Aid conditionality and democratic ownership

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

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

This article provides an overview of aid conditionality in the context of the Paris Declaration on Aid Effectiveness. It considers the impact such conditionality has on democratic ownership and its consequences for the populations and economies of developing countries.

The Paris Declaration and democratic ownership

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

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

[1] "Money talks: How aid conditions continue to drive Utility privatization in poor countries," www.actionaid.org

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In theory, ownership implies not only participation, but quality participation, with transparency, accountability, democratic values, and rights at the heart of governance. The Paris Declaration acknowledges the importance of "country ownership". The ownership or leadership role over a country's development policies and strategies should belong to the national government. The developing countries' governments should formulate the strategies and policies to which donors respond to achieve effectiveness towards development.

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

The donors shape the policy framework and strategies through impositions, seriously undermining the rights, choices and decisions of the people to determine their own demands and actions needed for their own development. Local societal diversities and local ownership are ignored by conditionalities. Thus, poor and marginalized groups such as indigenous communities, women, and fishing communities are left out of the whole discourse and policy conditions can interfere with the formation of an independent and mature democracy and political framework.

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

Conditionality violates the democratic process

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

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

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

Influence and wealth have the power to dictate policies and there is no downward accountability. Donors even experiment with policies in poor countries. For example, the United Kingdom and the United States imposed a new "power privatization model" on Chile and India in the 1990s which was contradictory to the principle of democratic ownership and took dangerous risks with the countries' development.

Aid scenario and strategies in Bangladesh

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

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

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

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

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

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

Donors are more interested in providing loans than grants. Over the last three decades, 52% of total foreign aid were loans and 48% were grants. Consequently, the rate of debt has increased over this period of time. During the 1971/72 fiscal year, total foreign debt was about 10% and foreign grant was about 90%; by the 1998/99 fiscal year, foreign debt rose to 57 percent. Such a trend clearly shows that although the foreign donors started providing support through grants, they subsequently became more interested in loans while different types of conditions--strong criteria and obligations have been imposed on Bangladesh to receive these loans.

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

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

The Asian Development Bank in Bangladesh

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

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

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

The World Bank has also confirmed it commitment to support the water sector in Bangladesh and noted that the sector requires about $8 billion dollars' worth of investment over the next 20 years. An obvious means, and presumably the one preferred by both the agencies, to finance the water projects would be private investment gradually pushing the water sector towards privatisation.

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

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

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

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

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

Khulna Jessore Drainage Rehabilitation Project (KJDRP)

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

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

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

Sundarbans Biodiversity Conservation Project

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

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

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

Through projects like SBCP and KGDRP, donors have damaged the environment and ecology that have consequently devastated the livelihoods of the people of the area and caused immeasurable sufferings. The principles of the Paris Declaration were not at all considered during the project phase. No consultation with civil society groups was held, environmental assessment was not done, no representation of the local communities was included, no participation of the people in the planning process of the projects was considered. CSOs did express their concerns and recommendations, but they were ignored.

Conclusions

In the current global conditions, talk of 'ownership' is almost solely rhetoric and purely theoretical. In reality, aid is a tool for establishing authority over the policy framework of developing countries.

Aid conditionality and democratic ownership

Power imbalance, social hierarchy, and the hegemony of the donors are major obstacles to the appropriate and equal distribution of resources to those who need it most.

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

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

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