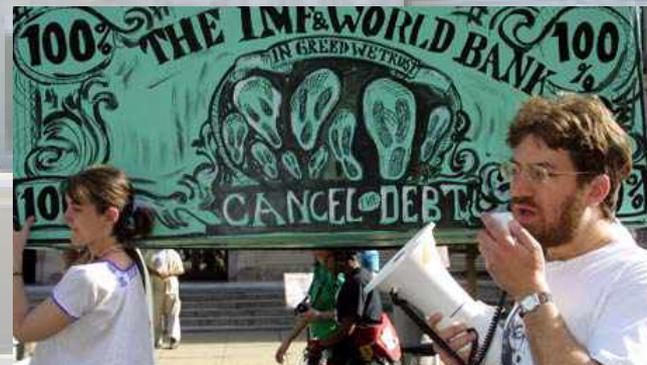
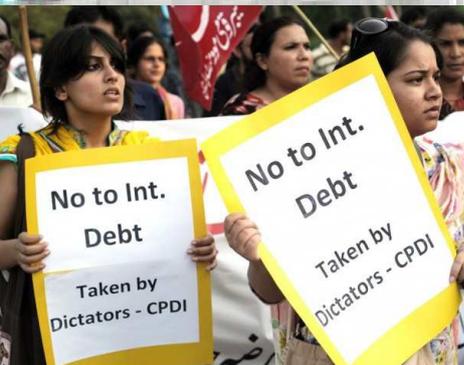


The Reality of Aid
An Independent Review of Poverty Reduction and Development Assistance

RealityCheck

OCTOBER 2012

World Bank and conditionality undermining democratic ownership



RealityCheck

OCTOBER 2012

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about this issue

This Reality Check provides a critical look at the predominant role the World Bank continues to play in developing countries as well as examines the direct and indirect conditionalities that the bank still applies to their loans and their effect on recipient countries.

This issue is prepared by:



IBON International

The Reality of Aid
An Independent Review of Poverty Reduction and Development Assistance

Reality of Aid - Asia Pacific

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ACKNOWLEDGEMENT

This Reality Check would not be made possible without the valuable contributions from S. K. Nikmah and Don K. Marut, both from INFID (Indonesia) as well as Sagarika Chowdhary, Balendushekhar Mangalmurty and Anil K. Singh from SANSAD (India). Gratitude must also be extended to the Reality of Aid and the IBON Secretariat for their support.

Cover and Inside Photos by: tribune.com.pk
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Cover Design and Layout by: Darius Galang

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The World Bank and aid conditionality: the need for change

The World Bank has radically evolved over its six decades of operation so that it simultaneously exercises a number of different functions: the Bank as a bank; as a development agency; and as a development research institution. But it is the role of ‘conditionality’ that is critical to understanding the World Bank’s operations.

Policy conditionalities are a particularly brazen form of exerting power through development aid but the World Bank have had no qualms in applying them as part of its development mission through the years. The Bank would often attach loan conditionalities, based on the ‘Washington Consensus’, focusing on liberalization of trade, investment and the financial sector, and the deregulation and privatization of nationalized industries. Often the conditionalities are attached without due regard for the borrower countries’ individual circumstances.

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Additionally, the Bank's direct impact on developing countries is manifested not just through the conditions they impose on their own aid, but they are also able to exert tremendous influence over other donors who accept their assessments and criteria for allocation of aid.

Evaluating the experiences of recipient countries in adhering to these prescriptive recommendations will show that this is clearly not the appropriate approach to strengthening the economies of developing countries. The use of financial leverage is not a substitute for weak domestic institutions or feeble political will. What is needed is a more radical approach in which the World Bank cedes developing countries greater control over the use of aid, within the framework of democratic ownership.

Policy conditionalities in aid have been the biggest barrier to democratic ownership and development effectiveness and removing this is most crucial. Not only do these conditionalities undermine domestic democratic processes by supplanting public policy-making, they have also been associated with negative social outcomes such as reduced investment in public health and education.

Democratic ownership of the development agenda, including determining the usage of all forms of aid, have progressively been identified as major determinants of development effectiveness. Ironically, many World Bank documents acknowledge this point.

In fact, as a signatory to the Paris Declaration (2005) on aid effectiveness, the World Bank



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committed to increase recipient countries' ownership of development aid as well as align and harmonize aid flows under recipient countries' leadership. The Bank has renewed this commitment by signing the Accra Agenda for Action (2008) and endorsing the Busan Partnership (2011) which built on the principle of democratic ownership.

Unfortunately, the World Bank does not seem to be undertaking necessary reforms at a desirable pace. They have not only failed to fulfill the commitments they made in Paris and Accra, they have even failed to follow through their very own guidelines. In fact, a 2009 'review of the World Bank's development policy lending and poverty and social impact analysis' has failed to erase misgivings over the Bank's imposed conditionalities, casting

legitimate doubts as to their willingness and sincerity.

Civil society organizations have time and again called for an 'end to policy conditions attached to aid negotiations and disbursements' as they undermine democratic ownership and contradict the right to development and self-determination of peoples and countries, especially the South. These include implicit and indirect policy conditions set by International Financial Institutions (IFIs) such as the World Bank. The World Bank has the capacity to lead this thinking among IFIs and initiate concrete reforms. While these changes may not appear too difficult, implementing them necessarily requires political will. So far, the World Bank has yet to prove itself in this aspect. Meanwhile, the world awaits.



Indonesia: under the shadow of the IMF and World Bank conditionalities¹

S. K. Nikmah and Don K. Marut, INFID

Introduction

In the period of 1998 – 2007 Indonesia was under the close supervision of the International Monetary Fund (IMF). Policies were made based on the Letters of Intent (LoI's) and Memoranda of Understanding (MoUs) between the IMF and the government of Indonesia. At the same time the government and donors' forum, called the Consultative Group on Indonesia

(CGI), was still active in providing guidance and coordination among donors and with the government of Indonesia. Development policies for Indonesia were very much influenced by the IMF and the CGI (co-chaired by the World Bank) through various working groups and ministerial coordination meetings to ensure that the demands and IMF-stipulated policy requirements in LoIs and MoUs were implemented.

It was in this political and policy atmosphere that Indonesia participated in the aid effectiveness High Level Forum process. The discussions about aid effectiveness were mainly focused on who took responsibility for coordination. The statement by the then Indonesia country director of the World Bank was interesting: “... the problem is who is the conductor of this (aid) orchestra?” In January 2007, the president, Susilo Bambang Yudoyono, announced the repayment of the stand-by loans from the IMF and the dissolution of CGI. It was the end of the supervisory power of the IMF and the “aid orchestra’s” conducting of the power of the World Bank in Indonesia. Finance Minister Sri Mulyani said that Jakarta would prefer to operate through bilateral mechanisms rather than “having to go through a long, meaningless ceremony”.²

The decision by the president to disband the CGI was perceived as a response to the demands of the public, particularly civil society, since CGI was seen as a forum where donors reviewed and judged the performance of the government or where the World Bank authoritatively dictated its own agenda. It was also the case that the smaller donors used the CGI as a forum to raise issues with the government of Indonesia. The dissolution of the CGI did not mean an end to aid to Indonesia. Although it



was intended to eliminate “the long and meaningless ceremony”, the absence of a donor coordination mechanism made aid coordination more difficult.

In January 2009 the government of Indonesia and 22 bilateral and multilateral donors signed the Jakarta Commitment, a declaration by both the development partners and the government of Indonesia to implement the principles of Paris Declaration (2005), the Accra Agenda for Action (2008) and the Doha Declaration on Financing for Development (2008). The Jakarta Commitment emphasized three significant development challenges ahead: poverty reduction, service delivery and decentralization. The Commitment was, however, seen by CSOs as a new CGI, but in turn the government responded that the Commitment was an effort to improve their



independence in utilizing aid and not as a replacement of a donor forum such as CGI or Inter Governmental Group on Indonesia (1967 – 1991).

To facilitate the implementation of the Jakarta Commitment, the government and donors established the Aid for Development Effectiveness Secretariat (A4DES), under the control of the National Development Planning Agency (BAPPENAS). It has been 3 years since the establishment of A4DES; the Secretariat is acting more as a mechanism among the senior officials of the ministries than as a forum for donor harmonization and policy dialogue among development actors (government, donors, business sectors and CSOs).

On one hand, A4DES has failed to facilitate

harmonization of donors, and on the other hand, it has mainly become a meeting place for government officials. Some CSO practitioners suggested that the government established A4DES to attract funds from donors, which would be independently utilized by the government agencies, but in fact donors seem to be less interested in supporting A4DES in this way. In the April 2011 Steering Committee Meeting, the government presented a plan to transform A4DES into a Trust Fund Body. But this proposal seemed to be resisted by donors who seem to prefer A4DES as a forum for policy dialogue as well as the sharing of findings and best practices of development programs.

The Jakarta Commitment and A4DES, however, can become a cornerstone for donors, the government and other

development actors to move forward with better engagement and productive cooperation for development effectiveness.

Democratic Ownership and Participation

Development planning in Indonesia since 2005 can be understood in three dimensions: a participatory process, a technocratic process and a political process. These three processes in fact undermine or conflict with each other. The Ministry of National Development Planning is mandated to facilitate and conduct the participatory process, the Ministry of Finance has the authority in the technocratic process, while the political process is conducted in the National Parliament.

One year before the 2005 Paris Declaration, the government of Indonesia issued a law on development planning. The implementation of this law is guided by government regulations for its Annual Development Plan and by the Procedures of Foreign Loans and Grants governing foreign financing of the Plan. The law and regulations on one hand accommodate a democratic and

bottom up processes of national development planning. On the other hand, since the policy and political environment was still at the time under the supervision of IMF with its neoliberal agenda, the law reduced the role of the National Development Planning Ministry into planning and monitoring functions. BAPPENAS was once a powerful Agency directing development in Indonesia. But government planning was seen as “too socialistic” and as such contravened the spirit of development principles guided by IMF and CGI.

In 2003-2004 the government issued a packet

of regulations called, Government Finance Regulation Package, consisting of three laws on government finance, on the government Treasury; and (3) on the management and report of the audit on government finance. These three laws give dominant power to the Ministry of Finance and this power was reinforced by the interference of the World Bank. But in 2006, at the World Bank meeting in



BAPPENAS
BADAN PERENCANAAN PEMBANGUNAN NASIONAL

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Singapore, the Finance Minister, Sri Mulyani Indarwati, in her speech stated strongly that the World Bank should become a partner, not a preacher. This speech was seen as the watershed, setting out strong resistance to the interference of the Bank and IMF in preaching policies to the government of Indonesia.

Starting in 2011, the government has initiated a new strategy on development planning processes to ensure increased participation of affected populations and other development actors. At national level, BAPPENAS has been holding consultations with civil society organizations and now provides opportunities and spaces for CSOs to engage directly with BAPPENAS and the technical ministries in the National Development Planning processes. BAPPENAS held a series of consultations with CSOs to develop tools for effective participation of stakeholders in development planning.

With this participation of CSOs there has also been some opening of political processes in the Parliament; but difficulties remain for CSOs in accessing the technocratic processes in the Finance Ministry. These technocratic processes, which relate to the accounting and

budgeting mechanisms in the Ministry, in fact should be opened up to allow for adjustment based on the results of the participatory processes in BAPPENAS. The most difficult phase for development planning is the political processes in the Parliament, where all the participatory and technocratic processes can be undermined. Although the parliamentary discussions on budgets are open to the public, there are still many opportunities for parliamentarians to arrange “back door deals” with technical ministries and with provincial and district governments.

Nevertheless, by involving multi-stakeholders processes in development planning and budgeting, the political processes in the parliament can be pushed to be more open and transparent. All decisions regarding the allocation of budgets are revealed and accounted to the public, including a public rationale for any changes to the budgets from those proposed in the participatory and technocratic planning processes.

Some donors suggest that the national government of Indonesia already has strong ownership in a process of making national development policy/plan/strategy. While



Sri Mulyani Indarwati, in her speech at the World Bank meeting in Singapore in 2006, stated strongly that the World Bank should become a partner, not a preacher.

Indonesian national development policy is not influenced by donors, the relationship between donor and government is a challenge in itself. There are informal sectoral meetings between donors and government, but donors currently do not interfere with national development process in Indonesia. The government presents donors with the Bluebook, a shopping list based on its borrowing strategy. After the donors make a choice from the Bluebook, each donor enters discussions with the relevant ministry. Donors discuss these plans with the government on annual basis.

On Transparency

Transparency is closely related to ownership. When ownership has been tightly controlled by the bureaucracy, which has long been nurtured in a culture of corruption, it was unlikely that transparency would be installed.

While Indonesia has its own procurement system, donors also have their own procurement system based on international standards. The differences in procurement systems often create conflicts between the government and its development partners. Based on the Presidential Decree on Procurement, if there is conflict,

a compromise should be reached between the government and the specific donor. Donors mainly prefer e-procurement because they do not trust the transparency system in Indonesia. The government assumes that if there is no political agenda behind this particular aid package, a change or adjustment in the procurement system is acceptable.

According to CSOs who are active in monitoring the government's procurement system, donors are reluctant to use Indonesia's country systems because it is too complicated and rigid. The donors prefer to use their own systems. The law on procurement stipulates that the bidding process has to be certified by the LKPP (National Procurement Agency) and announced in public media for certain period of time, with the decisions announced in one or two months. Donors argue that

Indonesia has a problem of transparency in procurement. But in fact it is mainly because the donors are reluctant to use Indonesia's country system. Indonesia's country system was actually set up by USAID and the World Bank, and consultants from the World Bank drafted its regulations. LKPP is still under the supervision



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of the World Bank consultants. So there is actually no reason that the donors should doubt Indonesia's country system. On the other hand, donors seem to have their own preferences for the use of their aid, some preferring multilateral agencies or their own Project Implementing Unit (PIUs).

On Accountability

There has been improvement in accountability following the 2005 Paris Declaration. The first Monitoring Survey in 2007 and the Second Monitoring survey in 2010, conducted by the OECD DAC, have indicated improvements. Indonesia is on track and even for some indicators are beyond the targets of Paris Declaration and Accra Agenda for Action.

Corruption remains the main obstacle for the implementation of good quality projects. To prevent corruption in ODA supported projects, there should be systematic efforts such as promoting transparency for all processes and phases, starting from planning to the implementing processes. The donors also should provide information as transparent as possible to Indonesian public.

There should be a complaint centre, and legal protection for "whistle blowers". So far the World Bank has a mechanism, but it is

limited to issues that have been exposed in international media.

There is a need for regulations that ensure follow-up for violations in projects. There should be clear sanctions and a mandate to those responsible to enforce the sanctions.

Since 2005, a dramatic decrease in funding for CSOs in Indonesia has been an increasing trend, as donors are channeling more funds through government and the multilateral agencies. CSOs are expected to become contractors for these projects. But in a corrupt government atmosphere, it is implausible for CSOs to become contractors of projects channeled through the government without themselves becoming partners in corruption. While at the same time, the establishment of so many agencies by multilateral donors, particularly the UN and the World Bank, make it less possible for Indonesian CSOs to take part in ODA projects, since these agencies implement the projects directly, independently or with local governments.

1 Previously published in the Reality of Aid 2011 Special Report, "Democratic Ownership and Development Effectiveness: Civil Society Perspectives on Progress since Paris" published by IBON Books. The article has been edited and reduced in length to fit the magazine. The full article may be downloaded from the Reality of Aid website: <http://www.realityofaid.org>

2 Antara News, 25 January 2007





Marginalising civil society: the case of the WB-funded Bihar Panchayat Strengthening Project

Sagarika Chowdhary, Balendushekhhar Mangalmurty & Anil K Singh*

On September 27, 2012, the World Bank approved US \$84 million loan for the Bihar Panchayat Strengthening Project to support the local government's efforts at creating better local governance at the village level. The loan is part of the US \$160 million the World Bank has agreed to lend the Government of India for strengthening Bihar's Panchayats in a span of five

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years. The project will cover six districts across 1,300 Gram Panchayats (Village Council): three districts in North Bihar (Saharsa, Supaul and Madhepura) and three districts in South Bihar (Patna, Nalanda and Bhojpur).

Bihar is the 12th largest state in India in terms of geographical area (99,200 sq km) and third largest in terms of population (8,29,98,509 people). It is landlocked between West Bengal in the east, Uttar Pradesh in the west, Nepal in the north, and Jharkhand in the south.

A wide range of administrative reforms in the

recent past have brought about a more citizen centric governance, better public financial management and improvement in development indicators in Bihar. However, low levels of education, limited human resources, lack of basic infrastructure and social inequalities limit the degree of participation of all social groups in Panchayat activities in the state. In fact, despite recent improvements in its socio-economic environment, Bihar is still one of the most backward states in the country with respect to human development indices. The tables below provide basic details about the socio-economic conditions in the state:

Table 1: Bihar's population break up with respect to the rest of India

	Population				
	Total	Rural	Urban	Male	Female
India	10,28,737,436	72%	27.81%	5,32,223,090	4,96,514,346
Highest	1,66,197,921	NA	49.76%	87,565,369	78,632,552
Lowest	5,40,851	NA	9.30%	2,88,484	2,52,367
Bihar	82,998,509	85%	15%	43,243,795	39,754,714

Table 2: Literacy Levels in Bihar with respect to the rest of India

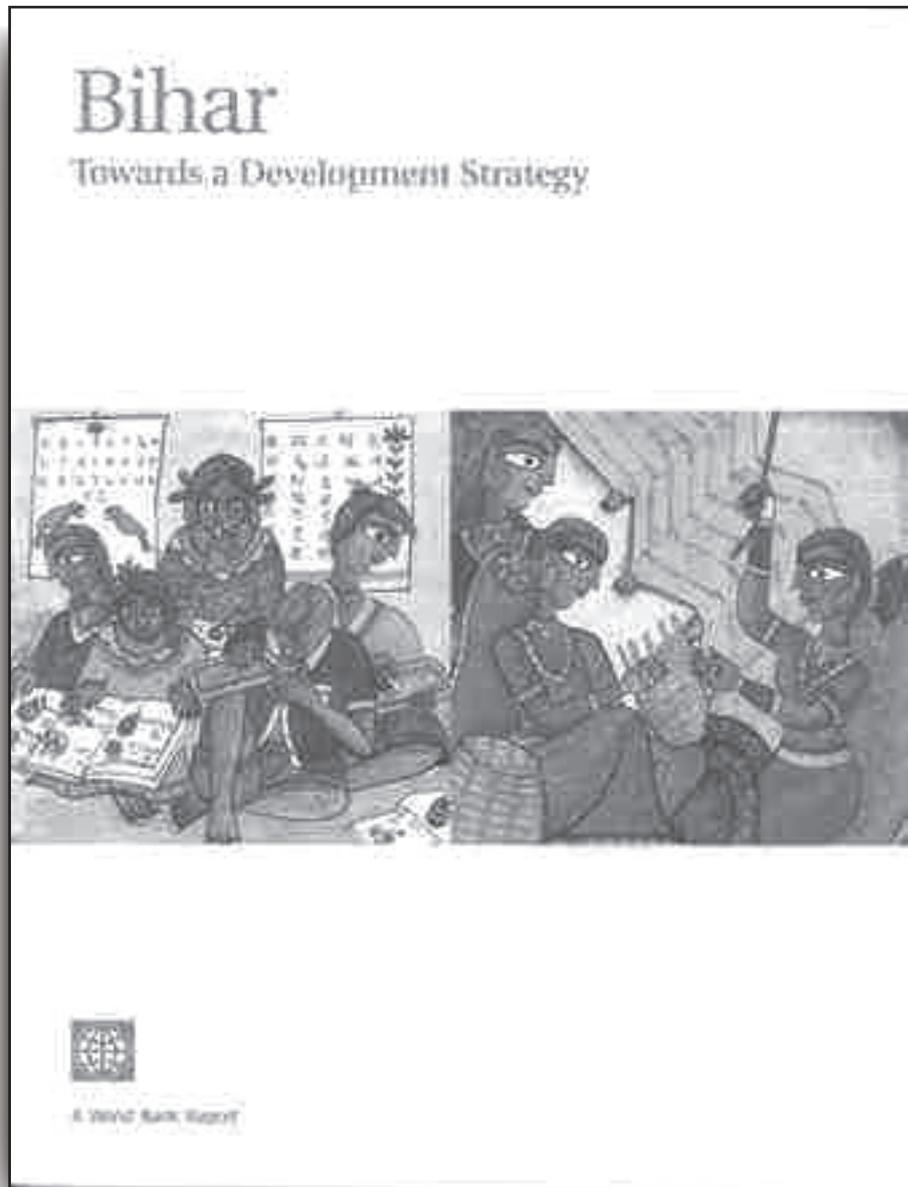
	Literacy rates				
	Total			Rural	Urban
	T	M	F		
India	64.8%	75.3%	53.7%	58.7%	79.9%
Highest	90.9%	94.4%	87.7%	NA	NA
Lowest	47%	59.7%	33.1%	NA	NA
Bihar	47%	59.7%	33.1%	NA	NA

Table 3: Basic Health Indicators for Bihar with respect to rest of India

	Health indicators							
	IMR			MMR	LEB			Sex Ratio
	M	F	T		M	F	T	Total
India	55	56	55	254	62.6	64.2	63.5	933
Highest	72	72	72	480	71.4	76.3	74.0	1058
Lowest	12	13	13	95	58.1	57.9	58.0	777
Bihar	57	58	58	312	62.2	60.4	61.6	919

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awareness among local leaders and communities on the need for local action that can improve health and livelihood, and facilitate their access to government programme resources to finance the community's priorities. The focus will be on enhancing the capacity of the PRIs to use existing government resources better.

There are four components of this World Bank-supported project:

- A community-led Total Sanitation Campaign will be introduced in 4 of 6 districts in a phased manner;
- A module on sustainability of water resources and improving quality will be introduced in

The World Bank-funded project is meant to support the government's gradual decentralisation agenda and improve the capacities of Gram Panchayats to plan and implement development schemes. It will build the Panchayats' administrative, planning and financial management capacity, mobilize communities to increase people's knowledge of their rights and responsibilities in relation to Panchayati Raj Institutions (PRIs), raise

the same districts;

- In collaboration with the standing committee on production, natural resource management will be introduced in four districts in a phased manner;
- In close coordination with the ICDS functionaries, efforts at improving

nutrition will be piloted in four districts in a phased manner.

The project is also meant to strengthen the public financial management systems at the Panchayat level and introduce a computerized Panchayat accounting system (PRIASOFT) in all project districts. The project beneficiaries include elected officials and functionaries at the Gram Panchayat level, and the rural residents in the target PRIs of the six districts.

While one may not readily see the problem learning from experiences of the Bank and making them a party in designing social protection programs prima

CSOs' rights are being undermined, supporting the current global position on aid effectiveness as being overly state-centric with little token regard of civil society concerns.

facie, it is when the contents and approach of the project are looked at critically that the problems become apparent. Here the conflict is obvious at the onset when through the endorsement of the World Bank, the Bihar Gram Swaraj Yojana Society (BGSYS), an autonomous institution registered as society under the Society Registration Act 1860 and facilitated by Bihar's Department of Panchayati Raj, is granted the hosting of the project.

This is disturbing news because the BGSYS is a government-managed institution and nowhere in the contract are Civil Society Organizations (CSOs) given a significant role to play, except that of



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sub-contractors. Through this arrangement, CSOs have been reduced to mere sub-concessionaires instead of being treated as equal partners in development. This is a clear case of the government encroaching in the area of the non-government sector. In endorsing the arrangement, the World Bank is working under the misapprehension that the state is the only agency to promote and safeguard the interests of the citizens – a disregard for CSOs declared as development actors in their own right in the Accra Agenda for Action (2008).

Why is the state government interfering in this manner? Until now, the government has limited itself to monitoring the activities of

non-government players. Not so with this project. In fact, the government has set out in controlling the project by working through a registered society that is peopled with bureaucrats at all levels, raising important questions on transparency and accountability.

The World Bank in approving and endorsing the arrangement has overlooked this glaring conflict of interest. The present case is an example of a bad precedent that must be strongly opposed. The World Bank also needs to come out of its shell and its government-centric approach, an approach that is detrimental to the empowerment of CSOs, and ultimately, the people they serve.



In the meantime, CSOs' rights are being undermined, supporting the current global position on aid effectiveness as being overly state-centric with little token regard of civil society concerns. Agreements reached behind closed doors between donor and recipient states cannot be called a consensus when civil society is marginalised. Perception is

gaining ground that it is not only donor states but also multilateral organisations, such as the World Bank, which are sidelining CSOs not only in the consultation processes over national strategies but it would appear, in their implementation as well.

1 World Bank Press Release dated September 27, 2012: www.worldbank.org



Reality Check

October 2012

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

Established in 1993, The Reality of Aid is a collaborative, not-for-profit initiative, involving non-governmental organisations from North and South.

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

The Reality of Aid International Coordinating Committee is chaired by Jorge Balbis of Asociación Latinoamericana de Organizaciones de Promoción al Desarrollo, AC (ALOP).

The International Coordinating Committee is comprised of coordinators of component regional networks (RoA Africa, RoA Asia/Pacific, and ALOP for Latin America), Canadian Council for International Cooperation, European Network on Debt and Development (EURODAD), and the Global Secretariat coordinator.

The Reality Check is the official newsletter of the Reality of Aid. It is designed to highlight current issues in aid regime written from a regional perspective but with global significance, edited in rotation by the leading networks in the following regions:

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