# Part III
# Asia

# Post-crash flows fail to ease the human toll

*Antonio Tujan Jr, IBON*

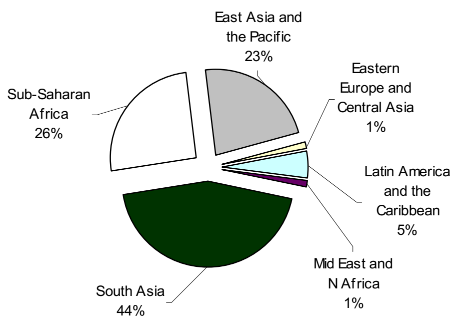
Despite all the hype regarding the so-called Tiger economies and the economic boom in Asia, the great majority of people who live in poverty live in Asia. More than 67% of humanity living on less than US$1 a day can be found in Asia's urban slums and rural villages (see Graph 1).[1]

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***

67% of people living on less than
$1 a day are in Asia (1998)




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**).**

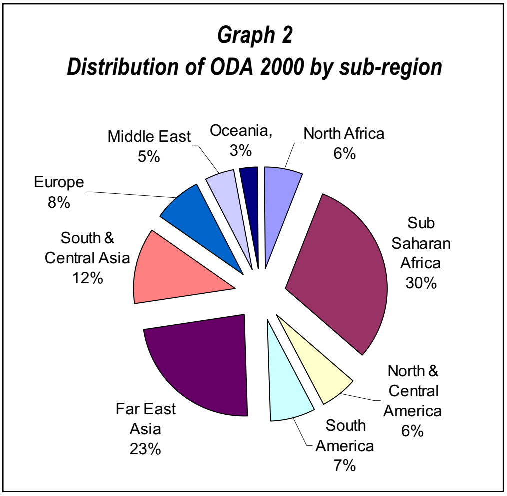
# Asia

***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).

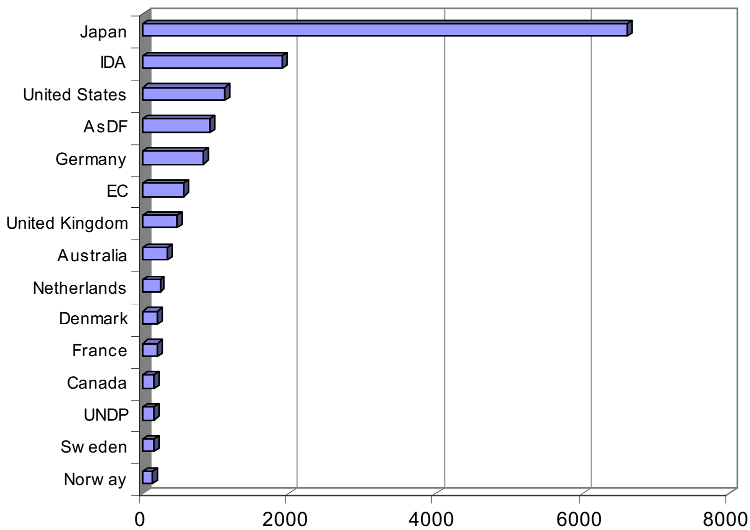
The reason for Asia's position as leading recipient of ODA is that it includes the three most populous countries, China, India and Indonesia, and they all belong to the low-income category. These three receive the bulk of development assistance to Asia and, as the tables show, are some of the world's 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

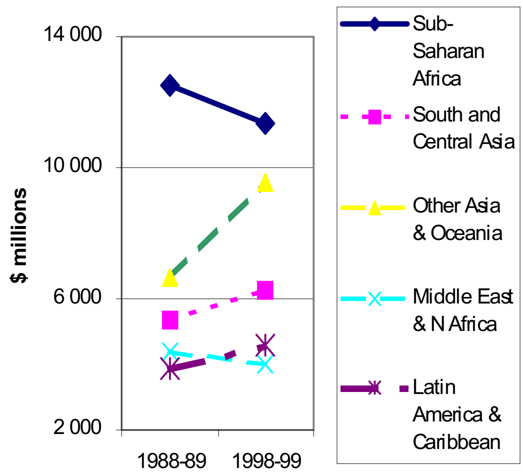
The issues regarding conditionalities constitute the other set of controversies regarding ODA. In a broad sense, conditions to aid can come in many forms. When donors decide which programmes and projects and sectors they are prepared to fund, and also determine the detailed funding mechanisms to be used, 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.

# Asia

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.

# Asia

***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.

# Asia

- 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%.

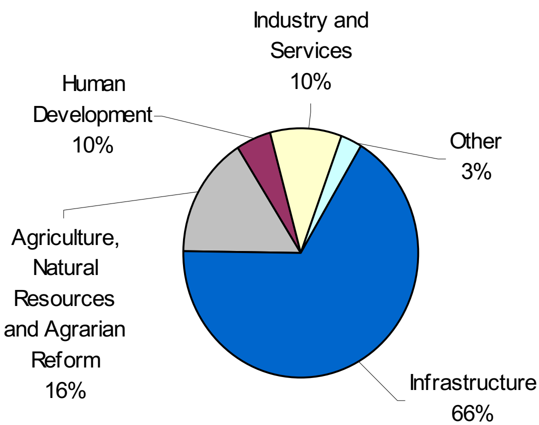
Graph 5 shows that infrastructure is still the most attractive sector to donors and corporations.

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

# Asia

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.

# Asia

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.

# Asia

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

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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)*

| 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.