularly important. The reviewers analysed partner engagement in NZODA and found a number of concerns expressed by stakeholders outside New Zealand. These included:

- a lack of ongoing consultation;
- projects do not necessarily reflect government priorities but instead tend to represent donor sectoral interests;
- a lack of transparency in funding and decision-making;
- poor communication;
- excessive expenditure in New Zealand, as opposed to the country concerned (referring to the imbalance between expenditure on consultants and management compared with delivery in the field);
- inadequate capacity building within projects; a narrow focus on short-term project approaches as opposed to long-term programme approaches; and
- an inadequate use of in-country advisers and local expertise.

Some of these points are particularly relevant to the programme management process adopted by MFAT, in particular, the use of Management Services Contracts (MSC) for which consultants have been engaged. While NZODA is technically untied, the vast majority of contractors are New Zealand-based individuals or firms. Only a handful of consultants are engaged from partner countries, principally to work on appraisal monitoring and the evaluation of NZODA activities.

In 1999-2000, NZODA expenditure on consultancy contracts was approximately NZ$28.6 million, or 13% of ODA volume. The value of contracts has ranged in the past five years from 17% to 12% of total ODA. Only 25% were put out to tender in one 18-month period. The reviewers found that MSCs, and their consulting teams, were generally regarded as having a negative impact on local capacity, because the constant flow of staff was disruptive, labour intensive and costly. One Deputy High Commissioner felt that NZODA had become top heavy with consultants and suggested that a cost-benefit analysis of the overall cost of consultants to NZODA over five years, in comparison to the cost of funding allocated to supporting projects, would be useful. Many partners expressed concern about the heavy emphasis on expenditure of programme costs on external consultants. The July 2001 report identified that there was a need for more explicit and direct, routine involvement of partner governments in the process of identification and selection. The current process for selection is supposed to include the partner government but the report says this rarely happens in practice.

Both New Zealand and other country staff want to see an increased use of local and regional consultants where possible, with the opening up of MSCs to local tendering. This would help overcome cultural and language barriers and enable better identification of local needs and appropriate solutions. One solution to the need for independence and local knowledge is seen to be the use of mixed teams.

Developing country partners are seeking a more flexible approach in the process of aid delivery, particularly a greater willingness to provide on-the-ground advisers instead of MSCs. These partners felt this would be conducive to enhanced capacity building, greater understanding of local culture and customs, skills transfer and institutional strengthening, increased responsiveness and the ability to make quick decisions.

Government responds positively

The Review made 15 recommendations, of which the government accepted 13 and modified another. There was an unwillingness to create a new Government Agency, so a Semi-Autonomous Bureau (SAB) is to be attached to MFAT. It will have its own top executive, an official who will be appointed by and report to the Secretary of Foreign Affairs, and it will have its own performance agreement with the Minister of Foreign Affairs. Any differences between the SAB and MFAT will be resolved at Cabinet level.

The government has agreed that:

- It should renew its commitment to ODA and seek to build a programme that seeks excellence in aid delivery.
- NZODA should have the elimination of poverty as its central focus. (This was not as strong as the reviewers' recommendation, which was that the government should adopt one, unambiguous goal: the elimination of poverty).
- Officials should develop a new policy framework incorporating the central focus on poverty. A strategic, accountable, focused framework is to be developed, based on international best practice in ODA and building on NZODA's current strengths. Country based poverty analysis and country programme strategies should be developed as the basis for bilateral programme relationships.
- NZODA should retain a core focus on the Pacific
- A Regional Strategy focused on poverty elimination and the sustainability of aid to be developed.
- A report be prepared on whether ODA is too widely dispersed (ODA currently goes to 63 countries).
- A new NZODA education strategy will give greater prominence to basic education needs and will recognise individual country circum stances.
- A draft framework will determine the level of contribution to regional and multilateral institutions.
- NZODA should develop 'centres of excellence' in aid delivery that will define its comparative advantage with respect to the elimination of poverty.

Conclusion

The report, and the government's response, has had a very good reception from NGOs. The report is strongly critical of the systems in MFAT, which support ODA. This was particularly so in relation to rotational staffing systems, lack of training opportunities and inadequate decision-making processes. It is hoped that the fundamental institutional reform which has been proposed will allow a more developmentally sound programme to emerge, one which will focus more effectively on improving partner capacity and ownership of development.

Towards Excellence in Aid Delivery: A Review of New Zealand's Official Development Assistance Programme. Report of the Ministerial Review Team, March 2001.

Investing in a Common Future: Policy Framework for New Zealand Official Development Assistance, Development Cooperation Division, MFAT, 1996.

Norway

Box 28. Norway at a glance

How much aid does NORWAY give?

NORWAY gave in 2000	US$1,264m or 11,119m Krone
That means that each person In NORWAY gave in 2000	US$283.41 or 2,493 Krone
In 2000, aid from NORWAY fell by	US$106m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 9.6% in real terms

How generous is NORWAY?

NORWAY gave 0.8% of its national wealth in 2000. This compares with the average country effort of 0.39% and NORWAY's previous own highpoint of 1.17% in 1990.

NORWAY was the fourth most generous donor, but less generous than in 1999 when aid was 0.91% of GNI.

How much of NORWAY's aid goes to the poorest countries and people?

49.43% of total bilateral aid (US$392.94m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of NORWAY's aid was spent on basic health, basic education, water supply and sanitation?

NORWAY spent
1.78% of its bilateral aid (US$14.17m) on basic education
1.65% of its bilateral aid (US$13.09m) on basic health
2.03% of its bilateral aid (US$16.15m) on water and sanitation

Aid plummets as surplus soars

Axel Borchgrevink, NUPI (Norwegian Institute of International Affairs) for Norwegian People's Aid

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- In the year 2000, Norwegian aid as a percentage of Gross National Income fell to its lowest point since 1977. For well over a decade before 1995, Norway fulfilled its goal of giving more than 1% of the GNI, and topped the donor list.
- While aid was at 0.91% in both 1998 and 1999, the fall last year to 0.80% meant that Norway dropped to fourth place on OECD's list of best performers.
- This drastic fall contradicts the goal of the parliamentary majority, which has been to return to the 1% level. The DAC recommendation that Norway should consolidate its efforts to reach this goal becomes even more valid.
- The fall can to some extent be explained with reference to the unexpectedly high oil revenues, which led to a significantly higher GNI than the conservative projection of the Ministry of Finance. Thus, the national budget as approved in late 1999 did not foresee any drop in aid relative to the national income.
- However, the level of oil income points to why Norway should take no pride in its level of aid. Through a quirk of nature, a nation of fewer than five million people owns vast petroleum resources. These give an income so large that the country is not able to dispose of it. In the year 2000, after balancing the national budget, there was a surplus of NOK 162 billion– 15 times the aid budget. The surplus was invested in the National Petroleum Fund, which by the end of 2001 is expected to consist of more than NOK 630 billion. Thus, rather than accounting for the fall in aid level, reference to oil revenues primarily exposes the shamefulness of the measly amount of aid from a country that has never been richer.
- The change in administration in 2000 did not imply any radical breaks with previous policies. There was some change of emphasis, from the former Centrist government's strong commitment to untying aid to the Labour administration's explicit wish to give Norwegian companies a stronger role in development cooperation. The return of the Centrist government in late 2001 may serve to reverse this trend.
- The Labour administration also gave health a higher priority, through a focus on combating AIDS and on providing vaccines through the GAVI initiative. This focus was probably not unrelated to the fact that former Labour Party Prime Minister Brundtland now heads the WHO.
- Throughout the past decades, aid channeled through Norwegian NGOs has continuously increased. Today the sector accounts for around 25% of the total aid budget – among the highest percentages in the world. It is unlikely, however, that this increase will continue. Moreover, new guidelines and policy statements reveal an interest in coordinating NGO activities within the overall Norwegian development strategies. Questions as to how non-governmental the heavily government-financed Norwegian NGOs really are may thus gain weight.
- Following the British initiative within the EU, Norway has also removed customs and quota barriers on trade from the least developed countries.

Norway

Conditionality and partnership – natural bedfellows?

In her annual presentation to Parliament on Norwegian South Policy, the Minister of International Development Anne Kristin Sydnes was quite explicit. In detailing the underlying premises of the administration's policy, she stated first that development aid must rest on 'cooperation' and 'partnership'. Then she went on to say:

'Thirdly, partnership is about setting conditions. Conditions that oblige ourselves, but also conditions for our cooperating partners, at home and abroad. Some groups still get upset over the fact that we set conditions, whether it is in connection with our development cooperation in general or in relation to debt relief specifically. In most cases I find this criticism meaningless.'

Of course, the Minister had a point. Some form of conditionality is an inherent aspect of development cooperation. Unconditional aid is an impossible thought. There are no donors who say: 'Here, take this money and use it for whatever you feel like. Unless you want to, you don't have to tell me how you spent it.' Furthermore, conditionality is not something that is only used by the IMF, the World Bank and their allies in order to promote Western hegemony, market liberalisation, globalisation and unrestrained capitalism. Donor NGOs also set conditions for their cooperation with their Southern partners, although the content of the conditions may be quite different. Similarly, when NGOs lobby for the World Bank to withhold loans to large dams or other mega-projects because of environmental or social consequences, they are asking for more conditionality.

Thus, Minister Sydnes was right in saying that there is no point in getting upset over the fact that conditionality is used. The question must rather be what kinds of conditions are involved. Perhaps not so surprisingly, the Minister had nothing to say in her speech, about what kind of obligations Norway is to have. Her reference to 'conditions that oblige ourselves' thus seems to be primarily window-dressing, to make conditionality appear as a two-sided affair.

For the cooperating partners, however, she was more specific. Their obligations can be summed up in the requirement to pursue 'good governance'. Echoing the conclusions of the World Bank report *Assessing Aid*, the Minister argued that aid has relatively less effect in countries lacking good governance. By good governance, she referred 'among other things, [to] democratisation, equity, respect for the human rights, fighting corruption, and responsible management of natural resources'. The statement was thus a very explicit endorsement of political, or 'second generation' conditionality.

This raises several questions. One concerns the implementation of such a programme of conditionality. While conditionality may be strong in the rhetoric of aid donors, it is not always followed up in practice. A review of conditionality in Norwegian aid up to the mid-1990s showed that although the principle had gradually been integrated into policy documents since the early 1980s, there were relatively few examples of aid actually being withheld or reduced. To the extent that political conditionality was implemented, it was more in the form of 'positive measures' – dialogue, support to human rights organisations, and so on. Over the last couple of years, however, there have been several instances of 'negative measures' – the withholding of aid because of dissatisfaction with political developments. Thus, after the outbreak of the war between Eritrea and Ethiopia, the bilateral aid to both countries was curtailed. Furthermore, due to concerns over the political developments in Zimbabwe, the country was first removed from the list of priority partner countries and subsequently all bilateral aid was halted. In the case of Nicaragua, approved funds for the office of the auditor general were frozen due to a perceived lack of political will to confront the problem of corruption.

There thus seems to be a greater willingness to use conditionality in practice. This is followed up in the 2002 aid budget, where the former 11 'priority countries' (Eritrea, Ethiopia, Malawi, Mozambique, Tanzania, Uganda, Zambia, Bangladesh, Nepal, Sri Lanka and Nicaragua) are reduced to seven 'main partner countries'. In selecting these seven, one of the criteria used was that they should 'demonstrate a clear political will to overcome the major national problems and work actively to promote good governance'. Nicaragua and Sri Lanka were considered ineligible, as only 'least developed countries' were to be included among the new main partner countries. Furthermore, Eritrea and Ethiopia were dropped from the list, probably because of the war between them. In the budget proposal, however, Ethiopia is singled out as likely to be readmitted to the select group if current positive developments continue. Meanwhile Zambia stands in danger of being excluded unless the political situation improves. Thus, political conditionality – of both the positive and negative kind – is actively being pursued.

This increasing use of political conditionality is problematic for several reasons. It can be seen to be selectively applied. For instance, while Norway took the toughest stand of all donors in the case of the war between Ethiopia and Eritrea, there have been no reactions against Uganda's engagement in the Congo war. Furthermore, there is a strong element of arrogance in conditionality – 'we know better than you what is best for you, and by controlling the purse strings, we have the power to make sure you do as we want, and we are not afraid to use this power'. It is difficult to reconcile such arrogance with the concepts of partnership and national ownership, supposedly foundations in Norwegian development cooperation.

It is a paradox that conditionality has grown in importance among Norwegian and other aid donors over exactly the same period as the ideas of recipient orientation, national ownership and 'the recipient in the driver seat' have been strengthened and endorsed by the same donors. But even though there is a clear contradiction here, there is also a logic that binds these trends together. As donors are abandoning their operational role in development projects, leaving this to the recipient partners, they are losing control. Conditionality is about regaining such control. Thus, perversely, the greater the degree of national ownership of development interventions, the greater the perceived need for conditionality among donors will be. It is surprising that the contradictions this gives rise to are so rarely acknowledged.

Current trends in international aid seem to reinforce this tendency. The World Bank-led initiatives on Poverty Reduction Strategy Papers (PRSPs) and Comprehensive Development Frameworks (CDFs) are spoken of as ways of 'putting the recipient country in the driving seat', letting it develop its own plans for national development. In practice, however, such national ownership may be largely fictional, as the process of 'dialogue' takes place in an unequal relationship characterised by dependence on one side and final authority on approval on the other side.

Even more importantly, PRSPs and CDFs are basically tools for donor coordination. They are overarching plans that allow inputs from different donors to be contemplated together, thereby avoiding contradictions or duplication of efforts. There are of course positive things to be said for such donor coordination. In the present context, however, it is worth pointing out the way this shifts the balance of power between donors and recipient. As donors 'gang up' in this way, the recipient country's room for agenda-setting and strategic playing of donors is drastically reduced. Donor coordination therefore by its very nature implies an increased conditionality.

In the case of Norway, there has been an explicit acceptance of World Bank ideas on development and coordination in later years. Norwegian development strategies are increasingly built on the ideas from Washington, and there has been an enthusiastic response to the call for aid coordination under the Bank's leadership. The fact that the World Bank is extending its hegemony in this way means that countries in the South are facing an evermore consolidated and coordinated North – which translates as more conditionality. This argument can be taken further: According to Graham Harrison, the International Financial Institutions' hegemony on ideas even extends into the Ministries of Finance in the recipient countries. This ensures adherence to the teachings without the need for the crude imposition of explicit conditions. In this situation of 'post-conditionality', the very distinction between external and national processes becomes less useful, he claims.

Portugal

Box 29. Portugal at a glance

How much aid does PORTUGAL give?

PORTUGAL gave in 2000	US$271m or 58954m Escudos
That means that each person In PORTUGAL gave in 2000	US$27.13 or 5,901 Escudos
In 2000, aid from PORTUGAL fell by	US$5m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 10.5% in real terms

How generous is PORTUGAL?

PORTUGAL gave 0.26% of its national wealth in 2000. This compares with the average country effort of 0.39% and PORTUGAL's previous own highpoint of 0.36% in 1992.

PORTUGAL was less generous than 14 other donors and as generous as in 1999 when aid was 0.26% of GNI.

How much of PORTUGAL's aid goes to the poorest countries and people?

46.45% of total bilateral aid (US$148.63m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of PORTUGAL's aid was spent on basic health, basic education, water supply and sanitation?

PORTUGAL spent
1.02% of its bilateral aid (US$3.25m) on basic education
0.13% of its bilateral aid (US$0.43m) on basic health
0.09% of its bilateral aid (US$0.28m) on water and sanitation

Framework and priorities clarified--but aid is stagnant

Rita Veiga, Oikos

In 2000, Portugal gave US$261 million – 0.26% of its GNP – as bilateral ODA. There was no progress from the previous year in relation to reaching the UN 0.7% target.

Portugal's bilateral aid lacked political control, coordination and integration. However, according to the last DAC review (2000), there have been some major accomplishments: establishing an overall structural framework, clarifying basic objectives and defining geographical priorities.

In addition to the strategy paper approved by parliament in 1999, Portugal's development cooperation is structured upon:

- The Inter-ministerial Committee for Cooperation, which defines and strengthens the national policy for cooperation;
- The Council of Ministers for Cooperation, approves the draft of the annual aid programme and the aid budget to be submitted to the Parliament. This Council is made up of ministers from all the departments that have some responsibility for development cooperation. The most important of these are Ministries of Foreign Affaris and Finance; others include Education, Health, Home Affairs, Defence, Employment and Solidarity;
- The Institute for Portuguese Cooperation (ICP), which is the department of the Ministry of Foreign Affairs that coordinates the aid programme and carries out policy reviews and evaluations;
- The Portuguese Development Support Agency (APAD), which has three main functions: a) promotion of Portuguese investment for the development of beneficiary countries; b) support towards social and economic infrastructure projects; and c) private sector development in beneficiary countries. It was created to replace the former Fund for Economic Cooperation, the main objective of which was to support Portuguese private investment abroad.

Since 1998, the ICP has published the annual integrated programme of Portuguese cooperation and the aid budget. As stated in the integrated programme for 2000, 85% of the financial resources went to the five Portuguese-speaking African Countries (PALOPs) – Angola, Mozambique, Guinea-Bissau, Cape Verde and São Tomé e Príncipe, as well as East Timor (the latter a lower middle-income country, the others Least Developed Countries (LDCs)). There are five indicative programmes, valid for three years, with the agreed guidelines of Portuguese cooperation in the PALOPs. Each of them was prepared in close collaboration with development officials of the recipient country. A similar indicative programme is almost ready for East Timor. It was prepared jointly with the transitional administration of the new country and with representatives of the Timorese people.

Portugal

Portugal has begun to diversify geographically, if only step by step. Until 1998, the PALOPs, all in Sub-Saharan Africa, received 99% of Portuguese aid, but since then Portugal has turned its attention to Latin America, Central and Eastern Europe and also Asia and the Middle East.

Aiming for partnership and policy influence

The short history of Portugal's development aid is characterised quite strongly by conditionality related to country selection, commercial and cultural interests and, more recently cooperation principles and objectives that stress human rights and good governance. At the same time, it stresses solidarity and partnership, indicating a commitment to increased recipient country 'ownership'.

Although Portugal was one of the founding members of DAC, its development cooperation until 1974 did not go beyond aiding its colonies. In 1974, the new democratic regime left the DAC and requested developing country status. In 1991 Portugal rejoined the DAC.

For quite some time, Portugal looked at cooperation mainly from the point of view of its international responsibilities, also understood as visibility and prestige. Over the years, it has come closer to development agencies and other donors and become more involved in international cooperation. The Portuguese cooperation system needs reform and adjustments are gradually being made in response to some of the recommendations made in the DAC reviews.

Portugal's development cooperation policy was clearly defined in 1999, in an important strategy paper, 'Portuguese Cooperation on the Threshold of the XXI Century', which was approved by Parliament.

The principles of Portuguese development cooperation were stated as follows:

- respect for universal human rights;
- international responsibility and solidarity;
- partnership with the recipient countries and coordination with other donors;
- sustainability of development and equitable division of its benefits;
- coherence with other policies affecting the recipient countries.

Five main objectives were accordingly established: a) reinforce democracy and the rule of law; -b) reduce poverty by developing social and economic conditions that would benefit the most disadvantaged population; c) stimulate economic growth by strengthening private initiatives; d) foster regional dialogue and integration; e) promote a European partnership for human development.

This strategy paper was the result of the effort to respond to a DAC recommendation in 1997. There was neither clear policy formulation nor an adequate national and international coordination. Very often decisions seemed to be taken *ad hoc*.

Portuguese cooperation is very decentralised. Its programme is implemented by several ministries and numerous entities, including universities and municipalities. This requires strong coordination and integration to avoid the risk of incoherence and overlaps. To achieve this, efforts are being made to have between two and four cooperation officials in the embassies in the African recipient countries, in order to coordinate the cooperation contacts and actions. Administrative costs of this approach are inevitably heavier.

The reform of the system created new coordination organs at ministerial level and strengthened the role of the Institute for Portuguese Cooperation (ICP) in a more integrated management of aid; the Portuguese Development Support Agency (APAD) that replaced the Fund for Economic Cooperation has now specific functions that concern development aid.

Portugal recognises that cooperation policy has to change to more ownership and less conditionality, but progress is slow.

Development cooperation is approached as a 'partnership', meaning that an agreement is made that is convenient for both parties. Such an interpretation is stated again and again in the strategy paper. Therefore, Portugal's strategy has two different motivations: on the one hand Portugal's foreign - policy, on the other, the objectives of development aid. But they are not balanced. Portugal is willing to give its partners what they need, provided that suits its own interests – and there is usually commercial conditionality.

Portugal

The rationale for this was well-illustrated in the *Reality Check* of January 2000. Portugal has been the largest bilateral donor to its five former African colonies and these teem with Portuguese goods, services and experts. Two 'good reasons' used to be put forward: the common language that made everything easier in the recipient countries, and the need for maintaining domestic support.

According to DAC data, only a small percentage of Portugal's bilateral ODA was tied (less than 5%), but after a closer examination – the DAC review –, the conclusion is that much of Portuguese aid is tied to commercial conditionality. 'Tied aid figures in the DAC do not include administrative costs nor technical assistance – which takes up a high share of Portuguese aid – and is almost completely tied.' (DAC Secretariat report)

Portugal adopted a very specific measure for reducing debt that is obviously tied aid: the equity swaps. Through these schemes the Portuguese government and the debtor government exchange debt with equity for Portuguese companies to operate in the debtor country. Although the debtor government can save a portion of debt repayment in this way, the Portuguese investors who act as middlemen also make good deals.

The question of the focus on poverty reduction often comes up along with tied aid. The focus on poverty reduction is not mainstreamed in the crucial areas of education and health. The strategy paper on Portuguese cooperation reiterates the importance of basic education and basic health care if the poorer population is to be targeted, but that is scarcely visible in the programme.

Investment in basic education is almost nil. Instead, a large share of aid goes to scholarships for higher education in Portuguese universities – and many of those students don't ever return to their countries. Much of the resources invested in this area is disbursed by the Camões Institute that was created to promote the Portuguese language and culture in other countries. A significant share of aid is financing the Portuguese schools in the PALOPs and teachers of Portuguese language, etc.

In the area of health, tertiary services take a large share, as well as urban hospitals, health assistance to refugees and curative treatment for evacuated patients.

Poverty-focused projects depend almost exclusively on the Ministry of Labour and Solidarity, which manages only 3.3% of the bilateral aid budget.

In spite of this criticism, there are signs of a change of attitude. Portuguese cooperation officials used to barricade themselves behind an official speech which sounded apologetic. Now discussion flows spontaneously and they are really committed to achieving a better quality of aid. Working teams, which include officials of different entities ranging from government ministries and officials in the ICP, to universities and independent experts have been undertaking deep reflection on the main issues of cooperation. They have produced promising preparatory papers on the redefinition of Portuguese cooperation in the areas of education and health. No doubt 'there's still a long way to go', as an ICP official recently admitted.

Spain

Box 30. Spain at a glance

How much aid does SPAIN give?

SPAIN gave in 2000	US$1,195m or 215751m Pesetas
That means that each person In SPAIN gave in 2000	US$30.31 or 5473 Pesetas
In 2000, aid from SPAIN fell by	US$168m in cash terms. Because of inflation and exchange rate changes, the value of aid fell by 2.1% in real terms

How generous is SPAIN?

SPAIN gave 0.22% of its national wealth in 2000. This compares with the average country effort of 0.39% and SPAIN's previous own highpoint of 0.28% in 1994.

SPAIN was less generous than 18 other donors and less generous than in 1999 when aid was 0.23% of GNI.

How much of SPAIN's aid goes to the poorest countries and people?

26.26% of total bilateral aid ($239.83m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of SPAIN's aid was spent on basic health, basic education, water supply and sanitation?

SPAIN spent
1.18% of its bilateral aid (US$10.73m) on basic education
2.99% of its bilateral aid (US$27.34m) on basic health
1.49% of its bilateral aid (US$13.6m) on water and sanitation

Aid goes into reverse

Gonzalo Fanjul, Intermón Oxfam

- The second term of the Partido Popular (Conservative Party) has meant a considerable step-back in the quantity and quality of Spanish ODA. Three years ago the Cooperation Law generated many expectations, after almost 20 years during which Spanish ODA suffered from the absence of a legal regulatory framework. These expectations remain largely unmet.
- The Cooperation Law has already been broken down into different regulations, most notably the multi-annual Directive Plan (the document that contains the aims, objectives, strategies and financial framework for ODA for the period 2001-04), which was officially approved at the end of 2000. Both the different regulatory texts and the Directive Plan are broadly inconsistent with the aims and objectives contained in the Cooperation Law. The traditional model of Spanish ODA remains, including structural deficits that have been pointed out by *Reality of Aid* and other civil society initiatives for many years:

  Insufficient volume of resources: In despite of the extraordinary social mobilisation in favour of meeting the 0.7% target, which took place in 1994 and 1995, Spanish governments have been incapable of taking the ODA percentage over GNP beyond 0.22-0.25%. Moreover 2000 will probably reflect the lowest level of Spanish ODA for the last ten years, as the preliminary figures indicate a descent to 0.19%-0.20%.

  Lack of a clear strategy towards poverty eradication, based on concrete and measurable objectives, and sustained by the internationally accepted doctrine of ownership. In other words, a complete and qualified Directive Plan.

  Permanent tensions between commercial interests, foreign policy priorities and ODA policies. FAD (concessional credits) still account for almost a quarter total bilateral aid. This counts also for the political control and orientation of aid policies, in which the Ministry of Economy has a lot of influence.

  Inadequate, old-fashioned and poorly endowed official aid agencies, in particular the Spanish Agency for International Co-operation (AECI).

  Lack of strategies for the participation in multilateral institutions.

  Weak and under-resourced model of humanitarian and emergency aid response, largely due to lack of political will, particularly with regard to increasing the quality of aid.
- In general terms, the last two years have been a disappointing period for the national debate on ODA policies. There has been a deep fracture in the dialogue with civil society, whose representatives (except for those close to the government) were denied participation in the Consultative Cooperation Council. (NGOs had been participating in the council through a 'national platform representative' but due to political differences the government did not accept the legitimacy of this). Many civil society bodies, including Intermón Oxfam, have been arguing insistently for a turn-around in the current trend, recovering space for dialogue and revising the key strategic documents of Spanish ODA in the light of international doctrine and the experience of other donors.

Spain

Ownership a long way off

One of the most worrying consequences of this 'backward process' in Spanish aid is the absence of any effort to reduce conditionality and incorporate an approach to aid based on ownership. Currently, there is no official policy statement in which a change of trend can be perceived. There is a brief reference to the importance of good governance and the fight against corruption in the Good Governance sectoral strategy but no concrete objectives and policies have been developed in relation to this strategy.

It has to be said, however, that some of the country strategies that are being developed as a consequence of the Directive Plan do include a dialogue with their respective Southern governments. Notable are the cases of Bolivia and Nicaragua (where discussions have been linked with PRSPs debate), and also Peru. In other countries there has also been a certain level of discussion. In any case, these efforts seem to be very much an initiative of the country offices and not so much a planned strategy from Madrid.

Finally, it is worth mentioning two important points linked to conditionality in Spanish ODA:

(1) *Almost three out of every four pesetas of bilateral aid is tied to national economic and trade interests*

Although there is no formal defence of tied aid in the Directive Plan or the Cooperation Law, it is the Spanish Government's recognised policy to link Spanish ODA whenever possible. In annual reports to DAC, Spain declares that almost 70% of its bilateral official aid is linked to Spanish commercial interests. In fact, tied concessional credits have accounted, as an average, for almost a quarter of total bilateral aid in the last decade.

(2) *The promotion of Spanish cultural and linguistic interests is now a top priority for ODA officials*

The new Directive Plan includes Spanish cultural and linguistic promotion among its top priorities for ODA. This element has been important to deciding the list of top recipient countries.

Now that Spain has lost this important opportunity to orient its policies and practices towards poverty eradication we will probably have to wait for the new Directive Plan (2005-2008) for a change of attitudes. In the meantime, some lobbying is expected, although the weakness of the NGO movement and the absolute majority of the conservatives in parliament will make mobilisation difficult.

Table 18. SPANISH ODA (million pesetas)

		1996	1997	1998	1999	2000	2001*
Bilateral	FAD Credits	45.582	35.827	34.225	26.842	28.733	52.299
	Programmes and Projects AECI	18.826	29.977	28.151	21.836	20.718	45.926
	Programmes and Projects other ministries	7.743	3.653	4.116	12.681	20.381	15.396
	Cooperation from regional and local Governments	21.45	22.527	30.172	31.767	34.654	38.301
	Aid to NGOs	12.157	12.201	12.419	15.713	14.611	(included in AECI)
	Food Aid	1.863	455	1.941	1.193	812	1.914
	Emergency Aid	1.783	2.865	4.249	11.069	6.834	9.869
	Microcredits	-	-	-	3.638	4	10
	Debt relief	16.891	14.893	18.98	9.867	3.029	19
Multilateral	EU	37.724	50.953	59.128	59.577	63.634	72.97
	IFIs	2.971	16.307	18.108	17.879	11.228	18.2
	Non IFIs	10.216	7.29	8.709	9.302	10.896	10.675
TOTAL		**177.205**	**196.947**	**220.198**	**221.364**	**219.53**	**294.55**
% GNP		**0,22**	**0,24**	**0,24**	**0,23**	**0,22**	**0,26**

* Preliminary figures.

Sweden

Box 31. Sweden at a glane

How much aid does SWEDEN give?

SWEDEN gave in 2000	US$1,799m or 16.480 Krona
That means that each person In SWEDEN gave in 2000	US$203.05 or 1,860 Krona
In 2000, aid from SWEDEN rose by	US$169m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 21.4% in real terms

How generous is SWEDEN?

SWEDEN gave 0.80% of its national wealth in 2000. This compares with the average country effort of 0.39% and SWEDEN's previous own highpoint of 1.03% in 1992.
SWEDEN was the third most generous donor and more generous than in 1999 when aid was 0.7% of GNI

How much of SWEDEN's aid goes to the poorest countries and people?

48.63% of total bilateral aid (US$531.72m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of SWEDEN's aid was spent on basic health, basic education, water supply and sanitation?

SWEDEN spent
2.42% of its bilateral aid (US$26.51m) on basic education
2.40% of its bilateral aid (US$26.2m) on basic health
2.12% of its bilateral aid (US$23.22m) on water and sanitation

Recovery still short of commitment

Anders Ingelstam and Svante Sandberg, Forum Syd

- The revision of official development policy that has been in process during recent years was expected to reach its conclusion when the Parliamentary Commission for Swedish Policy on Global Development presented its report at the end of October 2001. After discussion of the report, the government was due to present its policy proposal to parliament at the beginning of 2002. It is expected that there will be some new overall objectives for Sweden's role in the global arena, as well as a revision of the current goals of the Development Aid programmes.
- After the decline in the mid-1990s, the Swedish budget for ODA is now increasing and, according to the Government's plan, should reach 0.81% of GNP in 2003 (after being down to 0.7% during 1998 and 1999) . There is also a commitment by the Government to return to the previous level of 1% of GDP, but without indicating when. Some NGOs and political parties are campaigning for that to happen by the year 2005, which at this point seems unlikely.
- The increase is due to the more positive economic development in Sweden in past years, as well as increasing public support for development cooperation. Campaigning by NGOs is likely to have had some positive influence.
- The Swedish government is trying hard to encourage and develop donor coordination in the field. As a consequence of this, there has been a continued decentralisation of decision-making and an amplified mandate given to the embassy staff in developing countries.
- One sector that is being given increasing priority by the Swedish government is planning in Information Technology. As a country with a long tradition, experience and a broad knowledge of IT issues, Sweden is considered to have comparative advantages in this sector.

In January 2001, DAC presented its review of Swedish development cooperation. The general findings lead to some recommendations. These included:

- Sweden should re-confirm poverty reduction as its over-arching goal. It was considered that by working with six objectives in development cooperation (economic growth, independence, equity, democracy, environmental protection and gender equality), Sweden risked losing focus on the over-arching goal.
- Sweden should pay greater attention to the International Development Targets and relate its development programmes more clearly to those targets.
- Sweden should build stronger mechanisms for coordination between the ministry of foreign affairs and other aspects of external relations relating to poverty reduction, such as trade, infra-structure, research, etc.
- Sweden should continue increasing ODA in order to reach the 1% ODA/GNP within a specified time-frame. By doing so, Sweden could continue to set a good example to other DAC members. It was also explicitly expressed that the strong Swedish support for multilateral institutions be endorsed and continued.

Sweden

Agreeing on common values seen as a priority

A significant aspect of official Swedish policy is to make sure that cooperating partners/government take overall responsibility for any process in development cooperation. This has been a central issue for the Swedish government for many years and is something that Sweden tries to bring out in different international forums, and in coordination with other donor countries. Ownership is considered to be important not only to increase effectiveness and relevance in development efforts, but also to reinforce the legitimacy of the partner government.

In the same official policy, conditionality is seen as something that should not be in the form of direct donor pressure ('You have to do A if you want to have B'). This is not only politically wrong but also an inefficient mode of working. Conditions should be jointly defined in a partnership relation, where you first of all agree on a common base of values and then on the programme objectives and expected outcomes. The conditionality is then to avoid the partner from acting against the common values or programme objectives.

The Swedish government is underlining the strong relation between *ownership* and *responsibility*. It is seen as destructive to design a programme without a strong factor of accountability and responsibility on the recipient side. Programme design should be a joint effort between donor and recipient and then implementation and management is mainly a responsibility of the recipient, in a continuous dialogue that should be characterised by mutual respect and transparency.

This dialogue, a sector-wide approach and development cooperation based less on disparate projects, and more on programmes and long-term strategies (three to five years) are methods with quite a long tradition in Swedish ODA policy.

The decisive factor today is that the partner government is ready to take the responsibility for a transparent programme supported by Sweden. The programme should aim at poverty eradication through good governance, respect for human rights and sustainable economical development.

Sweden is now, together with most of the OECD countries, moving into what is considered officially the third phase of conditionality. First came economic, then political conditionality. Now comes a focus on a broader social agenda that, while still demanding economic and political compliance, also states that there must be broad participation from different actors, including civil society, when designing a national development plan. This means conditionality now covers not only what to do, but also *how* to do it.

The portion of the Swedish Aid programme that is earmarked for support to economic reform in the recipient country is increasing. This support is conditional in relation to what is considered to be a sustainable and adequate economic policy. The support can be used for debt-alleviation, import support, balance of payment support and budget support.

Swedish NGOs have not found much to object to in the official principles of conditionality and ownership. Sometimes though, they find a lack coherence between the principles and practices. A flagrant example was the selling of the Swedish Military Aircraft to South Africa in a business agreement including development programmes.

The critique from NGOs has also included Swedish support over several decades for the different conditions set by the IMF/World Bank and linked to development programmes. It is considered that some of the conditions set up for administrative purposese could diminish real ownership by the partner government.

At the same time many NGOs would like to see clearer conditions regarding human rights, social justice and ecological sustainability. For the NGOs own development programmes it is also routine that conditions are attached to support and funding.

Coordination with other donors has been important for many years in Swedish policy and was a high priority during the Swedish presidency of the European Union (the first half of 2001). Coordination is generally arranged locally in a partner country, where the Swedish aim is to make it easier for the local government to manage its contacts with the donor community. Coordination is also an instrument to emphasise the importance and the recognition of the international development targets.

Sweden

As a way to facilitate and render coordination more effective, the Swedish foreign ministry has decentralised several functions to the Swedish embassies in the partner countries. The decentralisation does not, however, mean very much for the dialogue between the embassy and representatives of the partner country. When it comes to designing programmes and to signing contracts and agreements, this must always be done with the higher level, based in Stockholm.

Summing up the official position, the fundamental discussion between Sweden and its partners is to find out if there exists an agreement on basic values. That agreement is a non-negotiable condition for cooperation. All experience shows that conditions alone represent nothing but a threat and a demonstration of a short-term power relation. However, with a strong focus on ownership and influence when objectives and goals are set, conditions can be a tool for monitoring the programme and a contribution towards long-term, sustainable and qualitative change.

Switzerland

Box 32. Switzerland at a glance

How much aid does SWITZERLAND give?

SWITZERLAND gave in 2000	US$890m or 1,502m Swiss Francs
That means that each person In SWITZERLAND gave in 2000	US$124.65 or 210.4 Swiss Francs
In 2000, aid from SWITZERLAND fell by	US$94m in cash terms. Because of inflation and exchange rate changes, the value of aid rose by 0.4% in real terms

How generous is SWITZERLAND?

SWITZERLAND gave 0.34% of its national wealth in 2000. This compares with the average country effort of 0.39% and SWITZERLAND's previous own highpoint of 0.45% in 1992.

SWITZERLAND was less generous than 6 other donors and less generous than in 1999 when aid was 0.35% of GNI.

How much of SWITZERLAND's aid goes to the poorest countries and people?

40.06% of total bilateral aid (US$252.33m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of SWITZERLAND's aid was spent on basic health, basic education, water supply and sanitation?

SWITZERLAND spent
1.17% of its bilateral aid (US$7.4m) on basic education
2.66% of its bilateral aid (US$16.77m) on basic health
3.77% of its bilateral aid (US$23.76m) on water and sanitation

Global outlook undermines national target

Peter Niggli, Swiss Coalition of Development Organisations

Before a worldwide recession seemed possible, the Swiss government and parliament were ready to speed up towards the self-proclaimed target of 0.4% GNP for ODA up to 2010:

- Swiss voters rejected in 2000 a constitutional amendment for halving defence expenditures in favour of peace promotion activities and development cooperation. The government and the majority of the parliament had strongly campaigned against that proposition claiming it would jeopardise the security of Switzerland.
- Partly as a concession to those advocating cuts in defence spending, the government later declared its readiness to reach the 0.4% target by 2010 (instead of 2030 as before). In early 2001, this was introduced into the financial planning. The ODA budget would have increased by an average of 6.7% per year, starting in 2002 by a jump of 100m Swiss francs (or about US$60m).
- After mid-year, the government adjusted the planning because of a worsening economic outlook and corresponding budget deficits. It proposed to reduce the ODA increase to Sfr78m (about US$46m) and parliament was due decide on this in December 2001. One group of representatives was defending the original increase, another conservative grouping was demanding even deeper cuts in ODA.
- It could therefore be possible that the first clear decision of the government on fulfilling its ODA target will be overtaken before it is implemented. ODA is, as in any other OECD country, only a 'soft' budget commitment, likely to be cut according to budgetary constraints. Additional pressure on the ODA increase will come from attempts by right-wing parties who have a parliamentary majority to push through a huge cut in federal income taxes of Sfr2.2b.
- 2002 voters will, for the second time, decide about the full entry of Switzerland into the UN. Chances for winning the vote are not bad. Full UN membership would undermine the government's argument for setting its ODA target below the UN target of 0.7%. Up to now the government has defended its 0.4% target on the basis of Switzerland not being a member of the UN. Already parliamentarians have tabled motions to raise the target to the UN level after the referendum.
- Switzerland's ODA was up to now remarkably free of external pressures put up to favour 'friendly governments' or particular Swiss companies. That is changing because of Switzerland's voting group in the IMF and the World Bank. In both institutions Switzerland has an Executive Director because it could build a voting group with some smaller, far weaker countries like the Central Asian republics, Poland, or Yugoslavia. Its executive seats have come under pressure from the US who would like to reduce the representation of the smaller European states in favour of big developing countries. Feeling that pressure, some members of the Swiss voting group demand now more ODA from Switzerland and will most likely get it. Politically understandable, the move contradicts current orthodoxy about good governance to which Switzerland's state development agencies subscribe. In the coming years, an upsurge in debates about policy coherence, turning around this situation, is to be expected.

United Kingdom

Box 33. United Kingdom at a glance

How much aid does UNITED KINGDOM give?

UNITED KINGDOM gave in 2000	US$4,501m or £2,973m
That means that each person In UNITED KINGDOM gave in 2000	US$75.65 or £49.97
In 2000, aid from UK rose by	US$1,051m in cash terms. Because of inflation and exchange rate changes, the value of aid increased by 37.9% in real terms

How generous is UNITED KINGDOM?

UNITED KINGDOM gave 0.32% of its national wealth in 2000. This compares with the average country effort of 0.39% and UNITED KINGDOM's previous own highpoint of 0.51% in 1979.

UNITED KINGDOM was less generous than 7 other donors and more generous than in 1999 when aid was 0.24% of GNI.

How much of UNITED KINGDOM's aid goes to the poorest countries and people?

57.47% of total bilateral aid (US$1585.33m) went to Least Developed and Low Income Countries where 3.5 billion people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of UNITED KINGDOM's aid was spent on basic health, basic education, water supply and sanitation?

UNITED KINGDOM spent
2.56% of its bilateral aid (US$70.72m) on basic education
4.79% of its bilateral aid (US$132.27m) on basic health
1.59% of its bilateral aid (US$43.81m) on water and sanitation

Aid level soars but still short of target

Belen Vazquez, ActionAid

Poverty reduction is the over-arching principle of the government's development policy. Achieving International Development Targets (IDTs) has become DFID's primary goal. In 2000, the agency published a series of strategy papers outlining how to achieve IDTs and allocating resources for their implementation. In 2000, different strategies were adopted in respect of the volume, direction and quality of British assistance.

In 2000, British aid levels increased by 31% over the previous year to £2.94 billion (US$4.5 billion). In absolute terms, this is the highest level since the late 1980s. In the league of donors, the UK ranks fourth, after Japan, USA and Germany. However, in relative terms, measured as a percentage of national wealth or GNP, UK aid, at 0.31%, ranks ninth. Planned expenditure for 2003/2004 foresees an increase to 0.33% GNP, far away from the UN target of 0.7%. In the run-up to the 'Financing for Development conference' in 2002, ActionAid and other British NGOs are pressuring the Government to agree to a timeframe for meeting this long-standing goal.

Focus on 'positive' conditionality

DFID's strategies include targeting aid to the Least Developed Countries, rewarding 'good performers', and ensuring sufficient transfers to basic social services.

a) Targeting allocations to the Least Developed Countries (LDCs) and concentrating on fewer countries

DFID's target is to direct at least 75% of the bilateral country aid to LDCs. Although progress has been made over the past few years, the 2000 figure was 70%. Moreover, out of the top ten individual recipients of British aid, only five are LDCs. The top ten recipients are :

1.	India	£95m
2.	Bangladesh	£63m
3.	Tanzania	£61m
4.	Uganda	£51m
5.	Malawi	£45m
6.	Ghana	£42m
7.	Sierra Leone	£29m
8.	Russia	£27m
9.	South Africa	£27m
10.	Kenya	£24m

In terms of allocations to country programmes, there is a tendency to concentrate resources on fewer countries. In Africa, four countries – Mozambique, Tanzania, Uganda and Ghana – attract half of total aid to the continent. In Asia, aid is greatly concentrated in India and Bangladesh, with half of total aid directed to this region. Spending plans forecast even greater concentration in the coming years, with aid being cancelled in some countries, specifically countries from the Southern African and Latin American groups, and focused in Central and Eastern African countries and India. The countries where aid is going to be cut are not among the LDC group (they include Chile, Ecuador, Mexico, Botswana, Lesotho, Namibia and

United Kingdom

to £250 million, making this the highest national and sectoral allocation of the total international development budget.

b) Rewarding good performers

DFID's guiding principle over the past years has been to maximise its interventions by allocating resources where they can have most impact. It has become normal practice to reallocate funds mid-year to support countries who show commitment to poverty reduction or to shift away funds from those where the policy environment is not favourable. In this way, funds are performance-related and DFID's departments have the authority to re-allocate within countries and/or sectors. For instance, in 2000, some funds were shifted away from Pakistan and additional resources were allocated to Kenya in support of the Government's new commitment to reform. DFID encourages this approach among donor colleagues and multilateral agencies. Similarly, DFID is an active campaigner for providing direct budgetary support to those countries that are considered to have good pro-poor sector policies and sound financial systems, such as Uganda and Malawi.

c) Focus on basic social services

Ensuring basic health care and universal primary education by 2015 are the Government's long-stated targets. Some steps have been taken in this direction with the introduction of new IDTs-related budget lines, such as 'universal primary education' or 'maternal mortality'. Increases were also noted in some components of the social sector, such as health and 'population'. However, expenditure on basic social services remains low: 6.8% on education – of which 2.14% is on basic education – and 4.1% on health – of which just 1.6% is on basic health care. Other figures are 4.3% on water supply and 1.7% on population and reproductive health[1]. If 'social' targets are to be met, additional and concentrated support is needed on measures that improve living conditions of people living in poverty.

Aid untied but UK firms still attached

Acknowledging resource constraints, DFID has been forced to enhance the impact and quality of its aid. To this end, it is pursuing different strategies, from aid untying to increased donor coordination. The following is a summary of main trends during 2000:

a) Aid untying

Aid untying is the Government's biggest achievement during the year 2000. As from April 2001, British aid will be opened to suppliers without restrictions on nationality and/or origin of products. In addition, untying covers all categories of aid, from project aid to food aid, technical cooperation (including research funding) and NGO support. Several steps have been taken to prepare for full untying: the procurement manual has been revised, procedures have been adjusted and a comprehensive training programme was delivered to most procurement officers. It is too soon to assess the implications of such a decision, in particular whether untying takes place in practice as well as on paper. It is encouraging that the Government is challenging other donors to take similar action.

b) Technical cooperation (TC)

Technical cooperation has progressively taken up a higher proportion of bilateral aid, from 15% in the 1990s to an average of 30% in 2000. TC is mainly exported to South and East Asia – the Asia region absorbs up to 34% of total British bilateral aid. In absolute terms, India is the main recipient of British TC with £42 million. For some countries, such as South Africa, Kenya, Nepal and Pakistan, TC accounts for half of received aid. In 2000, every single TC contract above £1 million was still awarded to leading British consultant firms. While provision of TC is not bad *per se*, ActionAid challenges the nature and appropriateness of this type of assistance, i.e. over-dependence, influence over national policies, selection of consultants, etc.

c) Decentralisation

Decentralisation was launched some years ago. It is a process that is dependent on the contracting and staffing capacity of DFID's offices in the field. In 2000, around five local offices were given responsibility for contracting and management. Pilot experiences focused particularly on the Regional offices in Eastern and Southern Africa. As a result, an increased number of contracts were locally sourced. However, their number and value remain low. DFID's India office is leading, with a total value of contracts let locally of £1.68 million out of the £42m allocated for TC (although not all of that £42m is contracted). It remains to be seen whether these changes not only improve the management of particular programmes but also enhance policy dialogue with recipient governments.

d) Donor coordination

The Government's White Papers emphasise the need to work more intensively with other donors in order to be more efficient and deliver progress towards IDTs. At the operational level, debate focuses on simplification and harmonisation of donors' procedures. Donors have not made much progress in this field. DFID is currently chairing a DAC Working Party on harmonisation. A major DFID task over the next months will be to ensure that its work translates into concrete operational results. DFID has expressed its intention to disburse more funds via multilateral organisations. To date 30% of British aid is channelled this way. The European Commission is the main recipient of these funds, with 60% of the total. Other partners are Asia Development Fund, UNDP and UN Children's Fund.

Notes

1 DFID's Departmental Report 2001

United States

Box 34. United States at a glance

How much aid does UNITED STATES give?

UNITED STATES gave in 2000	US$9,955m
That means that each person in UNITED STATES gave in 2000	US$36.51
In 2000, aid from UNITED STATES rose by	US$810m in cash terms or by 6.7% in real terms

How generous is UNITED STATES?

UNITED STATES gave 0.1% of its national wealth in 2000. This compares with the average country effort of 0.39% and UNITED STATES' previous own highpoint of 0.58% in 1965.

UNITED STATES was the least generous of all the donors but equally generous as in 1999 when aid was 0.1% of GNI.

How much of UNITED STATES aid goes to the poorest countries and people?

19.06% total bilateral aid (US$1911.8m) went to Least Developed and Low Income Countries where 3.5 million people (60% of the global population) live and where average incomes are less than two dollars a day.

How much of UNITED STATES aid was spent on basic health, basic education, water supply and sanitation?

UNITED STATES spent
1.89% of its bilateral aid (US$189.46m) on basic education
3.46% of its bilateral aid (US$347.29m) on basic health
1.15% of its bilateral aid (US$115.14m) on water and sanitation

Hope amid the confusion

Emira Woods, InterAction

This brief essay presents a review of US foreign assistance in the year 2001, with reflections on the Administration, the US Congress, and the continued social activism on issues related to impoverishment, equity and justice.

The Administration: Perceptions of Unilateralism

The year 2001 started after a protracted presidential election left the country in the heat of debate over voting irregularities, uncounted or miscounted ballots, and the role of the media in shaping the outcome of votes on election night. George W. Bush was inaugurated the 43rd President of the United States after losing the popular vote but winning the Electoral College vote by a narrow margin.

With the closeness of the election, many analysts assumed that the Bush administration would begin with a more moderate public policy agenda. In fact, barely eight months into his administration, Bush took a tough stance on a number of key international issues.

Of greatest concern was the administration's conduct of foreign policy with what some called a more 'Unilateralist' approach. On six separate occasions in the last six months, the administration has demonstrated a willingness to walk away from agreements embraced by the international community:

- the Kyoto Protocol on global warming; the comprehensive test ban treaty;
- Shared agenda of northern and southern NGOs on the issues of democracy, civil rights and citizenship, human rights and decentralisation, to develop alliances and carry out campaigns.
- a global agreement to curb illicit sales of small arms and light weapons;
- a measure to create an international criminal court;
- the biological weapons protocol; and
- the 1972 Anti-Ballistic Missile Treaty.

A more positive note was struck in a speech by President Bush before the World Bank, in preparation for the G-8 leaders meeting in Genoa. He expressed a commitment to work in 'true partnership with developing countries to remove huge obstacles to development'. Among other things, Bush proposed that up to 50% of funding provided by development banks to the poorest countries should come in the form of grants, not loans, for 'education, health, nutrition, water supply, sanitation, and other human needs.'

US Bilateral Aid

During the Clinton administration, US policymakers and other voices in Washington called for the consolidation of the US Agency for International Development (USAID) into the Department of State (see RoA *Reality Check 2001*). With the advent of the Bush administration came more questions about the future of USAID. The former chair of the Senate Committee on Foreign Relations, Jesse Helms, floated the idea that USAID be replaced by an independent foundation. Serious concerns were

United States

raised about USAID's management systems, which had rendered the agency unauditable for four years. Even supporters of foreign aid were expressing concern that USAID had lost lustre and was not capable of reform.

During his confirmation hearing, Secretary of State Colin Powell signaled his support for USAID by stating: 'I am going to do everything I can to make sure that USAID is successful and that it uses the American money given to it by the American people in the most effective way possible.' In this context, Bush named Andrew Natsios, who had served in senior positions at USAID under George Bush Sr, to the post of Administrator of USAID. Natsios had also been Vice President of the NGO World Vision and was an outspoken advocate for US humanitarian intervention in Somalia. Natsios' appointment was welcomed by many in the US NGO community who thought that he offered at the very least an understanding of NGO concerns regarding engagement with USAID and the agency's potential to push for poverty reduction throughout the world.

Soon after his appointment, Natsios outlined his vision for reform, focused on improving management and procurement systems of USAID. He articulated four new 'pillars' that would guide the work of the agency:

1. Global Health – a strength of USAID, including maternal and child health, HIV/AIDS, malaria, TB, and other infectious diseases, nutrition and reproductive health;
2. Economic Growth and Agriculture – reflects Natsios' personal belief in the importance of economic growth in poverty reduction and the importance of agriculture in development;
3. Conflict prevention, Democracy/Governance and Humanitarian Response
4. The Global Development Alliance – designated as a 'process' pillar and intended to facilitate a new way of doing business. It will feature strategic alliances between USAID and the private sector, foundations, NGOs and international institutions.

These pillars could well be the foundation for continuing the successes of the agency and its NGO implementing partners in a number of sectors, such as child health, basic education, international family planning, improved environmental practices, and certain aspects of HIV/AIDS response, such as mother to child transmission.

Natsios appears to have a strong working relationship with Secretary Powell. In the first months of the administration they traveled to Africa together and any buzz about USAID dismantling or merging with the State Department has ceased. At his own confirmation hearing, Natsios staked his success on management reforms and some USAID insiders suggest that he has a two-year timetable for his programmes. Much of any reform is subject to Congressional approval, making it difficult to predict at this time how he will fare.

The US Congress

For fiscal year 2001, the US Congress approved a Foreign Operations Appropriations budget of US$14.9 billion. President Bush requested US$15.2 billion for FY 2002. Although the final appropriations have not been made, recent figures for fiscal year 2002 range from US$15.2 billion (House) to US$15.5 billion (Senate). It is likely that the final figures approved for FY 2002 will be somewhere in that range. Notable increases in the Foreign Operations spending from FY 2001 to FY 2002 are linked to programmes for Child Survival and Diseases.

One major concern in these appropriations is that some of the increased funding for HIV/AIDS is coming at the expense of other core development programmes. The message from NGOs is clear – *new* funding for HIV/AIDS; not *displaced* funds. HIV/AIDS programmes should not come at the expense of education and other programmes funded through the development assistance account.

Another critical development in 2001 was the one-vote shift in control of the US Senate from the Republicans to the Democrats. The impact of the shift will likely be most evident in the selection of political appointees and the agenda of the Congress (directed by new committee chairs).

Protest Action
An uncertain, yet significant trend has been the heightened activism and mobilisation of civil society actors who have mounted a presence at international meetings from Seattle to Italy. Demonstrations and marches have continued unabated. In fact, it the numbers are escalating. The fall meetings of the World Bank and the International Monetary Fund were an important venue for civil society actors engaged in issues related to impoverishment, equity, and justice.

The social movement in the US has been criticised for lack of a clear, unifying agenda. In response to this critique, some key development and humanitarian organisations are emerging to help define and articulate a more focused agenda. Public education and outreach efforts are being planned by several NGOs over the next few months to engage the US media and the general public on international economic development and global justice. InterAction is initiating a multi-year campaign on US Overseas Development Assistance, due to be launched in January 2002.

Conclusion

The year 2001 finds the international development community facing many challenges. The US falls well short of the OECD goal of 0.7% GNP (US$15 billion against a UN goal of US$70 billion). There is a mix of hope, uncertainty and confusion on the future of USAID. The perceived unilateralism, of the US, coupled with the managerial inadequacies of USAID, leaves much concern about the future of development cooperation in the US. NGO advocacy must become more strategic, with a focus on influencing members of Congress and other policymakers to focus more resources on development policy and programmes.

Despite these challenges, there is also strong indication that the time is ripe for attention to development. NGO global activism has challenged dominant development approaches, particularly of the International Financial Institutions, showing that new approaches are needed. The activism has also served to elevate attention in the US media on global impoverishment, engaging new US constituencies on the issues. This represents a window of opportunity for asserting US global leadership, reforming USAID, and increasing Overseas Development Assistance.

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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 Basic Social Services (BSS).

ABOS Algemeen Bestuur voor Ontwikkelingssamenwerking, Belgian Ministry for Development Cooperation

ACP African, Caribbean and Pacific States (see Lome 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

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.

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.

Bilateral portfolio investment - includes bank lending, and the purchase of shares, bonds and real estate.

Bond Lending - net completed international bonds issued by countries on the DAC List of Aid Recipients.

BoP Balance of payments

BSS Basic Social Services (Basic Education, basic health and nutrition, safe water and sanitation) defined for the purposes of the 20/20 Initiative

Budgetary Aid is general financial assistance given in certain cases to dependent territories to cover a recurrent budget deficit.

CAP The Consolidated Appeal Process for complex humanitarian emergencies managed by UNOCHA

CAP Common Agricultural Policy (EU)

CDF Comprehensive Development Framework used by The World Bank

CEC Commission of the European Community

CEE/CA Countries of Central and Eastern Europe and Central Asia

CIS Commonwealth of Independent States

Commitment means 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.

Concessionality Level - a measure of the ‘softness’ of a credit reflecting the benefit to the borrower compared to a loan at market rate (cf **Grant Element**).

Constant Prices are prices adjusted to take inflation and exchange rates into account and so make a like with like comparison over time.

Current (cash) prices are 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.

a. Debt cancellation is relief from the burden of repaying both the principal and interest on past loans.

Glossary of aid terms

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%.

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, Azerbaijan, Georgia, Gibraltar, Malta, Moldova, Turkey and the states of ex-Yugoslavia in Europe.

DFID Department for International Development (UK)

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 ***gross*** (the total amount disbursed over a given accounting period) or ***net*** (less any repayments of loan principal during the same period).

EBRD European Bank for Reconstruction and Development

EC European Community

ECHO European Community Humanitarian Office

ECOSOC Economic and Social Council (UN)

EDF European Development Fund - see Lome Convention

EFA Education for All

EIB European Investment Bank

EMU Economic and Monetary Union

ESAF (E/Sal/F) Enhanced Structural Adjustment (Loan)/ Facility

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.

FAO Food and Agricultural Organisation (UN)

G24 Group of 24 developed nations meeting to coordinate assistance to Central and Eastern Europe

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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.

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.

GNP - Gross National Product

Grant element reflects the ***financial terms*** of a commitment: interest rate, MATURITY and ***grace period*** (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 per cent in DAC statistics. Thus, the grant element is nil for a loan carrying an interest rate of 10 per cent; it is 100 per cent for a grant; and it lies between these two limits for a loan at less than 10 percent interest. If the face value of a loan is multiplied by its grant element, the result is referred to as the ***grant equivalent*** of that loan (cf **Concessionality Level**) (Note: the grant element concept is not applied to the market-based non-concessional operations of the multilateral development banks.)

GSP General System of Preferences

HIC High Income Countries with an annual per capita income of more than US$9385 in 1995.

HIPC Highly Indebted Poor Country (Debt Initiative)

HIV Human Immunodeficiency Virus

IADB InterAmerican Development Bank

IASC Inter-Agency Standing Committee (Committee responsible to ECOSOC for overseeing humanitarian affairs, the work of OCHA and the CAP.

IDA International Development Association (World Bank)

IDPs Internationally displaced persons

IDT International Development Targets (for 2015) as outlined in the DAC document Shaping the 21st 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

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 loans and bonds are included under OTHER PRIVATE OR BOND LENDING.

IsDB Islamic Development Bank

JANIC Japanese NGO Centre for International Cooperation

JICA Japan International Cooperation Agency

LIC Low Income Countries, with an annual per capita income of less than US $ 765 in 1995

LDC (or sometimes LLDC) Least Developed Country: applies to 48 poor and vulnerable countries as defined by the United Nations with an annual per capita income of less than US $ 765 in 1995

LMIC Lower Middle Income Countries, 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 comes from the EDF.

MADCT More Advanced Developing Countries and Territories comprise countries which have

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been transferred to Part II of the DAC List of Aid Recipients.

MDG 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.

Multilateral Agencies are international institutions with governmental membership that 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 *deposit* 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.

Multilateral aid - Aid channelled through international bodies for use in or on behalf of aid recipient countries. Aid channelled through multilateral agencies is regarded as bilateral where the donor controls the use and destination of the funds.

Multilateral portfolio investment - this covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

NGDO Non Governmental Development Organisation

NGO (PVO) Non-Governmental Organisations (Private Voluntary Organisations) also referred to as Voluntary Agencies. They are private non-profit-making bodies, which are active in development work.

NIC Newly industrialised countries

NIPs National Indicative Programmes (EU)

NPV Net Present Value

OA Official Assistance (Aid) - this 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.

OAU Organisation of African Unity

OCHA (See UNOCHA)

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 the main objective. It must go to a developing country as defined by the DAC

ODF Official Development Finance - 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 which are considered developmental (including refinancing loans) which have too low a ***grant element*** to qualify as ODA.

OECD Organisation for Economic Cooperation and Development (see DAC).

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

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.

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PRGF replacing the ESAF, the Poverty Reduction and Growth Facility is the name given to IMF Loan Facilities to developing countries. (See also PRSP).

Private Flows are long-term (over 1 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 form the current DAC list of Aid Recipients – see LDC, LIC, LMIC, UMIC, HIC.

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)

SSA Sub-Saharan Africa

SAP Structural Adjustment Programme

SWA (SWAp) Sector Wide Approach

TA or TC Technical Assistance/Cooperation, which 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 - 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 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

UMIC Upper Middle Income Countries with an annual per capita income of between US$3036 and US$9385 in 1995

UN United Nations

UNAIDS Joint United Nations Programme on HIV/AIDS

UNCED United Nations Conference on Environment and Development, Rio de Janeiro 1992

UNCHS United Nations Centre for Human Settlements, Habitat

UNCTAD United Nations Conference on Trade and Development

UNDCF United Nations Capital Development Fund

UNDAC United Nations Disaster Assessment and Coordination

UNDAF United Nations Development Assistance Framework

UNDCP United Nations Drugs Control Programmes

UNDP United Nations Development Programme

UNEP United Nations Environment Programme

UNESCO United Nations Educational, Scientific and Cultural Organisation

UNFPA United Nations Fund for Population Activities

UNHCR Office of the United Nations High Commissioner for Refugees

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UNICEF United Nations Children's Fund
UNIDO United Nations Industrial Development Organisation
UNIFEM United Nations Development Fund for Women
UNITAR United Nations Institute for Training and Research
UNOCHA UN Office for the Coordination of Humanitarian Assistance
UNRISD United Nations Research Institute for Social Development
Untied Aid - ***official development assistance*** for which the associated goods and services may be fully and freely procured in substantially all countries.
UNV United Nations Volunteers
Uruguay Round Last round of multilateral trade negotiations under the GATT
WB World Bank
WFP World Food Programme
WHO World Health Organisation
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

Exchange rates

Average annualised US$ exchange rates for aid donors

	1998	*1999*	*2000*
Australia	1.59	1.55	1.73
Austria	12.38	12.91	14.93
Belgium	36.30	37.86	43.77
Canada	1.48	1.49	1.49
Denmark	6.70	6.98	8.09
Finland	5.35	5.58	6.45
France	5.90	6.16	7.12
Germany	1.76	1.84	2.12
Greece	295.27	305.69	365.45
Ireland	0.70	0.74	0.85
Italy	1.74	1.82	2.10
Japan	0.13	0.11	0.11
Luxembourg	36.30	37.86	43.77
Netherlands	1.98	2.07	2.39
New Zealand	1.87	1.89	2.20
Norway	7.55	7.80	8.80
Portugal	180.15	188.16	217.54
Spain	149.38	156.16	180.54
Sweden	7.95	8.26	9.16
Switzerland	1.45	1.50	1.69
United Kingdom	0.60	0.62	0.66
United States	1.00	1.00	1.00
ECU/EURO	0.89	0.94	1.09