Democratic Ownership and Human Rights

2009

The Reality of Aid

Asia-Pacific Edition

The Reality of Aid–Asia Pacific Network

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Preface

This Asia Pacific Edition of the Reality of Aid Report takes up the theme of “Democratic Ownership and Human Rights”. The report highlights the continued lack of real and meaningful local ownership of development policies in recipient countries in the Asia-Pacific region and demonstrates the continuation of unequal relationships in the aid system.

Aid continues to be a source of power, used by donors to override national democratic systems - or the emergence of these - in recipient developing countries. Despite commitments to the contrary, donors continue to impose policy-based conditionalities through their aid, either directly or indirectly. These are deeply incompatible with democratic and local ownership and expose donor hypocrisy in their claim to respect “country ownership”.

Democratic ownership under the current aid architecture is more rhetoric than reality. Many of the steps forward in terms of aid allocation are accompanied by steps back as countries face indebtedness and loss of development resources and policy space. The use of tied aid and policy conditionalities imposed by donors have direct and negative impacts on the lives and livelihood of the poor, particularly in the Asia and Pacific region where more than 600 million people still live in absolute poverty.

The present volume reproduces some articles in the Reality of Aid 2008 Global Report (Aid Effectiveness: Democratic Ownership and Human Rights) and includes 2009 contributions from different countries in the Asia-Pacific region.

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Official Development Assistance in Arab countries

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Main demographic, economic, social and human characteristics of the Arab world

Population

The estimated Arab population (22 state members of the Arab League) is about 318 million people according to 2005 statistics, about 4.9% of the world population. The demographic growth rate was 2.2% between 1995 and 2005. The demographic dynamics remain intense in the Arab countries despite the tiny decrease (2.1% between 1995 and 2005, and 2.4% between 2000 and 2005) and the demographic change achieved in many countries such as Tunis and Morocco (1.1% and 1.2% between 2000 and 2005). The demographic challenge remains important in the Arab world.

Gross Domestic Product (GDP)

The Arab world gross domestic product (GDP) increased in 2005 and reached 1088.8 billion dollars, 2.7% of the world GDP. The growth average in the Arab world reached 6.6% per year between 1990 and 2005. From 1990 until 1995, the growth was only 2.3%. Then, it highly increased and became 8.1% between 1995 and 2000, and 9.6% between 2000 and 2005. The oil price fluctuations explain this economic development.

GDP per capita

The average of GDP per capita was 3,423 dollars in 2005, 54.7% of the world average. This average conceals the big disparity among the Arab countries. For instance, GDP per capita in Yemen was 455 dollars in 2005, while in Qatar it was 54.024 dollars.

GDP per capita and the purchasing power parity (PPP)

When the purchasing power parity was considered in the Arab world, the per capita income reached $5,578 in 2005. In comparison with the USA and the European Union (in particular the countries of the Monetary Union), we find that the GDP per capita is 14% relative to the USA and varies between 19% and 20% in comparison with the EU. This gap between the Arab world and the USA or the EU has not been reduced since 1990.

Furthermore, it is important to see if the disparities among the Arab countries have decreased or increased since 1990. From this point of view, the average income in the Gulf Cooperation Council (GCC) states (the richest states such as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) was used as the basis of the comparison (index 100).

Except for Tunisia, gaps between individuals living in the rich Gulf states and the other Arab states did not change. In comparison with other Gulf states, GDP per capita in Yemen is 6%. For the less developed Arab countries: Djibouti, Sudan, Comoros, Somalia and Mauritania (12%-13%), the disparities remained the same or decreased weakly in the last 15 years.

This huge difference of wealth characterizes the Arab world: GCC states population constituted, in 2005, 10.8% of the Arab world population and had 56.6% of the Arab GDP (616 billion dollars). Less developed Arab countries contribute to 4.5% of the Arab GDP and represent 23.4% of the Arab world population.

External trade

The amount of external Arab trade is around 878.3 billion dollars, 4.2% of the international trade of 2005. The Arab world participation in international trade increased between 1990 and 2005, from 3.6% to 4.2%. However, GCC states monopolized more than 2/3 of the Arab world trade (65.1% in 2005). Due to trade openness, the Arab world trade increased to 80.9% because of oil exportations. It is important to note the weakness of the inter-Arab trade (9%-10%), the exports among the Arab countries is only 9.3% and imports reached 10%.

Foreign direct investment (FDI)

The foreign direct investment inflows rose to about 48.7 billion dollars, 5.1% of the international total FDI in 2005. The Arab share during the decade 1990-2000 was only 2.1% (1% between 1990 and 1999). Then, it highly increased from $6 billion between 1995 and 1999 to $48.7 billion in 2005. Moreover, 34.7% of the Arab world FDI's inflows come from Arab counties.

Human development

In 2005, according to the United Nations Development Program (UNDP), the human development index (HDI) was 0.699 in the Arab countries and 0.691 in the developing countries, although the Arab income per capita in purchasing power parity (PPP) was higher ($6,776 versus just $5282 in the developing countries in general). This shows the lack of efficency in transforming the economic growth into human development.

The Arab world suffers from severe lack in the education domain. Compared to developed countries' rates, adult literacy rate is 76.7% in developed countries and only 70.3% in the Arab world. The Arab world net enrollment ratio is a bit higher with 65.5% in comparison to developing countries, where the ratio is 64.1%, but below the international average which is 67.8%. Disparities between male and female regarding adult literacy rate, school enrollment or participation in active labor force are relatively high when compared to developing countries. For example, labor women participation rate in developing countries is 52.4%, twice the rate in the Arab world at 26.7%.

Unemployment rate in North Africa and the Middle East is very high compared to the rest of the world. In 2006, according to the evaluations of the International Organization of Labor, the unemployment rate was between 11% and 12% in North Africa and the Middle East while the world rate is 6.3%. Unemployment is affecting women more than men, mostly in the Arab world. In North Africa and the Middle East, the unemployment rates vary between 16% and 17% among women, and between 9% and 10% among men (difference of 7.9%). On the international level, the unemployment rate among men is 6.1% and 6.6% among women (difference of 0.5%).

Official Development Assistance (ODA): Introduction

The ODA organizes the loans (with payment facilities) or the assistance given to the states and regions stipulated in the first part of the list of the beneficiaries from the assistance given by the Development Assistance Committee (DAC) to the developing countries. The DAC is formed by the states members in the Organization for Economic Cooperation and Development (OECD).

The developing countries' recipients are classified as follows:

- Less developed or low-income countries (in the Arab world these countries are: Comoros, Djibouti, Mauritania, Somalia, Sudan, Yemen and the Palestinian territories);
- Lower middle income countries (in the Arab world these countries are: Algeria, Egypt, Iraq, Jordan, Morocco, Syria and Tunisia);
- Upper middle income countries (in the Arab world these countries are: Saudi Arabia, Lebanon, Libya and Oman); and
- High income developing countries (Bahrain, United Arab Emirates (UAE), Kuwait and Qatar).

The OECD statistics distinguishes the donors as following:

1. All donors:
2. DAC member states, mainly USA, France, Germany, Japan and the United Kingdom
3. States that are not members in the DAC, some other Arab countries here are donors: Saudi Arabia, UAE and Kuwait; and
4. Multilateral organizations, such as the European Union and the Arab agencies.

Official Development Assistance delivered by all the donors to the Arab countries

DAC donors contributed, within the OECD, to 77.5% of the ODA received by the Arab countries between 2000 and 2006. Other donors contributed to 6%, and the Arab donors presented only 4.7% of the total received assistance. Multilateral organizations gave 16.5%, the Arab agencies only contributed to 0.23% of the ODA between 2000 and 2006. The rest, 7%, was offered by some UN organizations. The European Commission participation was about 9.2%.

The United States is in the top of the DAC donors list, the average of its ODA donated is 37.4% of the assistance the Arab world receives. Some European countries follow the United States: France-8.3%; Germany 5.8%; United Kingdom-3.81% (around

18% together). The Japanese share of the donations given to the Arab world reaches 8%. Other DAC donors are responsible for the rest which is around 14%. If we add the European donations, bilateral or multilateral, we find that the contribution of the EU and the USA are almost equal.

For the Arab country donors and Arab donating agencies, it is important to note their weak participation in the ODA given to Arab countries between 2000 and 2006 (5% only). The net ODA amount (calculated after paying the debts) given by all donors to 22 Arab state members at the Arab League increased to 17.1 billion dollars in 2006, or 19.6% of the total ODA donated by all donors to developing countries.

The assistance to the Arab states during seven years (2000-2006) reached 82.5 billion dollars, which means 18.9% of the assistance given to all the developing countries. The annual average is about 11.9 billion dollars. The amount and the share of the Arab countries in the ODA highly increased between 2000 and 2006, from 4 billion dollars (11.4%) in 2000, to almost 29.2 billion dollars (31.63%) in 2005, but it decreased a bit in 2006 with 17.1 billion dollars (19.16%).

This evolution is related to the geopolitical and military events occurring in the region that reflect the strategies of the main international actors in the region . Therefore, 46% of the assistance given between 2000 and 2006 to the Arab countries were transferred to Iraq (invasion and occupation). The Palestinian Territories got 9.4% and Sudan 7.5%. These three countries receive 63% of the total assistance.

As mentioned ODA is subject to a number of conditions dealing with politics and strategies, imposed by the big DAC donors corresponding to their interests (USA and EU in particular).

In 2000, Egypt, Jordan and the Palestinian Territories which were under the Fatah government, were in line with the dominating powers' strategic orientations. Thus, Egypt got 37%, Jordan 12.5% and the Palestinian Territories 10%. These three countries received 60% of the net ODA given to the Arab countries.

However, since the occupation of Iraq, the conflict in Darfur and the outbreak of the second Intifada, especially the victory of Hamas in Gaza in the 2006 elections, Iraq has been getting 50.6% of the assistance, Sudan 12%. It is clear that the assistance given to the Arab countries by the big DAC donors is affected by strong political and geostrategic concerns that determined its distribution. As for the assistance offered to the Palestinian Territories, it remained the same in 2003, 2004 and 2005. It is explained later in the present report how the multilateral organizations compensated, to some extent, the lack of assistance to the Palestinians especially when the Americans and the Europeans had stopped this assistance after Hamas victory.

Another flagrant example is the status of Syria. This country received $150 million in

2000 but the assistance decreased to $27 million in 2006. DAC donors reduced a lot of the assistance amounts given to Syria and it became negative in 2006.

The big DAC donors are applying a political and strategic conditionality. This bias appears clearer when comparing the share of the Arab countries to that of the developing countries. The ODA dedicated to the Arab world is higher than the Arab demographic size. For instance, the total Arab countries population constituted 5.2% of the developing countries population, yet they received 11.4% of the ODA in 2005: demographically speaking, the Arab countries should get 5% -6% of the ODA but they actually get 33.6%! This picture must be relativised, because Iraq received almost half of the Arab assistance (46%). Moreover, the share of the Arab ODA per capita was still higher in comparison with the the other developing country ODA per capita in 2000 ($15.2 in the Arab world and $6.7 in the developing countries). The gap increased in 2005, each Arab was getting $94.3 while in the other developing countries the part was only $16.5 per capita.

The ODA represents 3% of the Arab countries' GDP and 0.9% of the developing countries' GDP. The demographic size of the less developed Arab countries, Djibouti, Sudan, Comoros, Somalia, Mauritania, the Palestinian Territories and Yemen, is 23%. These countries' allotment of the Arab ODA was 25.3% between 2000 and 2006. Here, one must insist on the necessity for these countries to be considered as priority to get more important assistance that would exceed its demographic size. For example, in 2005, the average per capita of the assistance donated to the Arab world was $94.3. But, this average in Comoros did not exceed $42, $62 in Mauritania, $28.9 in Somalia, $50.5 in Sudan, and $16 in Yemen. However, the Palestinian Territories average was $293.6 and Djibouti $99.

Obviously there is a need for the reorientation of the assistance to countries suffering from severe lack in human development. Without this significant change, the millennium development goals are impossible to be achieved.

In order to complete the approach related to the distribution of assistance, it is necessary to note that Egypt received from DAC donors, between 2000 and 2006, 10% of the Arab ODA(23% of the Arab population). The ODA was reduced in Egypt from $19.6 in 2000 to $12.5 in 2005!

Finally, for the three Maghreb countries[1], Morocco's assistance increased to almost one billion dollars in 2006 while it was half this amount in 2000. Tunisia experienced a big progress, the assistance amounts doubled between 2000 and 2006 (220.4 million dollars in 2000 and 432 million dollars in 2006). Algeria also had a variable progress and reached almost 260 million dollars per year.

DAC donors

The ODA from OECD/DAC donors represent 77.5% of the total ODA received by the Arab

[1] Generally Morocco, Algeria, and Tunisia.

countries (13.7 billion dollars in 2006), equivalent to 21.7% of the total ODA given to all the developing countries. Between 2000 and 2006, the Arab countries share was 21.1%, a huge increase from 11% in 2000 to 14% in 2003 and it reached 37.5% exceptionally in 2005 (3 billion dollars in 2000, 26.5 billion dollars in 2005 and 13.7 billion dollars in 2006).

Iraq, alone, received 56.5% of the total ODA dedicated to the Arab region, Egypt got 10%, Sudan 7.1%, the Palestinian Territories 5.3% and Jordan 5.2%. These four countries benefited from 71.1% of the ODA.

The political conditionality by DAC donors remain the same. The political and geostrategic factor explains why the assistance is being given to Iraq, which share increased from 3% in 2000 to 64.8% in 2006. Aid to Sudan also increased from 3% to 11%. However, the Palestinian's share of assistance remained almost the same, and that for Syria even became negative (the debts exceeded the payments).

- The USA gave the Arab counties 37.2% of the total assistance between 2000 and 2006. The USA destined 2/3 of the assistance to Iraq, while Egypt got 11.4%, Jordan 8.5% and Sudan 7%. Palestine received 3.6% and the other Arab less developed countries did not get more than 1%.
- France, Germany, the United Kingdom and Japan dedicated 22%, 17.8%, 11.2%, 14.8% respectively, of their bilateral ODA to the Arab countries between 2000 and 2006 (compared with the 37.2% given by the USA). The above mentioned countries respectively represented 8.3%, 5.8%, 3.8%, and 8% of the total ODA the Arab countries received.

Briefly, the ODA evolved both in volume and orientation due to political and military factors:

- France and, to a certain extent, Germany, focused more on the Maghreb countries, Egypt and Iraq after its occupation;
- The United Kingdom focuses on the Arab Mashreq countries in general, Sudan and eventually Iraq; and
- Japan is mostly focused in Iraq and offered it 83% of its donations in 2006.

In conclusion, the political and geostrategic factors play a key role in the ODA given to the Arab countries.

Non-DAC donors

The non-DAC donors offered 6% of the total ODA to the Arab countries between 2000 and 2006 (the annual average is about 710.5 million dollars), representing 41.15% of the total ODA donated to the developing countries. This percentage was high during the period 2000-2006 (69.7% in 2002 for example), and decreased to 15.1% in 2006.

The Arab donors-Saudi Arabia, Kuwait, United Arab Emirates-offered 59.1% of the total non-DAC donors ODA to all developing countries. According to OECD 2002-2006 statistics, Saudi Arabia was classified as the top Arab non-DAC donor. It donated 85.6% of the Arab ODA to all the developing countries (1.9 billion of 10.6 billion dollars from 2000 until 2002) Kuwait and the UAE respectively donated 8.6% and 5.8%. The Arab donors contributed to 4.7% of the ODA received by the Arab countries (568.1 million dollars as an annual average between 2002 and 2006). From 2000 until 2006, the Arab ODA was mostly oriented towards other Arab countries (3/5 to 4/5), but in 2006 it decreased to 10.5%.

The annual average of the inter-Arab ODA volume has become around half a billion dollars between 2000 and 2006: 4.7% of the annual ODA average given to the Arab countries, as mentioned above (half a billion of 12 billion dollars).

As for the distribution of the inter-Arab ODA, the Palestinian share was 29.6% in the period 2002-2006, but the ODA in 2002 was around 776 million dollars and became zero in 2006!

Morocco is classified second among the beneficiaries of the inter-Arab assistance between 2000 and 2006 with 12%, followed by Yemen 10.7%, Egypt 10.3% and Lebanon 8.6%. By adding the Arab less developed countries' share, (except for Palestine) Comoros 0.16%, Djibouti 10.3%, Mauritania 0.16%, Somalia 1.5%, Sudan 6.8%, and Yemen 10.8%, it would reach to about 30%. However, the ODA is still low and inconstant; it might become negative (when the debts are higher than the assistance), as it is the case in Mauritania and Syria in addition to Iraq that did not receive any Arab help between 2000 and 2006.

In conclusion, the inter-Arab assistance is relatively very weak and is being subject to political influence (decrease of the ODA dedicated to Palestine and its absence in Iraq). The inter-Arab assistance was much lower than the direct foreign inter-Arab investments in 2006: 240 million dollars for the assistance and 17.6 billion dollars for the investments, 1.3%! Saudi Arabia and the UAE have had more than 3/4 of the Arab investments from 1995 until 2006.

Multilateral organizations (MO)

The Arab countries receive 11.4% of the total ODA given by the multilateral organizations to all developing countries. The annual assistance is estimated to be 2 billion dollars (2000-2006); this amount remained aproximately the same from 2004. The MO's contribute to 16.5% of the ODA the Arab countries received between 2000 and 2006, as mentioned previously.

The Palestinian share of the ODA presented to the Arab world by the MO's was 22.7% due to the ODA cessation by OECD/ DAC dominating countries (USA and EU) after Hamas taking over the government in the Palestinian Territories. Sudan is the second country after Yemen and Palestine to receive the ODA offered by the MO's to the Arab countries (9.6% and 7.1%). The shares were as follows: Djibouti 0.6%, Comoros 1.5% and Somalia 3.4%. Thus, the low income or the less developed Arab countries received 45% of the total ODA destined to the Arab world from 2000 until 2006. This shows that the MO's targeting towards the ODA is closer to less developed counties' priorities and needs.

Official Development Assistance in Arab countries

Multilateral organizations providing the Arab world with the ODA include the European Commission followed by the Arab agencies, then the International Development Agency (IDA), and United Nations organizations such as United Nations Transitional Authority (UNTA), United Nations High Commissioner for Refugees (UNHCR), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) , and the United Nations Population Fund (UNPF).

European Commission

From 2000 till 2006, the European Commission donated 42 billion dollars to all the developing countries. The Arab countries part was about 7.6 billion dollars, or 18.2% of the total donation; the annual average was equal to 1.1 billion dollars. The European ODA given to the Arab countries was less than 1/10 (9.2%) of the total assistance received by these countries during the period 2000-2006.

The European ODA handed to the Arab countries remarkably increased to 627 million dollars in 2000 and 1.7 billion dollars in 2006. The Arab share of the European ODA rose from 16.5% in 2000 to 20.2% in 2006. The Arab Mediterranean member states of the Euro-Mediterranean Partnership/ Barcelona Process presented 73% of the European ODA destined to the Arab countries: Morocco - 18%, Palestine - 15.5%, Egypt - 11%, Tunis - 10% , Algeria - 5%, Jordan - 4.8%, and Syria - 3%.

The 2000-2006 European ODA is listed in the Euro-Mediterranean Partnership MEDA II program (MEDA I program was carried out between 1995 and 1999). The Assistance was affected by the political evolution of the Palestinians. The European Commission assistance increased between 2000 and 2002 from 62.5 to 171 million dollars, it remained the same during the years 2002, 2003 and 2004, and then it rose in 2005 and 2006. This oscillation is due to the political conditionality imposed by the European Commission. The European Commission dedicated 11.5% of the total Arab-destined ODA to Iraq, and Sudan only got 3.7% of it.

The 2005 and 2006 OECD statistics showed that among the top ten developing countries that receive European ODA, Turkey is in the first place followed by Morocco, then Sudan and Egypt, and Palestine was classified the seventh.

The European ODA given to Algeria was reduced: it was around 51.5 million dollars in 2000 and became negative in 2006 (Debt reimbursement > Gross ODA). The assistance given to Jordan fell from 80.5 million dollars (12.8%) in 2000 to 50 million dollars (3%) in 2006. The share of Sudan, Tunisia, Egypt, Palestine and Lebanon increased. Sudan got the highest share increase. About 40% of the European ODA was allotted to the social sectors.

Arab agencies (table 12)

The Arab funds contribution to the ODA given by the MO's is low: 1.8% in 2006. The ODA donated to the Arab world between 2000 and 2006 is almost marginal, with an average that equals 27.7 million dollars, or 0.23% of the total ODA the Arab countries received during this period. Figures below show, for example, that in the years 2000 and 2001 the ODA debt reimbursement was higher than the gross ODA. Thus, the net ODA was negative. The Arab countries' share of the Arab ODA funds constituted 22% of the total amount in 2005 and 19% in 2006. The three Arab countries that benefited from 60% of the Arab agencies' ODA were: Yemen 23% (annual average = 6.3 million dollars), Palestine 19.2% (annual average = 5.3 million dollars), and Mauritania 17% (annual average = 5 million dollars). As for Egypt and Morocco, each one of them got 15% of the ODA (annual average = 4.2 million dollars).

The net ODA was low as the following table shows.

Million dollars	2002	2003	2004	2005	2006
Gross ODA	298	202	536	491	680
Net ODA	139.4	44.1	280.2	252	411
Gross ODA/Net ODA (%)	**46%**	**2.2%**	**52.2%**	**51.5%**	**60%**

Except for the year 2003, the net ODA was very weak. The average net ODA/ gross ODA was between 40% and 60% knowing that the assistance evolution was swinging (it decreased in 2003 and 2005 and increased in the other years – please refer to the table). For instance, the net ODA (the difference between the ODA and the debt reimbursement) of the Arab Fund for Economic and Social Development (the most important Arab agency for donations) was relatively low between 2000 and 2006.

The ODA distribution by sectors

The 2005 and 2006 international available data classifies the ODA in five sectors as follows:

PERCENTAGE %	SECTORS
31.9	**1. Social infrastructure and services**
6.9	**1.1 Education**
4	**1.2 Health**
	1.3 Housing and reproductive health
17.2	**1.4 Provide water and sanitation**
	1.5 The government and the civil society
	1.6 Social infrastructure and other services
11	**2. Economic infrastructure**
5	**3. Production sectors**
9.5	**4. Cross cutting sectors**
46	**5. Other sectors**
24.5	**5.1 Including debt reimbursement**
100%	**Total: 1+2+3+4+5**

Official Development Assistance in Arab countries

Sectors with social dimensions get 31.9% of the Gross ODA given to all developing countries under a bilateral frame (2005-2006). Education is receiving 6.9% of the ODA while health, housing and reproductive health are receiving 4%. Other social sectors such as providing water and sanitation and supporting the government and civil society, and other social sectors get 17.2%. Debts resulting from the ODA are 24.5% of the ODA itself!

By focusing on the social sectors and examining the available figures in most, not all, of the Arab countries that got a part of the ODA from 2000 until 2006, we find that the average of social sectors benefiting from the bilateral ODA is lower than the international average (31.9%): In Mauritania (19.8%), Sudan (23%), Yemen (22.3%), Iraq (22%) and Jordan (14.05%).

Thus, it is highly recommended to reconsider the ODA sectorial distribution to avoid this deficit. The education sector does not get a sufficient part in comparison with the international rate (6.9%) in both of Sudan (2.5%) and Iraq (0.8%).

Health, housing and reproductive health sectors in most of the Arab countries are getting a very low percentage of the assistance. In addition to the fact that one of the Millennium Development Goals (MDG's) related to maternal mortality reduction will not be achieved in most of the Arab countries within the requested time period. It is inevitable to highlight this crucial issue and to concentrate the ODA more efficiently on health. Other social sectors' (water, sanitation, civil society, etc.) shares are below the international average, mainly in Mauritania, Somalia, Iraq, Syria and Saudi Arabia.

Public social sector expenditure (education-health)

Education

Comparing Arab countries to each other shows many differences related to public expenditure on education (as a proportion of the GDP). Five Arab states assign 6.7% to 9.6% of the GDP to this sector: Yemen - 9.6%, Djibouti - 7.9%, Tunisia - 7.3%, Saudi Arabia - 6.8%, and Morocco - 6.7%. However, taking into consideration the gross school enrollment rate (in all levels of education) that is relatively low in the five countries, raises the issue of public expenditure efficiency. Allocating part of the ODA to enforce the institutional education capacities, to rationalize the public expenditure and to increase efficiency is thus necessary.

Contrary to these countries that allocate high rates to education, countries that assign very low rates to the sector are the UAE 1.3%, Qatar 1.6% and Mauritania 2.3%. Enrollment rates in Mauritania (45.6%) and UAE (59.9%) are weak. This raises the issue of using the ODA in Mauritania in particular to support and rationalize the government effort in the education sector.

The public education expenditure rate in Mexico (5.4%) is close to Kuwait (5.1%), but in Mexico the enrollment rate is (81.5%) higher than the rate in Kuwait (74.9%).

In conclusion, Arab countries suffer, in different degrees, from a weak government effort on the education sector. The average per capita income in 2005 was $6,716 (PPP) and $5,882 in the developing countries. Enrollment average is 65.6% in the Arab countries and 64.1% in the developing countries. Thus, it is necessary to orientate ODA towards improving the education sector in general. Saudi Arabia and Oman are the top two countries that urgently need to prioritize the education sector. Djibouti and UAE also have to improve this sector through using government efforts and ODA.

Health

Here, we consider life expectancy and public expenditure in this sector. The health sector does not get enough priority from the governments in the low income countries where life expectancy is relatively low. In general, Arab governments assign health related rates varying between 1.8% in Comoros and 3.8% in Lebanon with a life expectancy at birth between 61.5 years in Yemen and 77.3 years in Kuwait.

Other indexes related to health conditions, such as child mortality rate, show, (according to UNDP reports) that three countries need very urgent implementation of the MDG's: Iraq, Somalia and Sudan. Three other countries have to do the same: Djibouti, Lebanon and Yemen.

As for maternal mortality, as previously mentioned, the situation in the Arab countries does not show that the MDGs are likely to be achieved. Therefore, it is strongly recommended to orientate the ODA towards the health sector and to improve the government targetting and efficiency in this vital sector.

Public military expenditure–debt and ODA

It is important to mention some other aspects related to the public behavior in dealing with obstacles to development.

Military expenditure

There is no doubt about the importance of the Arab world due to its geostrategic location and large fuel reserve, in addition to the Arab-Israeli conflict and the foreign ambitions. Therefore, most of the Arab countries allocate high amounts for military issues (military expenditure as part of the GDP). This allocation is very high in Oman (11.9%) and Saudi Arabia (8.1%), high in Yemen (7%), Jordan (5.3%) and Syria (5.1%), and less high in Kuwait (4.8%), Morocco (4.5%), Lebanon (4.5%) and Djibouti (4.2%). This public military expenditure is a diversion of national resources devoted to human development

Debt

The annual debt service rate as part the GDP is very high in Lebanon about 16.1% in 2005. This is contrary to Syria where the rate is 0.8%, considered to be very low, which is the case also in Comoros 1%, Yemen 1.4% and Sudan 1.4%.

Official Development Assistance in Arab countries

As for the Maghreb countries, they suffer from high rates: Tunisia 7.2%, Algeria 5.8%, and Morocco 5.3%. This is contrary to Syria where this rate is 0.8%, considered to be very low, which is the case also in Comoros 1%, Yemen 1.4% and Sudan 1.4%.

By comparing the ODA to public military expenditures and debt service, the following would show that:

- In the Arab less developed countries, the ODA plays a major role because it compensates to some extent the lack of resources and capabilities usually devoted to development in general and social expenditure in particular and that might be used for armament and debt reimbursement. Without the ODA, these countries could not survive.
- In the Arab middle-income countries, the ODA only contributes to decrease the lack resulting from the military efforts and debt reimbursement.

The main issue in Lebanon, Morocco, Algeria[2], Jordan, Tunisia and Egypt is the indebtedness, and then comes the reduction of the military burden especially in Morocco, Lebanon, Syria and Jordan. For these countries the received ODA as part of the GDP is relatively weak, around 1%, except in Jordan 4.9%. Thus, the reduction of the debt and/or the raise of the ODA amounts and the improvement of the targeting process are on the agenda .

Table 1

Donor: All Donors, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	4817,85	5379,86	6802,82	8358,12	11389,16	29330,53	17149,28	83227,62	11889,66
To all recipients	40791,37	43177,91	51122,8	57305,25	63460,77	92489,86	89355,9	437703,9	
%	11,81%	12,46%	13,31%	14,59%	17,95%	31,71%	19,19%	19,01%	

[2] The situation in Algeria is less complicated because the high gas and fuel returns help this country to reimburse a big amount of debts.

Official Development Assistance in Arab countries

Table 2

Donor: DAC Countries, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	3085,19	2993,29	3264	6090,67	8900,44	26445,63	13725,57	64504,79	9214,97
To all recipients	28002,59	27671,11	32605,75	40391,97	42630,48	70550,97	63280,37	305133,2	
%	11,02%	10,82%	10,01%	15,08%	20,88%	37,48%	21,69%	21,14%	

Table 3

Donor: United States, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	982,82	952,77	1460,6	3397,77	4846,02	13011,68	6482,79	31134,45	4447,78
To all recipients	5442,22	6188,6	8083,76	12159,01	12535,17	21895,65	17439,35	83743,76	
%	18,06%	15,40%	18,07%	27,94%	38,66%	59,43%	37,17%	37,18%	

Table 4

Donor: Germany, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	245,91	406,67	243,53	318,81	325,78	2419,67	870,09	4830,46	690,07
To all recipients	2222,03	2377,82	2834,35	3536,42	3213,54	6751,27	6172,04	27107,47	
%	11,07%	17,10%	8,59%	9,02%	10,14%	35,84%	14,10%	0,18	

Official Development Assistance in Arab countries

Table 5

Donor: French, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	696,1	642,29	568,81	734,8	851,46	1606,52	1795,52	6895,5	985,07
To all recipients	2357,06	2015,94	3295,54	4792,27	4920,03	6574,2	7418,08	31373,12	
%	29,53%	31,86%	17,26%	15,33%	17,31%	24,44%	24,20%	21,98%	

Table 6

Donor: Japan, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	580,57	348,52	192,27	300,33	880,57	3491,44	941,49	6735,19	962,17
To all recipients	8176,49	6321,13	5650,05	5224,63	4677,61	9211,97	6167,2	45429,08	
%	7,10%	5,51%	3,40%	5,75%	18,83%	37,90%	15,27%	14,83%	

Table 7

Donor: United Kingdom, Total
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	54,07	60,55	98,71	260,64	528,02	1602,62	565,83	3170,44	452,92
To all recipients	2133,77	2040,56	2735,65	2890,92	4206,98	6949,16	7384,64	28341,68	
%	2,53%	2,97%	3,61%	9,02%	12,55%	23,06%	7,66%	11,19%	

Official Development Assistance in Arab countries

Table 8

Donor: Non DAC Members
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	457,12	668,71	1986,97	392,37	373,75	532,73	562,5	4974,15	710,59
To all recipients	902,65	1189,07	2852,53	785,02	1031,18	1605,1	3723,3	12088,85	
%	50,64%	56,24%	69,66%	49,98%	36,24%	33,19%	15,11%	41,15%	

Table 9

Donor: Arab Countries
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	438,84	622,2	1957,94	277,61	202,4	237,47	240,47	3976,93	568,13
To all recipients	581,03	878,69	2460,41	301,34	280,55	358,82	2285,22	7146,06	
%	75,53%	70,81%	79,58%	92,13%	72,14%	66,18%	10,52%	55,65%	

Table 10

Donor: Multilateral
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	1275,54	1717,86	1551,85	1875,08	2114,97	2352,17	2861,21	13748,68	1964,10
To all recipients	11886,13	14317,73	15664,52	16128,26	19799,11	20333,79	22352,23	120481,8	
%	10,73%	12,00%	9,91%	11,63%	10,68%	11,57%	12,80%	11,41%	

Official Development Assistance in Arab countries

Table 11

Donor: European Commission EC
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	627,06	857,54	757,18	1125,48	1277,81	1313,14	1703	7661,21	1094,46
To all recipients	3786,96	4862,48	4548,85	5594,2	6980,52	7690,62	8489,95	41953,58	
%	16,56%	17,64%	16,65%	20,12%	18,31%	17,07%	20,06%	18,26%	

Table 12

Donor: Arab agencies
Amount: Current Prices (USD millions)
Type of aid: ODA Total, Net disbursements

Year	2000	2001	2002	2003	2004	2005	2006	Total 2000-2006	Moy. 2000-2006
Total Arab Countries	-0,29	-1,74	31,66	-1,17	35,09	52,88	77,72	194,15	27,74
To all recipients	35,16	139,56	139,43	44,11	280,26	251,98	411,05	1301,55	
%	-0,82%	-1,25%	22,71%	-2,65%	12,52%	20,99%	18,91%	14,92%	

Table 13 - Net ODA Arab Countries by donors (2000-2006)

Donors	All donors	DAC Members	USA	Germany	French	Japan	United Kingdom
Total Arab Countries (millions USD $)	83227,62	64504,79	31134,45	4830,46	6895,50	6735,19	3170,44
%		77,50%	37,41%	5,80%	8,29%	8,09%	3,81%

Table 13 (part 2)

Donors	Non DAC Membe	Arab Countrie	Multilateral	European Commiss	Arab Agencies
Total Arab Countries (millions USD $)	4974,15	3976,23	13748,68	7661,21	194,15
%	5,98%	4,70%	16,52%	9,21%	0,23%

Aid conditionality and democratic ownership

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

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

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

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

The Paris Declaration and democratic ownership

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

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

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

Aid conditionality and democratic ownership

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

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

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

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

Conditionality violates the democratic process

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

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

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

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

Aid scenario and strategies in Bangladesh

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

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

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

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

Aid conditionality and democratic ownership

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

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

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

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

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

The Asian Development Bank in Bangladesh

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

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

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

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

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

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

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

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

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

Khulna Jessore Drainage Rehabilitation Project (KJDRP)

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

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

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

Sundarbans Biodiversity Conservation Project

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

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

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

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

Conclusions

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

Aid conditionality and democratic ownership

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

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

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

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

International Financial Institutions (IFIs)– The major barrier to change in the aid system

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Introduction

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

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

IFIs and conditionality

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

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

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

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

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

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

The dominant position of the IFIs

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

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

[1] www.dfid.gov.uk

International Financial Institutions(IFIs)– The major barrier to change in the aid system

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

Overall the SAPs proved of no use in Bangladesh, leading the World Bank to introduce Poverty Reduction Strategy Papers (PRSPs). However, this was still prescribed by the WB and IMF and agreed to by other donor agencies including the ADB. It reiterated the free market, privatization and liberalization conditions of the SAPs and the country was forced to accept and implement this PRSP as a precondition for receiving money from the donors. Like other countries, Bangladesh is bound to prepare a PRSP every three years to qualify both for concessional lending from the World Bank and IMF and for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.

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

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

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

[2] "Breaking the Cycle of Neo-liberal Hegemony : How World Bank and IMF Stand Against the People," Voice, January 2008

International Financial Institutions(IFIs)– The major barrier to change in the aid system

This dominant position has not changed in recent times. The World Bank, ADB, DFID and Japan have prepared a joint Country Assistance Strategy (CAS) for Bangladesh for 2005-09. The CAS is aligned with the PRSP and encourages other donor agencies to collaborate at the sector level through improved coordination of implementation. By these means, the IFIs continue to dominate the other agencies and get them to implement their strategies and policies.
Nor have the IFIs reduced their influence in the face of the emergence of Sector Wide Approaches (SWAPs) in the fields of health and primary education. They are yet to align themselves with these country procedures.

Impact of IFI policies

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

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

In June 2003, the IMF provided Bangladesh with a loan to be released in three years in three installments, with some of the conditions being the renovation of government banks and the privatization of the Rupali Bank. The reform of the banking sector of Bangladesh has already been initiated by the Government of Bangladesh, the name of the project being 'Industry Development and Bank Modernization', with another one called 'Central Bank Strengthening Project' already in hand. The privatization of banks could hamper the capital market as well as the economy as the government would be dependent on foreign capital for a longer period and would lose control over the economy.

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

International Financial Institutions(IFIs)– The major barrier to change in the aid system

At the macro-economic level, the IMF has also played a major role in Bangladesh in fixing the national salary structure, reducing the interest rate of *Sanchay Patras* (savings scheme) and raising the exchange rate of the dollar against the local currency taka. These policies have significantly impacted upon people's livelihoods. When investment was much needed to accelerate growth and provide key services to reduce poverty, the IMF-imposed tightening of the credit supply brought strong protest from the country's business community. In the end, tightening the money supply and credit growth through raising interest rates failed to maintain macroeconomic stability; rather, it increased the cost of investment and thus had a negative impact on output and employment. The result, at the end of 2007, was that inflation was creeping up to double digits, but at the cost of investment, employment and GDP growth.

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

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

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

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

The Asian Development Bank in Bangladesh

International Financial Institutions stress quite explicitly the necessity of cost

[3] Global Capital vs Local Economy : Conditionalities of the IMF and Fiscal Reform, Voice, January 2008

International Financial Institutions(IFIs)– The major barrier to change in the aid system

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

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

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

The World Bank has also confirmed it's commitment to support the water sector in Bangladesh and noted that the sector requires about $8 billion dollars' worth of investment over the next 20 years. An obvious means, and presumably the one preferred by both agencies, to finance the water projects would be private investment gradually pushing the water sector towards privatisation.[4]

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

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

ADB has also tagged a lot of prescriptions onto its aid, providing a policy prescription

[3] Water for Sale, Dhaka WASA Privatization, Tanim Ahmed, Voice 2008

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

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

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

Conclusion

The International Financial Institutions represent a significant barrier to the achievement of the Paris Declaration principles and the achievement of development goals more generally. They play a very significant role in shaping the policies, strategies and priorities of the developing countries that they work with. They continue to impose policy conditions, particularly related to the liberalization of markets and the privatization of national companies along neo-liberal economic lines. They also impose rules on macro-economic stability, interfering in monetary policy in a way that does not allow countries to invest in their own development.

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

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

International Financial Institutions(IFIs)– The major barrier to change in the aid system

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

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Accountability and managing for results, accountability to whom? Who hold whom accountable?

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Introduction

Each principle of the Paris Declaration is separately and mutually important to achieving the effective use of aid to produce actual results on the ground. Mutual accountability is a significant mechanism through which donors and partner governments commit to being responsible for development results.

However, 'accountability' can mean many things in different contexts and it is important to define it; a key question is always 'accountability to whom?' For example, the donors themselves are accountable to their own parliaments and citizens on the use of their money. On the other hand, the recipient governments are required to be accountable to the donors for the fund and project or program implementation.

What can be our understanding of the 'mutual accountability' in aid referred to in the Paris Declaration? The focus here is not so much on who is accountable to whom. The Declaration calls for both the "donors and partner governments to mutually account for development results." Therefore, rather than being accountable *to* someone, it is understood that the donors and partners are meant to hold each other accountable *for* something - in this case, the delivery of aid.

Applicability and limitation of mutual accountability

Whether the mutual accountability of the Paris Declaration is a well-defined principle remains questionable and there is certainly no provision of a mechanism to make the accountability principle work in the Declaration itself. We would suggest, however, that four basic elements are necessary to make accountability work: *commitment; measurement; enforcement; and an enabling environment*. This article will consider mutual accountability in the framework of these four elements.

Graph 1: Key elements to make accountability work

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Commitment to account for development results

A positive element of the Paris Declaration was the recognition from donors and developing country governments of the need to count the actual results on the ground for measuring whether aid achieves its intended goals.

However, it does not go far enough in identifying specific roles for parliaments and CSOs. This has meant that while it highlights the need to strengthen the role of participation from a broad range of development partners in formulating, implementing and assessing the national plans/strategies, the parliaments and CSOs have been largely disregarded, allowing the government and donors to avoid public oversight.

In Cambodia, despite the clear commitment made in the Paris Declaration to strengthen the parliamentary role in national development strategies and/ or budgets, the Declaration of the Royal Government of Cambodia made only more general commitments to strengthen the roles of all stakeholders in the planning and implementation of development cooperation programs - not quite the national plan and/or the budget.

Similarly, while the PD commits to the provision of timely, transparent and comprehensive information on aid flow so that partner governments can present comprehensive budget reports to their legislatures and citizens, the Cambodia Declaration is all about transparency and accountability of the official development assistance only, not the national budget as a whole . This does not quite amount to mutual accountability on development results, since ODA comprises only half of Cambodia's national budget.

Measurement of development results

The principle of 'managing for results' suggests the need for measurements to inform result-oriented reporting and assessment of the national plan implementation. Due to the commonly low capacity of partner governments, a manageable number of impact indicators are chosen. However, recipient governments generally fail to develop sufficient input and output (intermediate) indicators to keep track of the progress over time which would allow them to better manage the likely outcomes and impacts. As stated by David Booth and Henry Lucas (odi: 2002, p23) "final outcome data are largely useless for providing the sort of quick feedback on PRSP performance that is most needed for learning and accountability purposes."

There are 43 indicators to guide the monitoring and evaluation of Cambodia's national plan, around 30 of which are final outcome and impact indicators mainly derived from Cambodia's MDGs. These outcomes and impacts are hard to observe or measure in the short-term and do not adequately reveal the effects of specific policies or implementation.

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Many annual measurements are too macro in level. For example, the indicator measuring total annual expenditure as a percentage of GDP does not paint the picture of whether the budget is spent correctly and most appropriately. The indicators, therefore, leave the government with insufficient information over the intermediate results of its national plan, to be able to adjust the program and plan effectively.

Moreover, of the 43 NSDP monitoring and evaluation indicators, only 16 are measured by the data collected through the annual tracking surveys of the National Institute of Statistics. The other 27 indicators are largely dependent on the administrative data from relevant line ministries.

However, due to weak governance in most least developed countries, the administrative data systems are poor. In Cambodia, the public expenditure tracking survey in education demonstrated that a major challenge remains the poor administrative data record.

Despite the adoption of the NSDP monitoring and evaluation framework, the NSDP claims itself not to preclude the need to undertake participatory approaches for more focused monitoring and evaluation purposes. New and innovative tools, such as citizens' scorecards rating the perception of change and satisfaction with the quantity and quality of different public services, are supposed to be employed to enhance participatory elements and feed voices from the grassroots level into the NSDP monitoring and evaluation. However, this has practically never been observed and Royal Government acceptance of CSO inputs into the Annual Progress Report has been minimal.

How participatory the national development plan process is and to what extent the plan takes the voice of civil society into account and responds to the needs of the poor and vulnerable is a level of consideration that the Paris Declaration indicators are not able to track and answer.

Enforcement of accountability

The principle of mutual accountability implies that the donors and partner countries are accountable for development results. However, the key to the accountability mechanism rests on the issue of who holds who accountable and the declaration shows the limitations of enforceability when two parties of development monitor each other. While governments tend to blame donors for their poor co-ordination and using aid to serve their own interests, the donor groups accuse the government of corruption and bad governance.

For accountability to work and for aid to have more of an impact on poverty reduction, the presence and acceptance of an independent third party or parties with a monitoring role is crucial. To complement mutual accountability and enforce the commitments made by the donors and partner governments, they should be monitored and held accountable by the recipient citizens and/or their representatives.

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Two complementary principles are essential for this accountability to work:

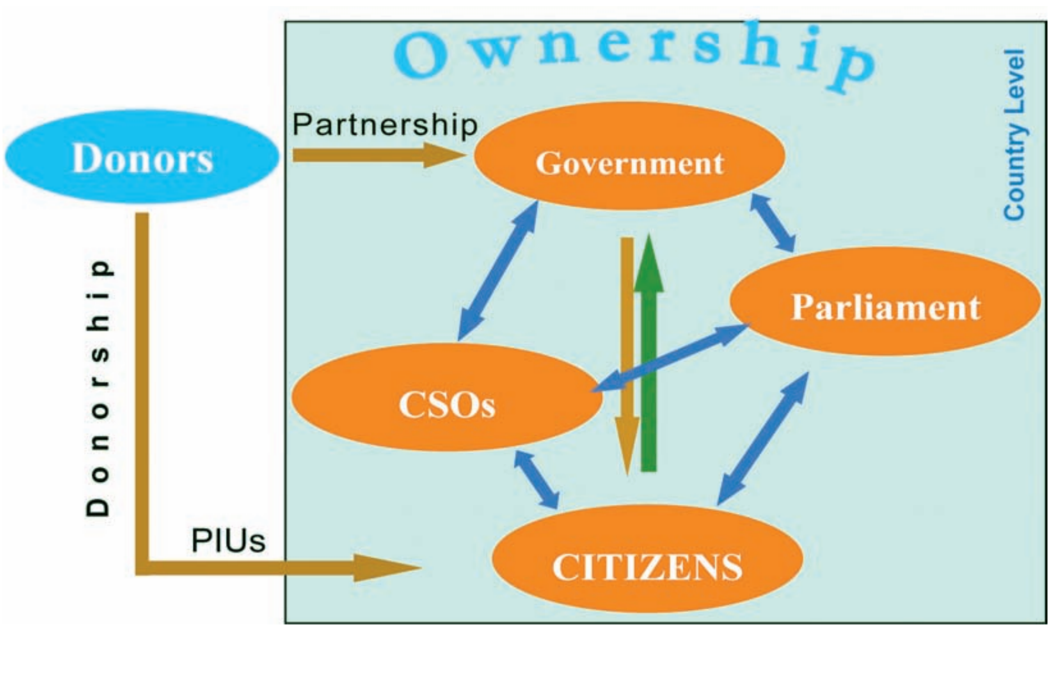
1. country ownership; and
2. democratic ownership.

Country ownership implies that partner countries exercise the leadership role in developing and implementing their national development strategies. This is essential in ensuring that the governments' primary responsibility is to its own citizens and not to the donors. Furthermore, if the recipient governments are permanently accountable to the donors, then the donors will never exit the country, but leave it forever aid-dependent.

Democratic ownership then means not only that the government is not beholden to the donor, but that it is genuinely accountable to the people. In principle, the government (elected by the citizens) is supposed to serve the interest of the country as well as the people. The citizens are then assumed to receive development services necessary to them and voice their concerns back to the government and demand improved services. The people can hold the government accountable for their policy choices and performance either directly, through civil society organizations representing their constituency, or through the parliament they elected.

Graph 2 represents the framework of ownership that sets out the required relationships of accountability among the development stakeholders both locally and internationally.

Graph 2: development framework towards democratic country ownership



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Genuine accountability requires transparent processes, access to the necessary information and citizens who are empowered to freely exercise their rights and freedom in the society. The balance of power between the key development actors (citizens, CSOs, parliament, and government) at country level is important. An effective system and robust mechanism must be in place and institutionalized, owned and exercised by those key actors with donors as facilitators or catalysts on a temporary basis.

Parliaments

The UNDP report (2003a) suggested that the monitoring report of the PRS or national plan should principally be considered as the report to the national audiences, and secondarily to the donors and lenders. Evidenced by a study of the 28 sub-Saharan Africa countries involved in the PRS process, GTZ (2003) found monitoring and controlling the actions of the executive was one of the fundamental functions of the parliament and was embedded in the constitution of the studied countries.

Pain (2003) suggests that "in a truly democratic environment, parliament should be in overall responsible for the monitoring of the PRS." It is particularly important to pay attention to countries such as Vietnam, Cambodia, and Yemen where the national plans are expected to be debated and approved by the parliament. Unfortunately, the study by GTZ (2003) also found that despite its legitimate role recognized in the constitution of the studied countries, the parliaments rarely apply effective oversight.

Article 121 of Cambodia's constitution states that: "Members of the Royal Government shall be collectively responsible to the National Assembly for the overall policy of the Royal Government." However, the monitoring and evaluation report framework of the National Strategic Development Plan (Cambodia's PRS) does not identify to whom the report is prepared and accountable, rather the document serves as the government's report to the annual aid mobilization meeting between the government and donor community.

Confirmed by the government's annual progress report of the NSDP in 2006, the report is even considered as a 'State of the Nation' annual record and the government's position paper for the Cambodia Development Cooperation Forum, which is the Government-Donor High Level Forum for development review and aid mobilization.

This implies that the parliament - which enacted the national plan - either does not formally receive the report from the government or is not authorized to hold the government accountable for it. The donors are supposed to facilitate improvements in governance and overcome any lack of political will for reform. However, despite their commitment to working toward country ownership, the donor community tends to overlook the strengthening of local governance systems. Furthermore, it even

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disables the country's existing structure by demanding accountability directly from the partner government rather than using existing domestic governance mechanisms.

Civil Society Organizations

While suggesting the important role of the parliament as a key user of the PRSP monitoring information, the World Bank's Beyond the Numbers report (2006) observed that the parliaments in many PRS countries are generally unable to effectively exercise their roles over the executive due to their low capacity and lack of support from analytical and research staff. Therefore, civil society groups are seen as sources of expertise to assist them.

Independent CSOs such as NGOs, media, academia, and research institutes, should be entitled and able to monitor the national plan at the country level. It is observed that in some types of monitoring, CSOs can often do better and be more effective than the government, especially in qualitative approaches such as participatory poverty assessment, service-delivery satisfaction surveys, and citizen report cards.

> In early 1990s, UNTAC and donors sought to promote the emergence of Cambodian civil society, usually viewed as a set of formal organizations that could mobilize and represent the population and hold the government to account. .... to an extent, such NGOs have been secured a place in the policy process, although their rights to be consulted on legislation and policy are still to a great extent dependent upon their international backing.
>
> NGOs have been reluctant to campaign on political issues, such as extrajudicial execution of political opponents, often leaving these to international counterparts. Where NGOs have become involved in grassroots protest, they have been threatened and their activists arrested. Thus, while government appears content to receive technical advice from NGOs, they have resisted allowing NGOs to take a role as mobilizers of public opinion.
>
> *Source: Caroline Hughes and Tim Conway (odi: Jan 2004). Understanding pro-poor political change: the policy process in Cambodia.*

Together with the commitment to work towards participatory and transparent processes, strengthening the monitoring and evaluation capacities of CSOs is essential for successful independent monitoring of the government's performance against the desired goals of the national plan . This must include the diversity of civil society voices, as recognized in the WB's Beyond the Numbers report (2006, p88).

CSOs intervene to provide space for citizens to participate and hold their government accountable either directly by themselves or through their representatives – CSOs or the parliament. The question of representativeness and legitimacy of CSOs is often raised. However, by definition, CSOs are "all non-market and non-state organizations and structures in which people organize to pursue shared

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objectives and ideals."[1] Therefore, CSOs are representing their membership and constituency and they are legitimate because it is the people's rights to mobilize and associate among themselves[2].

Citizens/Communities

From a human rights perspective, citizens are the right holders to be protected under the provision of law so that their basic needs are met while the government is the right bearer who must realize this compulsory obligation. In a democratic society, citizens hold their government to account by voting for their political representatives in periodic elections.

In Cambodia, citizens vote for the Commune Council members and representatives to the National Assembly. Once elected, it is expected that the government leaders will formulate policies, design programs and make decisions in accordance with broad public opinion, or at least based on the expressed needs of the people. However, political participation through voting in elections provides citizens with minimal feedback to and influence over decision-makers[3].

Trasmonte Jr (presentation paper, 2004) asserts "people whose lives are affected by a decision must be part of the process of arriving at that decision."[4] The actual and potential service users who are most directly concerned with the availability and quality of a service should be both authorized and encouraged to play a larger role in monitoring of the delivery of those services[5].

Unfortunately, the World Bank Development Report 2001 concludes that "from perspectives of the poor people worldwide, there is crisis in governance. State intuitions…are often neither responsive nor accountable to the poor, rather the report details the arrogance and distain with which poor people are treated."[6]

Concerns are often raised around challenges to involving communities in the monitoring of service delivery or the national plan, such as processes and community capacity. However, simple instruments have already been developed to facilitate this communication, for example participatory poverty assessments, service-delivery satisfaction surveys, and citizen report cards. These simple tools help provide a picture of reality on the ground.

In Cambodia, Citizen Rating Report (CRR) uses systematic collective feedback from citizens to assess people's satisfaction with social services and other governance matters and demand greater public accountability[7]. Unlike other international experiences with parallel initiatives (such as the report cards of India and the Philippines), the Cambodian model CRR is a localized version, where citizens themselves generate, package and act on the CRR results.

Cambodia's constitution also provides for an annual public forum called 'National Congress'. This should allow and enable the people to be directly informed on various matters of national interest and to raise issues and requests for the State authority to solve.[8] It is supposed to adopt and submit recommendations to the Senate, the National Assembly and the government for reflection. The Congress should be held annually under the chairmanship of the King and at the convocation of the prime minister. However, this mechanism is not working due to governance issues and the poor functioning of genuine democracy and the donor community has never made any effort to activate it.

Enabling environment

To enable commitments to be monitored and enforced, the Paris Declaration notes the significance of transparency in the use of the development resources. The donors commit to provide timely, transparent and comprehensive information on aid flow so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.

Access to information is key to monitoring and oversight and transparency is about making the necessary information available to and accessible to all stakeholders, including the general public. It is important to note that 'availability' does not guarantee 'accessibility'. Since the government's business is public business - utilizing public resources to produce public goods and services to serve public interests - citizens have the right to be informed. For example, the Cambodian constitution states that "the National Congress shall enable the people to be directly informed on various matters of national interest." [9]

Furthermore, it is not enough for the authorities to make information available and accessible upon request. Information must be made available to citizens without having to be asked for. This also means that information should be made available in an accessible and understandable format.

Recommendations

Overall, the Paris Declaration's principles of mutual accountability and managing for results require the four components of commitment, measurement, enforcement and an enabling environment to make accountability really work. However, efforts are still needed to implement effective systems for assessing development results and reinforcing accountability. That can be made possible by:

1. **Commitment and measurement need to be operational and realistic at the country level.**

   Various global initiatives usually create proposed indicators and targets for long-term impact measurement, which countries generally adopt for their own development purposes and efforts. However, final outcome data does not provide for quick feedback on PRSP performance that would enable effective monitoring and policy improvements. Therefore, the monitoring framework of the national plan (PRS) should be more focused on input and output indicators that allow the government to track the intermediate results necessary to achieve the desired outcomes and impacts.

Participatory approaches should also be used to better inform the monitoring, particularly to understand the impact of policies on people on the ground, including the most disadvantaged.

2. **Citizens – either directly by themselves and/or through CSOs and Parliament – must be able to hold the government and donors to account for development results.**

The sense of mutual accountability should not be limited to the principle that the government and donors account for development results, but the question of who they are accountable to must be addressed. The donors and partner government are policy designers, decision-makers, and program implementers and, as such, should both be held to account for the results of their commitments, policy choices, and actions by the citizens and their representatives, the CSOs and the parliament.

3. **The government should be primarily accountable to its citizens and parliament, rather than the donor community.**

Donors are assumed to work in partnership with the government to bring the poor and vulnerable out of extreme poverty and to empower the country to be able to take the leadership role of their own development. In this sense, the donor community should not demand much upward accountability from partner government, but rather encourage the government to primarily respect and account to its voters.

The success of the donors' mission should be counted when partner countries can take leadership over their own development agenda in a genuine democratic way where citizens and their representatives are empowered.

4. **Donors should be more as facilitators and architects of partner countries' democratic governance system.**

The donor community should not try to reinvent governance systems which disempower or even disable existing local governance structures and leave the country aid-dependent. Rather, they should use these mechanisms to strengthen accountability to the citizens. For example, donors should encourage the convocation of 'the National Congress' foreseen by Cambodia's constitution to provide a platform for citizens to hold the government to account.

Furthermore, donors are not just required to work in partnership with the government, but with the parliament and the CSOs. Donors should strengthen country governance through a strategy of building the

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capacity of all key stakeholders, including NGOs and parliaments.

5. **CSOs should be recognized as the government's key partners in policy processes.**

   To enable CSOs to play a fully effective role in monitoring policies and their implementation, they have to be recognized as key partners with clear roles in policy processes. Furthermore, all processes must be transparent and necessary information needs to be made publicly available and accessible to them.

6. **The government should be open to participation and public oversight.**

   For them to take democratic leadership over the development process for the benefit of the people they represent, the government should listen to and take into consideration the people's voices. The government should be open to feedback and oversight from the people on their policy choices and action so that they can redirect their leadership towards the country's development and poverty reduction. The government should also respect voters through their representatives – parliamentarians and CSOs.

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Aid is power - The challenge for CSOs and democratic ownership

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International NGO Forum on Indonesian Development (INFID)

Introduction

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

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

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

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

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

[1] John Pilger, *The New Rulers of the World*. London & New York: Verso, 2002.

Aid is power - The challenge for CSOs and democratic ownership

Despite the poverty, violence and denial of the rights of the people, the donors were well coordinated in supporting the military dictatorship of General Suharto through the IGGI (Inter-Governmental Group on Indonesia). Every year, before the government approved the annual budget, the development plan had to be submitted to an IGGI Meeting for approval. This was replaced by the CGI (Consultative Group on Indonesia) in 2002, until early 2007, when it was terminated by President Susilo Bambang Yudoyono.

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

Democratic ownership

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

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

Since both providers and recipients are public institutions that represent their countries, their freedoms in the aid market transactions should be limited by the mandates of their citizens. Where the citizens have little or no control over the actions of their government the democratic ownership breaks down. In the Indonesian case, the senior bureaucrats who are the main actors in the aid negotiations are still from the previous regime and were recruited not based on merit but on collusion and nepotism. These technocrats are the prolongation of the interests of the multilateral financial institutions and transnational corporations rather than the citizens. In such cases, it is clear that it is against the spirit of democracy when ownership of aid is limited to government ownership.

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

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

Donors Club: Against the spirit of democratic ownership?

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

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

Concerns have been increasing about the presence of these agencies. The donors pool their funds in the agencies, which either implement their own projects or distribute funds to other agents whether international or local NGOs, national ministries or local governments. Given this more centralized control of the aid flow, it is then of major concern that these agencies are independent of government and other democratic institutions, but are designed, managed and controlled by the World Bank. Some Indonesian academics and politicians sit on the Boards of the Agencies, but these only have ceremonial functions in practice.

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Since these agencies act as the new donors in the country with their own program priorities, the NGOs and sub-national authorities who need funds have to reorient their activities to be in line with these. These agencies are small in number but, given their control of the aid flow, they are able to determine the agenda for development projects of the sub-national governments and NGOs that receive funds from them. The agencies can thus be seen as the conductor for the orchestra of the NGOs and local governments. This impedes the genuine initiatives of the local NGOs, local communities and sub-national governments.

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

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

The role of CSOs in the democratization of aid

Development programs, economic policies and the repressive military power were the effective devices for securing the interests of the donors and suppressing democratic movements in Indonesia. Civil society organizations, particularly NGOs, emerged to challenge these mainstream development policies and the repressive measures of the regime and try to protect the interests of the citizens.

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

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[2] Information from the staff of the World Bank in Jakarta during the consultation meeting between World Bank and CSOs on 19th March, 2008.

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

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

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

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

Another case where CSOs and community groups participated and showed their strong ownership was actually the Poverty Reduction Strategy Paper (PRSP) that was made in multi-stakeholders processes in 2003 and has been taken as the National Poverty Reduction Strategy Document (NPRSD, or better known as SNPK – *Strategi Nasional Penanggulangan Kemiskinan*). The SNPK was integrated in the Medium Term Development Plan 2004 – 2009 that was made into Law No. 25/2004. The SNPK was made in participatory ways and included a rights-based approach and had clear gender perspectives. For the implementation of the SNPK, the government has developed a National Program on People's Empowerment (known as PNPM) that sets out the details of operational plans for poverty reduction through promoting capacities of the local communities and providing funds for development.

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

Challenges to CSOs

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

A first risk is the uniformization of the development agenda with communities and local governments becoming convinced that the international market, particularly the presence of transnational corporations, is the best institution for the economy and for the people. Already, transnational corporations (TNCs) have been integrated and accepted as part of Indonesian development. People are proud of having investment from these corporations in their regions, even though the TNCs do not respect the rights of the local communities and ignore participation in local development.

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

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

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

Conclusions

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

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

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

[3] Government officials and CSOs in Jakarta have complained that the World Bank campaigns for good governance while the institution is itself practicing collusion and nepotism.

Multilateral aid and conditionalities[1]: The case of Indonesia

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

Since 1966/7 Indonesia has received foreign aid (loans and grants) from 20 countries and 13 multilateral agencies. Nevertheless, most of the donor countries and multilateral agencies to Indonesia have been engaged in one "consortium". From 1967 to 1991 this consortium was the Inter-Governmental Group on Indonesia (IGGI), chaired by the Netherlands. This was replaced by the Consultative Group on Indonesia (CGI) from 1992 to 2007, chaired by the World Bank. From 2005, CGI was officially chaired by Indonesia but in practice was chaired and directed by the World Bank.[1]

The IMF was not a member of IGGI or CGI, but it was always represented in the meetings and its presence in Indonesia has had strong implications for the country and the donor community. Not only has the IMF imposed policy conditions on the funds provided, but bilateral and multilateral donors have referred to the IMF before making loan agreements with Indonesia.[2]

Structural adjustment requirements attached to programme aid by IFIs have had huge impacts on the social and economic livelihood of the majority of the poor population of Indonesia. The liberalisation and privatisation of state-owned companies and public services have influenced both state revenues and the costs paid by the poor for services.

Composition of foreign aid to Indonesia

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

Multilateral aid is more heavily focused on programmes aimed at supporting crises in

[1] Kwik Kian Gie was the Coordinating Minister of Economic Affairs (2000 – 2003) and Minister of National Planning (BAPPENAS) in 2003 – 2004. Paper prepared by Kwik Kian Gie to be presented in the CGI Meeting in 2002 was "edited" by the World Bank. Kwik complained that the content of the paper was changed and did not reflect his view and the GOI's but the World Bank's.
[2] BAPPENAS study, 2004. (BAPPENAS is the National Development Planning Ministry).

Multilateral aid and conditionalities: The Case of Indonesia

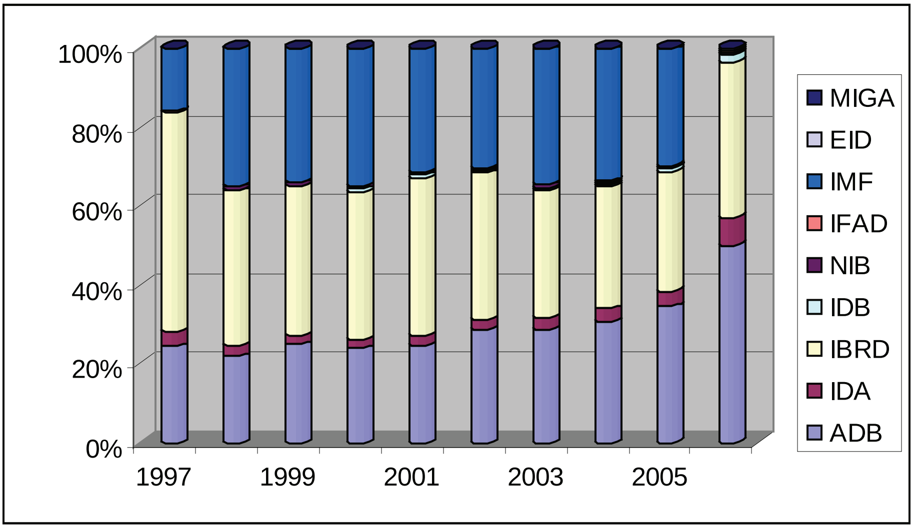
the balance of payments or state budget. In line with the policies of the IFIs, policy conditionalities are attached to this aid.

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

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

For more than ten years (1974-1985) programme aid to Indonesia was not significant. However, the sharp decline in the world oil price in 1982 that caused a crisis in the balance of payment attracted programme aid to Indonesia once again through the IMF/World Bank structural adjustment loans. In 1983, the IMF approved SDR260 million under Compensatory Financing Facility (CFF). Indonesia received SDR463 million from IMF in 1987 under the CFF to compensate for the decline in exports. In the same year, Indonesia obtained $300 million from the World Bank under the Trade Adjustment Programme Loan.[3]

Figure 1. Multilateral Loans (%)



[3] Anis Chowdhury and Iman Sugema, "How Significant and Effective has Foreign Aid to Indonesia been?", Center for International Economic Studies (CIES) Discussion Paper, No. 0505, University of Adelaide, Australia, 2005, p. 15.

Multilateral aid and conditionalities: The Case of Indonesia

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

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

Impact of World Bank loans

Though programme aid is less than project aid and not very visible, its influence on the Indonesian economic and political systems has been significant. Programme loans were meant to rescue the country from crisis, particularly related to balance of payments and the state budget. However, through programme aid, World Bank staff have worked as if they are part of the Indonesian bureaucracy, freely influencing the policies of the national government. Indonesian bureaucracy has become so open to the World Bank that none of its policies are immune to influence.[4]

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

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

[4] A documentary video presented during the farewell party of the Country Director of the World Bank, Andrew Steer, in March 2007, described clearly how the World Bank has been integrated in the Indonesian Economic Team (the Coordinating Ministry of Economic Affairs, Ministry of Finance, Ministry of Trade and the Ministry of National Planning). The documentary video could trigger the question of the independence of the Indonesian economic team, and to certain extent, the question whether Indonesia is still sovereign in making its economic policies.

Table 2: The World Bank Adjustment Loans to Indonesia

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

Source: BAPPENAS, 2001

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

Scott Guggenheim's paper on KDP has been treated by World Bank staff in Indonesia as the main reference on the success of the project[5]. In fact, the project has made poor people responsible for poverty alleviation in terms that mean the poor themselves will repay the debts in the future.

A 2004 BAPPENAS study[6] raises the question of whether the loans being attracted are really for the benefit of the recipient country. The suggestion is made that, since more loans mean more overhead costs and project work for the donor agencies, the staff of these agencies are keen to encourage more loans to increase their job security rather than in the interests of the recipient country.

Impact of IMF loans

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

[5] Scott Guggenheim, "Crises and Contradictions: Understanding the Origins of a Community Development Project in Indonesia", paper 2003 downloaded from www.worldbank.org. The Project was started with a local-level institutions study (LLI), which came out with rhetorical conclusions that re-justify the intervention of the World Bank in Indonesia's development which in fact – as the study from BAPPENAS revealed – is only to secure the jobs of the World Bank staff in Indonesia. (Scott Guggenheim is the Director of the World Bank's Decentralisation Support Facility (DSF).

[6] BAPPENAS, *op.cit.,* 2004.

Multilateral aid and conditionalities: The Case of Indonesia

Rizal Ramli, the Coordinating Minister of Economic Affairs in 1997, warned that "involving the IMF in Indonesia's recovery programme would inevitably plunge the country into a deeper economic crisis"[7]. Nevertheless, from 1997 to 2005, the IMF and Indonesia signed 20 Letters of Intent (LoI) and Memoranda of Economic and Financial Policies (MEFP) on policy measures and other conditionalities to be implemented by Indonesia. While the People's Assembly Council (*Majelis Permusyawaratan Rakyat* – MPR)[8] decided the general guidelines to solve the crisis without dependence on foreign creditors, the government was not able to resist the pressures from the IMF and the donors' community.

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

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

To solve these problems, the IMF and Indonesian authorities signed the first Extended Fund Facility (EFF) of SDR 5.3 billion, imposing stricter structural measures on fiscal and monetary policies as well as banking and corporate restructuring. In February 2000, when the first EFF expired, the government signed the second EFF involving a commitment of SDR 3.6 billion from IMF. The second EFF was accompanied by a long list of conditionalities, including stricter measures on privatisation and legal reforms.

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

Each semester IMF staff monitored the implementation of the structural reforms required by the conditions of the LoI and the MEFP. The surprising thing is that reports from the IMF did not influence the market at all; rather the reaction went contrary to the reports. When the IMF reported

[7] Dr. Rizal Ramli, "The IMF's Indonesuan Myths", mimeo, 2004.[6] BAPPENAS, *op.cit.,* 2004.

[8] MPR is like a Congress in US democratic system, consisting of the House of Representatives and the Senate.

that the Indonesian macroeconomy was becoming more stable, the exchange rate of the Rupiah weakened; and when the IMF reported that there should be stricter measures for reform, the capital inflow from foreign investors tended to increase.

What is more, the IMF funds that provoked these conditions were not even used. The net foreign reserves of Indonesia, which were about US$ 24 billion at the time when IMF and Indonesia signed the first EFF, were at a very healthy level, and there was no need for additional reserves to secure the balance of payments. Since Indonesia took the floating exchange rate regime, the Central Bank did not need to intervene in the exchange market on regular basis and therefore additional reserves were not necessary.[9]

Whilst Indonesia did not need to use the IMF money, it still ended up bearing the interest costs. In 2002 Indonesia paid US$ 2.3 billion to the IMF, consisting of US$ 1.8 billion in principal and US$ 500 million in interest payment[10]. On average the cost of this *idle* fund (fees and interest) was about 3.5%. IMF policies put unsustainable pressure on the government budget. For the 2002 fiscal year, debt servicing was estimated to total US$13 billion (IDR 130 trillion) including domestic and international payments. These payments amount to more than three times the total public sector wage bill including the military, and eight times the education budget.

Impact of IFIs on other donors

The programme loans during the crisis period - including the conditionalities detailed in the Letters of Intent - were used as references by both the multilateral donors and the bilateral donors.[11] Donors united in putting pressure on Indonesia to implement IMF's policy prescriptions and conditions by making the disbursement of both programme and project loans

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

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

[9] *Ibid.*
[10] Rizal Ramli, 2002, pg. 13.
[11] In 1998, the Fund postponed loan disbursement three times: March, May and November. This automatically affected the disbursement of loans from the WB, ADB and some bilateral lenders.

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dependent on whether the government of Indonesia had implemented the conditions. The unity of the donors was made possible because of the presence of regular meetings of the CGI, where the government of Indonesia had to provide reports to the donors, in addition to the regular monitoring from the IMF.

Programme aid reached its peak during the crisis period, when the multilateral donors came with a rescue package. The commitments of this "bail out" package from IMF were matched by commitments from the World Bank and the ADB and the Government of Indonesia itself. This first line totalled US$ 23 billion. It was followed by a second line totalling US$ 20 billion from bilateral donors (see table below).

The main reason for involving other donors in the rescue package was to maintain and prop up market confidence by showing that the donors collectively were ready to help Indonesia financially with a large amount of money (US$ 43 billion). The second line was only to be issued after the first line was fully exhausted. In reality, the second line was never utilised.[12] The rescue package itself did not rescue the economy of Indonesia, but it was used as an instrument to impose the policy prescriptions of the "Washington Consensus" on Indonesia.

Loans from the World Bank, Asian Development Bank and other donors do not need to be tied to IMF conditionality. Nevertheless, when Indonesia decided to end the IMF programme in 2003, the donors decided that Indonesia was no longer eligible for debt rescheduling through the Paris Club.[13] So IMF's programme package was needed and used by the foreign creditors, such as the World Bank, to smooth their business in taking advantage from the crisis in Indonesia.

Table 5: International Financial Rescue Package for Indonesia

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

[12] Anis Chowdhury and Iman Sugema (2005), *loc.cit*.[10] Rizal Ramli, 2002, pg. 13.
[13] BAPPENAS (2004), "The Existence and Roles of the Consultative Group for Indonesia (CGI)", Summary, p. 9.

Conclusions

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

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

Most importantly, however, the relatively small amount of foreign aid caused heavy foreign intervention in Indonesia's economic and political system. The coordinated pressures from the donors/creditors through IGGI/CGI tied Indonesia to conditions imposed by the IMF and made it difficult for Indonesia to get rid of the debt trap. Furthermore, the fact that the staff members of the donor agencies are driven by self-seeking behaviour, while they are working together with Indonesian officials in the offices of the Central Government of Indonesia, explains why the policy measures from Indonesian government are not more pro-poor, pro-job and pro welfare of Indonesians.

The programme loan from the IMF was the most striking example of wasteful and harmful loans in Indonesian history, and can become a case study of how an International Organisation undermine state sovereignty and ignore democratic processes in a country. The IMF policies created a debt trap from which there was little chance of escape. The IMF forced Indonesia to accept its misdiagnosis and failed prescriptions, including the conversion of private debt to the public debts, or the transfer of the debts of the private corporations to the debts of the poor Indonesians.[14]

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

[14] *Ibid.* In 1999 The IMF admitted its errors in Indonesia in its internal reports. Despite stopping further errors, IMF and the donors kept pushing the implementation of IMF's conditionalities.

Multilateral aid and conditionalities: The Case of Indonesia

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Establishing a giant aid agency– Any progress on Japan's ODA?

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New JICA: Huge budget, small staff

On 1 October 2008, the Japan International Cooperation Agency (JICA) was restructured as Japan's sole aid implementing agency. Prior to its redesign, Japan had two implementing agencies: JICA and the Japan Bank for International Cooperation (JBIC). The former JICA was under the Ministry of Foreign Affairs (MoFA) and (i) implemented technical cooperation, (ii) acted for MoFA grant assistance; and (iii) conducted development studies for planning, design and project preparation. JBIC, on the other hand was under the Ministry of Finance (MoF) and had two main tasks: (i) the overseas economic cooperation implementing ODA loans and private sector investment finance; and (ii) the international financial operations promoting trade and investment by Japanese firms[1].

The restructured JICA integrated JICA's key tasks and JBIC's overseas economic cooperation task. In addition, the new design included the management of the Japan overseas cooperation volunteers (JOCVs) which would enhance JICA's research function on development. While the new JICA is one of the biggest aid agencies in operational money, it has a small number of staff (see chart 1).

The establishment of JICA as the single agency handling Japan's ODA is what Japan's NGOs had demanded for a long time. And the New JICA emphasizes that since ODA tasks come under its control, Japan's ODA will be more efficient and effective. Given JICA's small number of staff, efficiency means one staff handles huge amounts (US$ 6.2 million) of ODA projects. This is totally different from the NGOs' idea.

Chart 1 Comparison of Major aid agencies

	Number of Staff	Volume of Operation
World Bank	8600	US$ 19,634 million
Asian Development Bank	2443	US$ 6.851 million
US AID	2227	US$ 3,976 million
New JICA	1664	US$ 10,280 million

Source http://www.jica.go.jp/english/news/field/2008/pdf/081003.pdf

[1] JBIC was established in 1999 through the merger of Japan Export-Import Bank and the Overseas Economic Cooperation Fund (OECF). But seven years later, again this JBIC was restructured under governmental institutional reform pressure.

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New aid strategy or new foreign policy?

Aside from these organizational problems, there is another fundamental question on New JICA and its implication to Japan's ODA. What NGOs have demanded is not only the integration of JICA and JBIC but also the enactment of the ODA Basic Law and the establishment of the Ministry of International Aid[2]. New JICA was born, but other demands were ignored, and Japan's complicated aid structure is still the same.

MoFA and New JICA emphasize the "new structure of Japan's ODA" in which three steps such as strategy, planning and implementation are expected to be closely related. The Overseas Economic Cooperation Council, established in April 2006 with the Prime Minister as its head and including the Chief Cabinet Secretary, the MoFA, the MoF, and the Minister of Economy, Trade and Industry (METI), is a "control tower" and formulates the basic strategy of Japan's economic cooperation. MoFA's new setup called International Cooperation Planning Headquarters handles planning under the strategy. And New JICA implements ODA projects in recipient countries.

This is the plan for making stronger linkage between Japan's foreign policies and ODA. Under this strategic approach, Japan's economic interests on natural resources and energy, aid towards Iraq and Afghanistan, and trade related aid with China and India were emphasized.
Since the other two strong ministries MoF and METI, are in the "control tower" of aid strategy, it is obvious that MoFA alone cannot decide on whole ODA policies. New JICA is a big aid agency, but it is just a part of Japan's whole aid structure.

Complicated aid structure continues

Japan's aid administration structure is still complicated, and the ministries' specific interest lie behind this. Three main ministries namely MoFA, MoF and Ministry of Economy, Trade and Indstry (METI), compete with each other to take aid initiatives, and other ten ministries and agencies implement ODA programs. MoFA's main interest is utilizing aid as a tool for Japan's foreign policies which always follows the US demands. MoF is trying to have a more influential position among international financial institutions through providing Japan's aid. METI's mission is utilizing aid for promoting Japan's trade and investment for the sake of Japanese big corporations. In this sense, it is a big challenge for Japan's civil society to establish the Ministry of International Aid based on genuine aid policies such as poverty eradication.

The budget for ODA clearly shows this complication (see Chart 2). MoFA just handles grant aid and a small portion of the yen loan, which consists around 25% of the total ODA budget. MoF, on the other hand, holds around 70% of the budget, and loans most of these to JICA's loan department (former JBIC) and international financial institutions such as World Bank and Asian Development Bank.

[2] See PARC Position Paper on 50 Years of Japan's ODA in Reality of Aid Asia-Pacific 2005 Report

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Chart 2 ODA Budget for Ministries (Project Budget)

unit: million yen

	FY 2008	FY2009	change from previous year	percentage increase
Cabinet Office	26	0	-26	-100.0%
National Police Agency	30	30	0	0.0%
Financial Service Agency	133	126	-7	-5.2%
Ministry of Internal Affairs and Communications	913	821	-92	-10.1%
Ministry of Justice	225	244	19	8.6%
MoFA	440,753	439,543	-1,210	-0.3%
MoF	961,177	1,155,888	194,711	20.3%
Ministry of Education, Culture, Sports, Science and Technology	40,539	38,169	-2,370	-5.8%
Ministry of Health, Labor and Welfare	10,848	9,516	-1,332	-12.3%
Ministry of Agriculture, Forestry and Fisheries	15,759	14,163	-1,596	-10.1%
METI	38,758	43,041	4,283	11.1%
Ministry of Land, Infrastructure and Transportation	801	753	-48	-6.0%
Ministry of Environment	1,376	2,387	1,011	73.5%
Total (Project Scale)	1,511,339	1,704,681	193,342	12.8%

The former JICA that handled grant aid and technical assistance was under the control of MoFA both organizationally and financially, but New JICA including the loan section will be controlled by MoF as well as MoFA. This might bring fundamental change to its nature from an aid agency to a financial institution.

ODA's financial resource

One of the most crucial problem in Japan's ODA is its dual financial resources: Official Budget money coming from tax, and Fiscal Loan Fund money coming from postal saving and pension fund. Official budget money is mainly used for grant aid and technical assistance, and fiscal loan fund money is for yen loan which has caused serious debt problems in many countries. It should be recorded that this dual financial resources of Japan's ODA is a main reason why yen loan still occupies more than half of ODA money. It is not the so called "self-help" principle but financial structure that makes Japanese ODA loan dependent.

In the 2009 ODA budget, among its total account of 1,704.7 billion yen (US$170.5 billion), 672.2 billion yen (US$ 67.2 billion) comes from official budget, but 739.2 billion yen (US$ 73.9 billion) comes from fiscal loan fund. Total budget increased 14% than previous year, because money from fiscal loan fund increased around 13%, though money from official budget decreased 4%.

Again this is because of Japan's complicated financial situation. In recent years the government has been working for "financial reform", in which most sectors of the budget were cut down, including ODA. But at the same time, it has received international pressure to the meet international ODA platform of 0.7 % of GNI. In 2005, at the G8 Gleneagles Summit, the government announced a timetable of increasing its aid by US $ 10 billion in five years.

The government should exaggerate new aid money at the international level, but inside Japan it should announce that ODA budget is not increased. How to compromise this contradiction or double-tongue promise? To meet this, the government utilizes the Fiscal Loan Fund, which is often described as "second budget" handled by MoF, and not openly questioned in the Diet. By doing so, the government can announce that ODA money from the official budget does not increase under the financial reform policy, which is used for domestic press release. But money from the fiscal trust will fund will increase to match the international pledge, which is not openly discussed.

More commercial interest in aid

Increasing the loan aid is a request from the business sector. After 2005, Japan's business sector including Nippon Keidanren (Japan Business Federation, the association of more than 1000 big companies) submitted a recommendation to the government, in which strategic usage of Japan's ODA, the importance of economic development and energy security are stressed. And in April 2008, the government and Nippon Keidanren came to agree that Japanese companies can propose ODA projects such as road and port construction for their investments or factories in Japan. This has never been officially introduced in Japan's ODA. In this sense, ODA amount will increase with the big companies operation.

Many big Japanese companies are focusing on Africa to exploit natural resources such as gold, diamond and cobalt. Behind Japan's pledge at Gleneagles to increase aid to Africa, many commercial interests lie.

Reality of Aid 2008 country report: Republic of Korea

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Introduction

The Republic of Korea plans to join the OECD-DAC (Organization for Economic Cooperation and Development-Development Assistance Committee) in 2010 and be one of the donor countries after emerging as the 13th largest economy in the world. Because of this, the government agencies taking care of ODA projects are trying to enhance their capacity to meet the requirements set by the international community which includes the Millennium Development Goals (MDGs) and the Paris Declaration on Aid Effectiveness.

Korea's efforts to join the OECD-DAC has caught the attention of civil society organizations (CSOs) since they believe that the DAC membership would lead to the improvement of Korean ODA by making it more transparent and effective. As the first step in DAC membership, the ODA agencies have jointly developed the Memorandum on Korean ODA and invited the Special Peer Review Team of the DAC. The draft memorandum written by the ODA agencies was distributed to CSOs just before the review and a consultation meeting was planned between CSOs and the Peer Review Team on 5 March 2008 to provide information regarding the reality of Korean ODA. The Review Team's mission tour to Korea was conducted in March 2008.

General Overview

Korea's experience in development cooperation began with its status as of one of the recipient countries. Between 1945 and the late 1990s, Korea received a total of US$12.69 billion worth of ODA. It began its first donor activities as early as the late 1970s with the provision of invitational technical training. The government established the Economic Development Cooperation Fund (EDCF) in 1987, and the Korea International Cooperation Agency (KOICA) in 1991. Korea's graduation from the World Bank lending list in 1995 signaled its full transition toward a donor country, and Korea's annual volume of ODA to developing countries steadily expanded since 1987 totaling US$752 million in 2005. In 2005, the government decided to expand its ODA to 0.1 % of its GNI by 2009 and established the Comprehensive ODA Improvement Plan to facilitate more coherent and systematic policy-making and implementation of its ODA. The key elements of the Comprehensive Plan include the following:

- for result-based ODA implementation, adopt the principle of "focus and concentration;" establish a mid-term strategy for focus-countries and select a small number of assistance sectors in each country; and establish development assistance strategies based on Korea's comparative advantage and the partner country's priorities;

- appoint an agency/organization to oversee grant-aid and concessional loans, and establish a government-wide committee to enhance the collaboration and coordination of ODA policies across all government ministries;

- increase ODA to the level appropriate to Korea's economic standing in the international community and find ways to ensure the predictability of the aid over the mid- and long-term by securing the necessary financial resources and effectively managing the budget; and

- increase the proportion of grant aid and 'untied aid' in Korea's ODA and expand Korea's assistance to the least-developed countries (LDCs) gradually over the mid and long-term period.

In January 2006, the Committee for International Development Cooperation (CIDC), chaired by the Prime Minister, was created with a mandate to deliberate the key policies and plans of Korea's development assistance. The CIDC has deliberated and passed the Mid-term ODA Strategy, the Annual Operation Plan, Country Assistance Strategies (CAS) for focus countries (2008-2010), as well as roadmaps for the creation of an overall policy statement, for untying Korea's aid and for the accession to the OECD-DAC. At the same time, the "Vision 2030" was drafted in August 2006, which is the very first long-term strategy for the next 20-30 years, designating the vision, goal, and strategy and core task in each sector that Korea seeks to realize by 2030. Among the 50 core tasks of the Vision were the measures to increase Korea's ODA to a level commensurate with the size of the Korean economy and the nation's status in the global society.

Organization and management of Korea's development cooperation

The management system of Korea's development cooperation broadly consists of policy-making institutions and implementing agencies/organizations. The Ministry of Foreign Affairs and Trade (MOFAT) and the Ministry of Finance and Economy (MOFE), in cooperation with the Ministry of Planning and Budget (MPB), establish the basic policies and strategies of Korea's development cooperation, while the Korea International Cooperation Agency (KOICA) and the Korea Eximbank (Export-Import Bank of Korea), along with other government institutions, implement and administer Korea's development aid programs.

Philosophy and objectives of Korea's development cooperation

In its Mid-term ODA Strategy established in 2007, the Korean government set the elimination of poverty, attainment of economic development and the improvement of development capability as the core objectives of Korea's development cooperation. In particular, the Korean government concentrated its efforts on expanding its ODA to Sub-Saharan African

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Box 1. **Core Elements of Korea's Policy Statement on International Development Cooperation (Currently Under Review)**

Philosophy & Objectives	Philosophy Promoting global peace and prosperity, while creating an environment where all citizens of the world can lead a decent life Objective: Contributing to poverty reduction and sustainable development
Basic Principles	1) Focus on the development of human capacity, 2) Expand the potentials for economic growth, 3) Utilize Korea's experience and comparative advantage, 4) Respect the ownership of partner countries, 5) Cooperate and harmonize with the international community, 6) Maintain policy coherence and harmonize policy goals, 7) Promote participation of civil society and enhance public support, 8) Focus and concentrate, 9) Adopt performance –and result-based management, 10) Be considerate of the development needs and socio-economic conditions of the recipient country as well as Korea's comparative advantages
Policy Priorities	Outline regional and sectoral priorities for effective implementation of development aid, according to the 'focus and concentration' principle.

countries since the Strategy's first phase (2008-10) coincided with the mid-term checkpoint for the MDGs. With a long term view, the government is currently developing a policy statement that would set the overall guidelines of Korea's development cooperation with the philosophy, objectives and concrete action plans and strategies to achieve such goals. The key elements of the policy were reported at the Third CIDC meeting in January 2008. The government intended to complete the Statement by the end of 2008.

Legal Framework

1. **Korea International Cooperation Agency Act**
   The Act was enacted in 1991 to establish the Korea International Cooperation Agency (KOICA) with the task to implement Korea's grant aid programs and promote international cooperation.

2. **Economic Development Cooperation Fund (EDCF) Act**
   It was enacted in 1986 to establish and manage the Economic Development

Cooperation Fund (EDCF) which was designed to promote industrial development and economic stability of developing countries and to strengthen Korea's partnership with the partner countries by providing soft loans.

3. **Overseas Emergency Relief Act**
   The Overseas Emergency Relief Act was enacted in 2007 to enhance Korea's humanitarian efforts in emergency and disaster relief through the rapid, systematic, and effective implementation of various aid programs.

4. **Enacting the ODA Act**
   In light of Korea's increasing ODA and the corresponding need for greater aid effectiveness and policy coherence, the Korean government is currently in the process of enacting the ODA Act. The Act will provide an umbrella law that supervises and stipulates all ODA-related regulations, management systems, as well as the due processes of establishing main policy priorities and project plans. The introduced bill is currently in the process of review at the National Assembly.

Policies on development cooperation

Under the current framework, the Mid-term Strategy and the CAS provide the overall policy guideline, based on which annual operation plans and individual assistance programs are then devised and implemented. The Mid-term Strategy (2008-2010), approved by the CIDC in 2007, provides broad policy guidelines on financial resource allocation and assistance strategies by delivery channel, by sector, and by types of support. According to the Strategy, Korea's concessional loans for the mid-term will focus on economic infrastructure, while grant aid will focus on social infrastructure, technical assistance, and training and education for human resource development. The government is also in the process of establishing basic policies for each of the major issues in Korea's development cooperation, such as the untying of aid and evaluation guidelines.

1) Main policy goals and directions:

- setting up ODA as a national policy priority;
- pursuing more result-based and effective aid;
- transferring the development experience and know-how to partner countries;
- complying with international standards and strengthening partnership with the international community;
- promoting greater participation of civil society; and
- pursuing policy coherence for development at domestic level.

2) Distribution and strategy by region, income level and sector

In 2006, 60.5% of bilateral ODA was disbursed to Asia, 12.7% to Africa, and 8.3% to Europe. The majority of bilateral grant aid, 65.7%, was disbursed to Asia, and 10.1% to Africa. Loans, in terms of the

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amount provided, went to Asia, 49.1%, Europe, 24.8%, and Africa, 18.5%. Africa is the second largest recipient region with increasing assistance since 2004. In particular the volume of bilateral aid to this region has substantially expanded from 8.4% in 2005 to 12.7% in 2006, and is estimated to exceed 20% of grant aid in 2008. By country, Iraq received the largest portion of Korea's bilateral ODA at 15.2%, equivalent to 22% of bilateral grant aid, followed by Sri Lanka and Bangladesh. The percentage of bilateral ODA to the top 10 partner countries dropped from 74.6% in 2004 to 54.2% in 2006.

By income level, in 2006, 49.4% of bilateral aid was concentrated in low and middle-income countries (LMICs), 24.5% in the least developed countries (the LDCs), and 12.9% in other low income countries (LICs). Korea provided multilateral aid to countries and sectors with insufficient infrastructure for implementing projects/programs, while bilateral aid was mainly disbursed to LMICs and LICs which maintain relatively good attitudes and political stability.

By sector**,** in 2006, the government delivered its aid focusing on two sectors: 59.7% in social infrastructure and service, and 25.3% in economic infrastructure and service. In the social infrastructure and service sector, assistance to public administration and civil society takes up the largest portion (35%), followed by the assistance to education and human resources development (33.5%), and to water supply and sanitation (20%). As for the economic infrastructure and service sector, the assistance to transportation (58.2%) is the largest, followed by the assistance to communications (38%). In other sectors, humanitarian aid accounts for 3.6% and the support for NGOs 0.8%. Priority sectors were adopted in the Mid-Term ODA Strategy for the first time and these include human resources development, public health, governance, information and communication technology, rural development, industrial infrastructure and environment and global issues.

Assistance and partnership strategy for NGOs

The assistance to of KOICA to NGOs consists of direct assistance for NGO projects, the dispatch of volunteers through Korean NGOs, and programs to strengthen the capacity of NGOs. In 2007, assistance to NGOs reached US$5.56 million, with 34 NGOs covering 42 projects in 19 countries, and 192 NGO volunteers dispatched to 32 countries. Partnerships with NGOs were concentrated on Basic Human Needs (BHN) areas including famine, health, elementary education, water supply, and housing improvement, and support emergency relief and reconstruction in regions with natural disasters and damages due to conflicts.

Aid effectiveness: Democratic ownership and human rights

As a signatory to the Paris Declaration on Aid Effectiveness, Korea gradually emphasizes the principles and commitments of the Declaration in formulating its ODA policy to align its development strategies with those of partner countries, to harmonize its policies with those of other donor countries, and to adopt a result-based approach to management. The Korean government has begun to introduce various policy measures prior to the peer review for the DAC membership. Since 2006, for example, KOICA has formulated its midterm assistance strategies for grant aid through policy dialogue with partner countries. For the loans, the Korea Eximbank has devised country as well as regional assistance strategies and programs through consultation with partner countries, and also sought to keep pace with the changes in the development needs of partner countries by annually updating the list of its candidate projects for mid-term assistance.

However, Korea's policy dialogues with its partner countries failed to secure the meaningful participation of the partner countries' local peoples, especially the poor and the excluded. In a less democratic society, the poor and excluded could hardly participate in decision-making process, even though the decision would directly affect them. This general situation in developing countries with undemocratic systems was not reflected in the current policy frameworks and in practices of Korean ODA.

For example, the railway construction project in Manila (Philippines), which was the first case of Korean ODA that was deemed as "bad performance," caught Korea's public attention since it showed that Korean ODA agencies did not take the necessary democratic procedures in designing the project. The project was shelved because of opposition from people directly affected by the project. The people's resistance was coupled with strong criticisms from Korean CSOs, raising concerns that the Korean ODA would follow the way of the Japanese ODA-funded Koto Panjang Dam in Indonesia which was under international criticism due to reported mass violation of human rights. While the Korean government has recently recognized good governance as a strategy for poverty reduction and has given consideration to address cross-cutting issues such as support for governance reforms in each sector, this was regarded by the civil society community as questionable because many of ODA cases seeking for governance reforms of partner countries were designed to address and support anti-terrorism measures and the neo-liberal globalization policy formulation tied to ODA projects.

Overall, the Korean government has been currently seeking to improve its ODA policy and practices prior to its entrance into the DAC in 2010, but its major efforts have been directed in emphasizing the effectiveness of ODA rather than the democratization of ODA or human rights based approaches to ODA.

Democratic ownership and mutual accountability to international human rights: A reality check of Nepal

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Introduction

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

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

IFIs undermining the UN principles

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

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

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

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

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

Why the Paris Declaration?

The Paris Declaration on Aid Effectiveness (2005) is no more than a reflection of the departure from or destruction of the international commitments made during the adoption of the UN Charter (1945), the Universal Declaration of Human Rights (1948) and numerous other instruments developed subsequently between the 1950s and 1970s. These instruments were gradually put in cold storage as soon as the rich countries saw the UN promoting the cause of the third world countries and their billions of poor people.

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

There is no doubt that the effectiveness of aid can be enhanced if all the Paris Declaration principles, limited though they are, are complied with by those who are managing, dictating and controlling the global development process and its

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outcomes. Even the Paris Declaration of mutual accountability can serve as a meaningful tool to measure development effectiveness. However, that is not the case today because aid and development have become the most effective post-colonial, neo-colonial and neo-liberal tool of the day to continue with the past legacy of domination and exploitation in a more indirect, more faceless and apparently more civilised manner.[1]

Past failures of aid effectiveness in Nepal

As a country case study, it is important to highlight some of the characteristics of aid-funded projects and activities in Nepal, particularly after the democratic changes ushered in after the 1990 peoples' movement. Nepal, relatively speaking, had a fair constitution that guaranteed most of the civil and political rights, and recognised all the basic economic, social, cultural, environmental and developmental rights (although not explicitly as 'rights', but at least as directive principles of the state). They were to be enforced by law whenever possible.

However, the new democratically elected governments that replaced some three decades of absolute monarchical dictatorship were forced by the IFIs and bi-lateral donors, mainly the World Bank, the IMF, the ADB, the US and the United Kingdom, in such a way that they would receive no aid unless the globally designed free-market polices were put in place. As a result, even a Nepali Congress government with the strongest leftist opposition in parliament and, subsequently, even a full-fledged but a minority government of the Communist Party of Nepal (Unified Marxist & Leninist) or (CPN-UML) could not do much in protecting Nepal's national interests and priorities in the economic and development sectors.

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

In fact, the same aid agencies and IFIs were mainly responsible for all the fundamental failures of the 15 years (1990-2005) of multi-party system. This was one of the main reasons behind the systematic growth of the

[1] For a better aid framework, for example, see, Oliver S. Saasa, Galio C. Gurdian, Zenebeworke Tadesse & Gopal Siwakoti 'Chintan', Improving Effectiveness of Finnish Development Cooperation -- Perspectives From the South, Ministry for Foreign Affairs of Finland, 2003.

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Maoist insurgency and the successes of the People's War (1996-2006). Even the World Bank has recognised this fact and described the Maoist rebellion as an ideology-based political movement catalysed by the economic and development failures and corruption of the period.[2]

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

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

There were other potentially damaging interventions that would have had long-term damaging consequences, but which were stopped by popular struggles. The Arun 3 hydroelectric project was one such instance. It was to be implemented in 1993 with over four dozen lending conditionalties of the World Bank that would have made Nepal a virtual donor colony but was eventually cancelled in 1995 due to massive local and international campaigns after offering better alternatives to implement smaller, cheaper and better hydropower projects.[3]

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

There have been still further examples of such projects which are heavily controlled by donors with the national government not even exercising the right to decide

[2] See, The World Bank, Nepal Country Strategy Pprogramme Document (2004-2007), Report No. 26509-NEP, p. 7-9

[9] Gopal Siwakoti 'Chintan', 'Constraints and Challenges for Building a New Nepal' in *Contemporary Perspectives: History and Sociology of South Asia*, Volume 2 Number 1, January - July 2008, p. 151-158 (published by Centre for Jawaharlal Nehru Studies Jamia Millia Islamia, New Delhi and Cambridge University Press, India).

which projects should be implemented and which should be rejected. There is never any transparency in the process and decisions are made unilaterally. Most of the experts, consultants, equipment and raw materials are procured from outside Nepal, so national capacity is never developed, and no information is ever furnished to the public about any of the details, procedures and consequences of the project in a timely and meaningful manner. Under such circumstances no underdeveloped country can ever progress.

The latest reality

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

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

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

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

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

[4] For details, visit *www.wafed-nepal.org, www.bothends.org* at Encyclopaedia of Sustainability under the Integrated River Basin Management (Successful Campaigning against Large Dams: The shelving of Arun III in Eastern Nepal) and also *www.inspectionpanel.org* under Requests for Inspection at Nepal: Arun III Proposed Hydroelectric project and Restructuring of IDA Credit (1994).

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

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

A new political reality in Nepal: the rise of the Left

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

For the donors, the extraordinary performance of the Maoists has come as a surprise since they were confident that they would win only a small number of seats. While they have reluctantly come around to accepting the verdict, they are extremely unhappy with the outcome. Accustomed to dictating terms to Nepal for decades, they have suddenly come face to face with the reality that the people of Nepal wish to take their own independent decisions. The dilemma for them is whether to stand by norms of electoral process or express their ideological biases beyond their territorial jurisdiction or legitimate concerns. If a new Nepal is to be considered a fully sovereign state then the donor community will have to abstain from interfering in its domestic development priorities as has been their wont in the past.

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

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

International civil society as donors

It is relevant also to touch upon the reality of aid that comes through international civil society as intermediary donors. Known as international non-governmental organisations (INGOs), many of these organisations channel their aid through national or local non-governmental organisations (NGOs). Some of these INGOs are not very different from official donors as they practice the same values of development and adopt the same corporate managerial style.[5] This type of INGO takes money from their governments and establishes their own bureaucracy and control mechanisms in their own capitals. The mutual agreement between them and their supporting governments is that the same philosophy of development will be perpetuated through the aid disbursed through them. Even the better INGOs are not allowed to go beyond the boundaries fixed by their governments as the original donors. There is now a new practice that development aid cannot be given to NGOs or civil society organizations in the south unless they have an INGO partner in the north -- a new form of dependency!

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

[5] In Nepal, a western-funded community NGO professional can earn more than of a full-time permanent university professor does. The affluence of the NGO world is evident also in the kind of vehicles that they purchase—Sports Utility Vehicle's like Pajero and Prado. See, Gopal Siwakoti 'Chintan', Foreign Intervention in Politics through NGOs: A Case of the Left in Nepal at Juha Vartola, Marko Ulivila, Farhad Hossian & Tek Nath Dhakal (eds), *Development NGOs Facing the 21st Century: Perspectives from South Asia*, Institute for Human Development, Kathmandu, pp. 134-143.

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

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

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

It is important to understand that NGOs should never attempt to replace the state and its agencies and they should focus their civil society work instead on advocacy. Learning from the lessons of various national and regional civil society consultations held in Nepal for the Accra process, it was reaffirmed that NGOs like those involved with the International Steering Group (ISG) of the civil society parallel process to the OECD's HLF on Aid Effectiveness can play the role of bridging and liaising with the donor governments and agencies in changing their development policies according to the needs of recipient governments and national development entities. National or local NGOs can also facilitate policy formulation and planning of development within the country, particularly in favour of rural communities and their civil society organisations.

Conclusions and recommendations

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

The framework of any aid must be within the boundaries and obligations of UN and other multilateral or regional human rights, environmental and development frameworks, including the Paris Declaration. Aid should be directed towards those who need it most, should reach recipient communities directly and should be spent in the manner most suitable for the local public good. Local government and development authorities must have a significant role in governing aid money and these institutions should be accountable to local communities and not beholden to the IFIs. Civil society can play an important role in ensuring a multi-stakeholder process of democratic decision-making and monitoring development effectiveness. Priority should also be given to budgetary support and national capacity-building and not to project-based approaches.

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

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

The World Bank in Pakistan: See no suffering, hear no cries, speak no truth

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Introduction

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

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

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

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

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

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

Left Bank Outfall Drain Project

Background

The Left Bank Outfall Drainage (LBOD) project was initiated in 1984. The project aimed to provide a drainage facility for irrigated agriculture in three districts covering about 516,000 hectares through the construction of a network of surface drains, installation drainage tube wells and the Chotiari reservoir.[1] The initial estimated project cost was US $ 635 million. The cost was agreed upon by seven external co-financiers: IDA; ADB; Saudi Fund for Development (SF); Canadian International Development Agency (CIDA); Overseas Development Administration (ODA-UK); Swiss Development Corporation (SDC); and the OPEC Fund for Development. The IDA and ADB were the major donors, contributing US $150.0 and $122.0 million, respectively. The early environmental assessments indicated positive effects for the project. It was considered that drainage would improve the productive capacity of farmland and the quality of vegetation, whilst reducing malaria.

The problems

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

[1] See – Staff Appraisal Report (SAR), Left Bank Outfall Drainage Stage 1 Project, South Asia Projects Department Irrigation 1 Division, World Bank Report No. 5185-Pak, November 5, 1984.

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

- The project has made communities so vulnerable that in any monsoon rainy season the upcoming drainage effluent could displace them.
- In the 2003 rains, flooding, breaches and sea intrusion caused the deaths of more than 50 people, thousands of houses were damaged and thousands of acres of agriculture crops were destroyed. The total estimated cost of losses during the 2003 flood was Rs.1,287 million.

Damage Caused By Project-Induced Flooding In 2003

Type of damage or loss	Number
Human life[1]	56
No. of villages affected	506
No. of households affected	21,134
No. of people affected	126,804
Crops (acres)	
Rice	49,330
Sugar cane	13,699
Others	10,530
Total crop acres	73,559
Livestock (numbers)	
Buffalo/Cows	885
Goat/Sheep	2,623
Others	157
Total loss of livestock	3,665

Source: District Administration Badin Pakistan.

- The drainage network has badly affected the environment of the Indus Delta. There is now no fresh water available to maintain the ecological value of the delta, which is essential for coastal forests and marine life. In the absence of fresh water, the disposal of toxic drainage effluent has contributed to the destruction of the remaining natural resources
- Agricultural land is increasingly encroached by seawater channeled through the project infrastructure and entire grazing areas have been lost.
- The ground water - which is a unique drinking source - has become badly polluted causing severe impact on human health
- Important wetlands ecosystems (including two Ramsar sites) have been destroyed with severe loss of habitats and fish. These Dhands (wetlands) provided livelihood resources to forty villages of fishermen having a population of 12-15,000 living around these water bodies.
- After the loss of other sources of livelihood, pressure on scarce forests has increased.
- The project has badly affected the indigenous *Mallah* community. The flooding and devastation that ensued during the 1999 cyclone and 2003 monsoon changed the economic base of these people. Both these shocks were interconnected with the operation of LBOD and aggravated by the overflowing and breaches of infrastructure installed by the project.

[2] See- para 36 - Implementation Completion Report, LBOD Stage-1 Project, Rural Development Sector Management Unit South Asia Region World Bank Report No. 18037

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

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

Flawed accountability

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

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

Violation of human rights by the project

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

All these violations of the fundamental rights of people came in the name of development and development cooperation. The blind eye of international capital and its collaboration with local non-democratic elite structures forced people from their ancestral land and destroyed or

Human rights obligation	Violation
Article 3 of Universal Declaration of Human Rights which says “Everyone has the right to life, liberty and security of person”	56 people were killed in the 2003 floods and many more are at risk of flood and hunger.
Article 1 of the Declaration on the Right to Development “The right to development is an inalienable human right by virtue of which every human person and all peoples are entitled to participate in, contribute to, and enjoy economic, social, cultural and political development…”	The project not only excluded people in its development, but the infrastructure created caused people to migrate and lose control over their natural resources and means of livelihood and developing.
The Covenant of Economic, Social and Cultural Rights, which calls on States Parties tol take appropriate steps to “improve methods of production, conservation and distribution of food by making full use of technical and scientific knowledge, by disseminating knowledge of the principles of nutrition and by developing or reforming agrarian systems in such a way as to achieve the most efficient development and utilization of natural resources”;	The project induced displacement, loss of crops, fishing and agricultural land. Malnutrition is very common in the area as local communities, after losing control over productive resources, are unable to meet their food requirements. The local communities’ capacity to live healthy lives has been reduced whilst their vulnerability to disease - particularly amongst children - has increased.
Right to Safe Drinking Water, General Comment 15 on the right to water mentions that “The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible and affordable water for personal and domestic uses.”	The project caused flooding and the pollution of surface as well as ground water resources used for drinking.
Ramsar Convention	Project structures have completely damaged two Ramsar sites i.e. Narreri and Jhubo lagoon
Rio Declaration on Environment and Development, including: Principle 1: Human beings are at the center of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature. Principle 3: The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations. Principle 4: In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.	The project was too focused on physical infrastructure, with people never being at the center of the development logic. An environmental management plan was not properly prepared and implemented. The project caused severe damage to the natural environment and reduced the future development potential of communities.

removed their access to other resources. This case indicates the serious lack of accountability mechanisms in place to make aid work for the poor or at the very least not make them more vulnerable to shocks.

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

The panel found:

Technical Flaws in Design
The alignment of the main disposal drain was technically and environmentally risky. Remote sensing data confirmed doubts expressed by the local people. A more appropriate technical option would have been to follow the natural route (known historically to the communities) and link the LBOD with Shakoor Dhand. Significant technical mistakes were made during the design of the Tidal link embankments and the Choleri Weir. Tidal link structures were critical to the performance of the system but the design had substantial inherent risk. The underestimation of risk and lack of appropriate technical measures contributed to the suffering of local people in lower Badin. Designers did not evaluate the likelihood that, under prevailing metrological conditions, high surface water run-off from upstream areas would coincide with high water levels in the Arabian Sea causing flooding. The construction of the Tidal Link and embankments cut off and diverted the surface flow and consequently destroyed grazing areas in the area of Runn of Kutch. The overall morphology of the region is being changed. The outlets of low-lying drains linked to the LBOD such as the Seerani drain are now under the influence of tidal movement. At high tide, water flows back into these drains causing salinization of groundwater and of adjoining land.
Social Problems
Fifty-four breaches in the embankments occurred at different locations, bringing devastation and loss of life to adjacent communities. The LBOD system, combined with the partial destruction of the Tidal Link, has heightened the risks to local people from flooding. The situation is particularly bad when heavy rainfall inland and high tides and storm sea coincide. Floods during rains in 2003 led to the loss of many lives.

The Bank failed to identify emerging risks during appraisal that LBOD/Tidal link problems could lead to significant harm and even displacement of local people, even though the project had plans to complete and expand LBOD.

The Bank failed to take the necessary actions under OD 4.30 to identify and prepare for the possibility of such displacement, and the extent to which it has occurred.

Environmental problems

Tidal link failure led to major harm to the Dhands ecosystem, wildlife and fisheries, upon which many people depend for their livelihood.

Although it is difficult to separate impacts of the LBOD system from those of investments financed under the NDP project, the evidence indicates that the two, in combination, have contributed to significant adverse impacts on the internationally recognized wetland sites.

Under the NDP project, neither the potential environmental nor the potential social impacts of the project in the area of concern to Requesters were considered in a meaningful way until the submission of the Request.

Increased salinity has affected large tracts of agriculture land.

Saline intrusion up the Indus Delta has harmed agriculture, including damage to 1.5 million acres of farmland in Thatta and Badin, causing dislocation and extensive economic losses.

The water supply has been reduced and contaminated (by saline drainage and biocides), in Hyderabad, Karachi, Thatta and Badin,

The 1993 DSEA analysis of alternatives rapidly became out of touch with the situation on the ground. Most importantly, the analysis underestimated the potential negative environmental effects in southern Sindh of relying upon and expanding the LBOD.

There was a failure to develop and, in particular, to implement adequately an Environmental Management Plan for the project.

The project focused on ensuring the evacuation of LBOD effluents, and paid little attention to impacts on, or means to rehabilitate, the Dhands as a habitat and ecosystem. The negative effects on the Dhands amount to a “significant conversion or degradation” within the meaning of OP 4.04.

The Bank did not adequately consider the risks of further degradation of the Jhubo lagoon, a critical natural habitat.

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Other Issues

Unfortunately, the people of Southern Sindh, whose lives were already recognized as being affected by the Tidal link, fell outside the field of vision of those who designed and appraised the project.

The Choleri Weir collapsed only one week after the publication of the implementation completion report (ICR). There is concern that the ICR that was circulated to the Board was insufficiently transparent on important shortcomings of the project.

Management was slow to visit the site of the Tidal Link failure, and did not have a consistent approach to interacting with the local population to understand and address the social and environmental implications of this failure. Management's failure to consult with people affected downstream for over half a decade following the breaches in the Tidal Link is of great concern.

Conclusion

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

The World Bank's refusal to take responsibility

In the wake of the independent panel's observations, it was expected that the Bank would accept the truth and take responsibility. However, it refuted all of the panel's observations. By not accepting the communities' concerns and trying to place responsibility on government institutions, the Bank calls into question the validity of its own accountability mechanism (inspection panels). There was no other accountability mechanism available to make the Bank take responsibility for the damage it caused and the lack of respect of people's right to natural resources.

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

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

Conclusions

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

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

The absence of accountability at both state and IFI level has encouraged these institutions to continue with the same water resource development paradigm in the face of all the disastrous impacts on the livelihood of local communities. They continue to push a model, which only serves to increase existing inequalities in the control of natural resources, perpetuate poverty and keep violating the basic human rights of local communities.

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

In such a situation, aid has been used to strengthen existing power structures, which

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

This note is prepared by Mustafa Talpur, with support from A Ercelan and M Nauman. Comments are invited to piler@cyber.net.pk

Endnote

[1] People died in one sub-district Badin, of district Badin in Sindh province Pakistan. Information collected through police.

Aid and the rights-based approach in the Philippines

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

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

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

Undermining socio-economic rights through conditionality

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

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

Aid and the rights-based approach in the Philippines

For several decades now, multilateral and bilateral aid has come with invariably "free market" policy conditionalities designed to benefit the narrow interests of the dominant domestic and international political groups. These conditionalities have been explicit and formally contained in ODA agreements as well as leveraged through extended ideological remolding of domestic policy-making elites. Sadly, they have compromised the incomes, livelihoods and strategic well-being of millions of Filipinos.

The economy has certainly been opened up and is now amongst the most open in East Asia. The share of trade in gross domestic product (GDP) has doubled and the share of foreign investment quadrupled between 1980, when such conditionalities started to be imposed in earnest, and 2007.[1] The manufacturing sector is a smaller share of the economy than in the 1960s as well as the most foreign-dominated it has ever been. Agriculture's share in the economy is at its lowest point in history; agricultural trade deficits have been rising since the mid-1990s and the country is more dependent than it has ever been on imported food.

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

Unsurprisingly, poverty has continued to worsen. Using a poverty threshold of US$1 a day (at market exchange rates), there were 27.6 million poor Filipinos or an increase of 2.1 million between 2003 and 2006. If a less extreme poverty threshold figure of US$2 per day is used the number of people living in poverty more than doubles. In any case, official poverty incidence has increased from 30 percent to 33 percent over the same period.[5] All told, Filipinos' right to development has been severely compromised by conditionalities and their attendant economic outcomes.

Undermining socio-economic rights through donor preferences

The Philippines, like hundreds of other under-developed countries, faces resource gaps in virtually all areas of social and economic policy. In this context, aid is presumed to go towards helping reach ambitious development goals such as cutting poverty in half, reducing child mortality by two-thirds and ensuring universal primary education. However, the country's overall aid profile rather reveals collective donor preferences where aid does not really go to where it is most needed socially.

The need for greater public investment in health and education is unambiguous. State health expenditure has been steeply declining and was down to 0.28% of GDP in 2007 from 0.44% in 2000 and from a peak of 0.74% in 1991; education spending in turn went down to 2.5% of GDP from 3.5% in 2000 and a peak of 4.0% in 1998.[6]

Yet rather than targeting these urgent areas the largest part of on-going ODA loans still goes to infrastructure development. Infrastructure accounted for US$5.5 billion in 2006 or 57.5 percent of the total (down from its recent peak of 69 percent in 2001).[7] On the other hand, only US$1.2 billion or just 13.0% of total loans went to social reform and development. Although this is double the share of five percent in 2000, the proportion is still too low. Furthermore, most of this was even accounted for by US$723 million in various program loan commitments geared towards further health and education sector privatization and correspondingly reduced national government outlays in the future.[8] Another US$100 million was for a local community-focused program – the KALAHI-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) – which has been criticized for being implemented on the ground in a context of counter-insurgency.

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

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

Aid and the rights-based approach in the Philippines

A lack of rights-focused monitoring of aid

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

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

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

The absence of indicators on poverty reduction, human rights or development is a clear sign that these are not among the guiding principles of ODA in the country. What is missing, but which should be one of the most important factors to be closely monitored, is the extent to which aid allocations are actually going to the geographic regions, income classes and marginalized sectors that are most in need and to what extent it protects and promotes rights.

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

The lack of a rights-based approach in the country's aid system reflects the lack of a rights-based approach in the country's development policy-making in general.

This in turn reflects the need for more democratic governance better able to take measures that respect, promote, protect and fulfill the right to development. The Philippines, however, remains saddled by structural political and economic inequities which the aid system does little to address.

Unfortunate consequences of the Paris Declaration

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

From the point of view of the realization of human rights, the PD's most serious flaw is that it maintains ODA as an instrument for donors to advance their interests rather than to foster democratic governance. ODA is a major source of public finance so where it is directed and how it is used has a strong influence on the domestic policy-making landscape. At the same time, the Philippine state is still weakly democratic and correspondingly unable to more strongly embrace a human rights framework or assert this vis-à-vis aid. Thus, ODA donors wield tremendous influence over the country's social and economic policies. Unfortunately, the PD as it stands noticeably sidesteps the need to reduce this influence which has far-reaching implications.

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

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

This sustained technical assistance, sponsorship of research and conferences, funding of joint projects and other funding relationships have had a strong influence. The overall effect has been alignment along neoliberal economic lines and a narrowing of the discourse about alternative policy options. It is highly likely that there is prior 'self-censorship' and 'adaptation' from the Philippines to meet donor preferences. These are among the factors that have contributed to the development of consecutive five-year official Medium-Term Philippine Development Plans (MTPDP) since the 1980s charting out the rapid opening up of the economy.

Moreover, the PD's promotion of harmonization also seems to be more about enabling donors to more efficiently achieve their individual and collective ends rather than about fostering a human-rights-based approach in the recipient countries. The many recent harmonization efforts[10] have included policy coordination through the donor-dominated Philippine Development Forum (PDF) and common arrangements among external partners. The WB and European Union (EU) have agreed to use common appraisal, reporting, auditing and review procedures and to undertake some pooling of funds. Other partners, including the ADB and the German government, are undertaking joint planning and review arrangements for their health-related programs. Unfortunately, this harmonization serves to strengthen donor domination of the aid system vis-à-vis the Philippines, rather than enabling a human-rights-based approach focused on genuine national, regional and local needs, particularly of the poorest and most marginalized.

Conclusion

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

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

Endnotes

1 IBON computations on data from the Bangko Sentral ng Pilipinas (BSP) and the United Nations Conference on Trade and Development (UNCTAD) on-line database.
2 IBON computations on data from the National Statistics Office (NSO) Quarterly Labor Force Surveys (LFS).
3 Ibid.
4 IBON estimates based on data from the Philippine Overseas Employment Administration (POEA) and the Department of Foreign Affairs (DFA).
5 National Statistical Coordination Board (NSCB), 2006 Official Poverty Statistics, March 5, 2008.
6 IBON computations on national government expenditure data from the DBM.
7 Unless otherwise noted, all ODA donor loan data from the National Economic and Development Authority's (NEDA) 15th Official Development Assistance Portfolio Review (2006).
8 Covering the WB's Second Social Expenditure Management Program (US$100 million), Social Expenditure Management Program (US$100 million), National Program Support for Basic Education (US$200 million), and National Sector Support for Health Reform (US$110 million) and the ADB's Health Sector Development Program (US$213 million). COA ODA Audit Report 2006.
9 NEDA reply to a query from a member of the Congressional ODA Oversight Committee (COCODA), noted in the minutes of a meeting of the COCODA at the House of Representatives (HOR) on November 14, 2006.
10 NEDA, Report On The Baseline Study And Survey Of The Government Of The Philippines' Compliance With The Paris Declaration Commitments, February 2008.

Aid trends in a middle-income country: The Philippines case

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Forward: Understanding the effect aid has on development

This study is an effort to bring together the best available general data on the involvement of overseas capital on the development of the Filipino state. These figures are supposed to act as a basis for further research; however, a number of clear trends can be identified from the beginning. First, it is clear that there is a link between ODA and private investment in the Philippines. The data shows clearly that as levels of private investment increase levels of ODA drop and visa versa. This is interesting given the fact that levels of welfare in the Philippines have not increased or decreased dramatically over the time period examined.[1] It can therefore be concluded that historically, aid donations are tied more closely to performance of the economy than the needs of the poor. A further conclusion therefore is that ODA has played an important role in preparing the Philippines for increased external market interaction and capitalisation.

Another key finding was that levels of Bilateral ODA have completely overtaken Multilateral ODA in size during the 1990s. It is clear that the international donor community has come to prefer taking a unilateral approach to aid interaction. Further analysis shows that each of the top five donors to the Philippines have very different policies regarding the dissemination of aid. For example, Japan has provided much larger amounts of loans than other donors and the USA has generally favoured providing purely technical assistance in the form of grants, therefore keeping partisan interaction fully out of the process. Policy variables are even more obvious when examining which sectors donors choose to invest their development capital in. Unilateral dissemination has also allowed donors to tie their aid so that domestic corporations and aid agencies provide the social and economic infrastructure donated. The so called aid industry that has developed as a result has been the focus of intense criticism from the NGO community. These findings highlight the painful reality that for over twenty-five years there has been no common approach to development assistance in the Philippines nor has there been any serious regulation of policy from the international donor community.

It is very important to note that the sources of capital highlighted in this study do not represent all external interaction, which has had an influence on the development of the Filipino state. Remittances from Overseas Filipino Workers (OFWs) have had an enormous impact on the financial situation of the country. Remittance money protected

[1] See: Appendix 4: Basic Social Indicators

the Philippines during the 1997 financial crisis.[2] Remitted money as a proportion of GNP increased from 0.07% in 1980 to 7.7% in 2000 where remittances accounted for US$ 6 billion of the countries income for the year.[3] Since then this figure has almost doubled to over US$ 12 billion in 2006.[4] Remittance money therefore dwarfs income from international loans, ODA and the international market. Figures and analysis regarding the black market economy or external military support are also important sources of capital and aid that are not represented in this research. Data regarding these types of capital is enormously hard to collect and is unlikely to match the methodology of data found in this study.

Methodology of the study

The largest database of statistics on aid and other resource flows into developing counties comes from the Development Assistance Commission (DAC) of the Organisation for Economic Coordination and Development (OECD). The OECD is an international organisation that groups together 30 member countries that believe in the propagation and promulgation of democratic governance and market economics. This group of the 30 wealthiest nations in the world use the organisation as a means to compare foreign policy experiences, debate future policy goals, identify good policy practise and co-ordinate their actions with regard to developmental policy in general. The DAC are well respected for collecting and publishing data indicating the extent of the activities of its members, particularly regarding the dissemination of ODA. This study has almost exclusively used the OECD DAC International Development Statistics (IDS) Online Database on aid and other resource flows, not only because it is the most comprehensive data available but because its large and complex databases allow for in depth and specific research regarding any donor or recipient nation and their interaction. Furthermore, using the DAC allows the researcher to stick to a clear pattern of data retrieval, which greatly enhances the possibility of useful comparative study.

Unit of measurement: US$ million (current prices)

The unit of measurement used when analysing the dissemination of ODA is a critical component of data retrieval because a mix up in the measurement used renders comparison impossible. In general there are two forms of measurement available: current and constant prices. Constant prices measure donations using a fixed currency value. This type of measurement uses a specific exchange rate for the dollar or a fixed price of stock and uses that value to calculate the worth of the donation. Current prices measure donations using the value of the market for the specific year in question. This study has used current prices so levels of ODA have been measured using the value of the market in any given year. This method has drawbacks in terms of comparative study because the value of the

[2] Patricio N. Abinales and Donna J. Amoroso, “State and Society in the Philippines”, Anvil Publishing Inc. 2005, p. 256
[3] Ibid, p. 298.
[4] The incremental increase in OFW remittances is well documented. For a recent article see: http://money.inquirer.net/topstories/view_topstories.php?yyyy=2006&mon=04&dd=13&file=1

donation changes yearly with the market. However, the value of the US dollar itself has not changed dramatically during the period in question and this method is useful because it demonstrates the worth of the aid in the world market at the time.[5]

OECD datasets and definitions

Data taken from the OECD DAC International Development Statistics (IDS) Online Database on aid and other resource flows is split into two parts; the first, the Database on Annual Aggregates, is comprised of datasets created by the DAC with pre-determined parameters to show records of specific development related financial interactions.[6] The second is the newly created and more flexible creditor reporting system (CRS), which allows the user to set their own specific parameters for data retrieval. Each system has advantages and disadvantages: CRS is a new system and data does not exist for all categories much earlier than the year 2000, the DAC database has much better historical data but is much less detailed. The statistical reporting directives for the DAC datasets used in this study are listed in Appendix 1.

They are:

1. DAC2a Official Development Assistance – Disbursements.Includes directives for: Total Net ODA, Total Net Loans and Technical Cooperation;
2. Dataset DAC4 – Private Flows;
3. Dataset DAC2b – Other Official Flows; and
4. DAC7b – Tying Status of Bilateral ODA.

While conducting the study various discrepancies were found between the figures in CRS and the Database on Annual Aggregates. After consulting with the DAC on the subject the study found that these could be easily explained.[7]

AiDA: detailed project information

A major aspect missing from the study is comprehensive information showing details of externally funded aid projects on the ground. The AiDA database does provide this information and can be used to collate some specific data on individual aid projects in the Philippines.[8] AiDA describes itself as, “the largest online directory of official development aid activities.” However, the mass of largely unorganised and incomplete data found on this website is only really useful for matching projects to specific sectors in development. AiDA itself notes that its information is provided by donors and may not reflect all activities or most recent activities. However, this information does provide a useful basis to explore specific projects in more detail and can act as a link between the general data provided in the main body of this study and recent projects on the ground.

[5] For data showing the historical value of the US Dollar see: http://en.wikipedia.org/wiki/History_of_the_United_States_dollar

[6] At time of publication the International Development Statistics (IDS) Online Database on aid and other resource flows could be accessed at:http://www.oecd.org/dataoecd/50/17/5037721.htm

[7] See Appendix 2: Notes on retrieval of data from CRS.

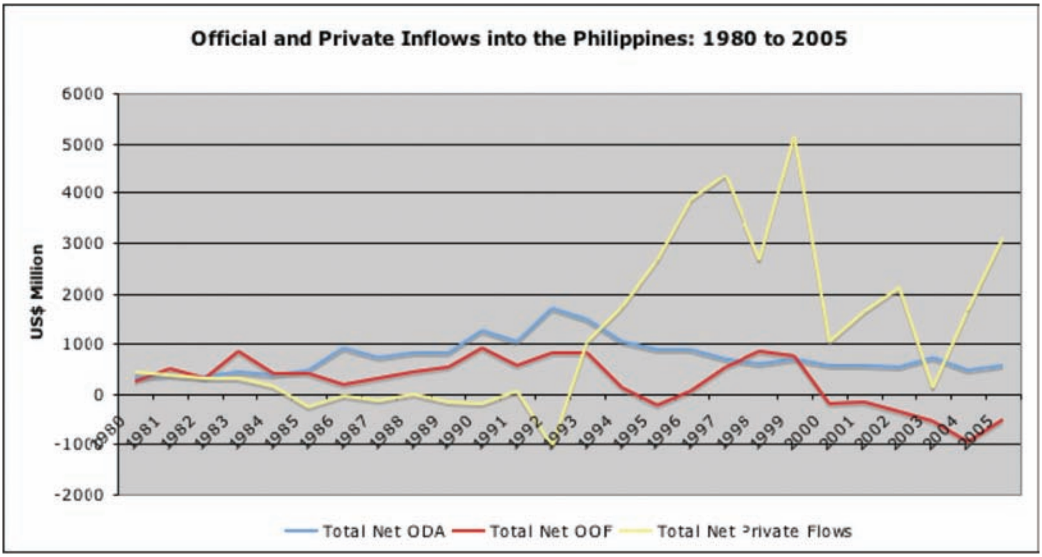
[8] Website: http://aida.developmentgateway.org/; general data on aid projects in the Philippines can be accessed at: http://www.ruralpovertyportal.org/english/regions/asia/phl/projects.htm

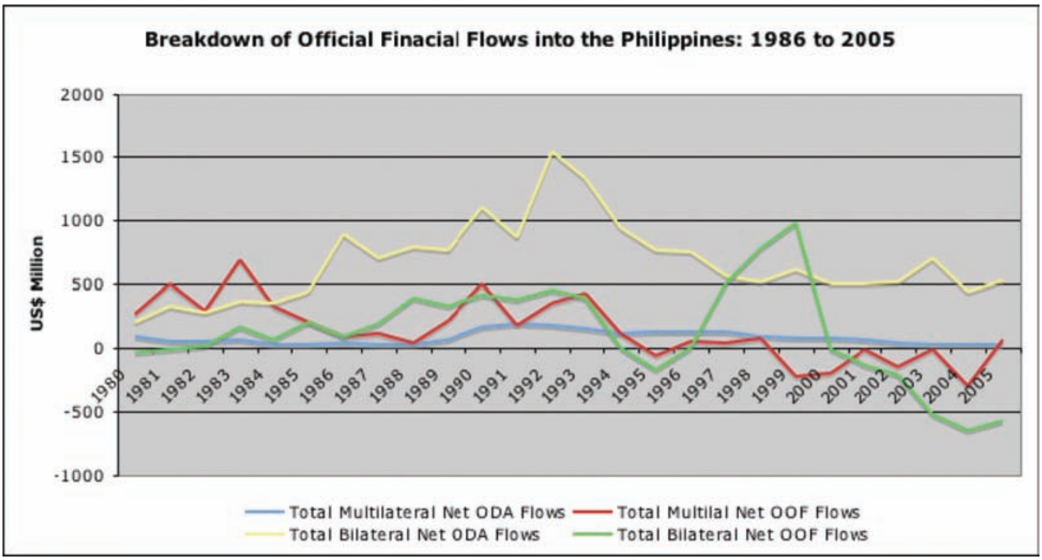
Aid trends in a middle-income country: The Philippines case

Access to raw data

Due to the large amounts of raw data processed in this study it has been impossible to include everything in the main body of this paper. Raw data for every graph used is available in Microsoft Excel format by e-mailing the author at: alexandermilesjones@googlemail.com.

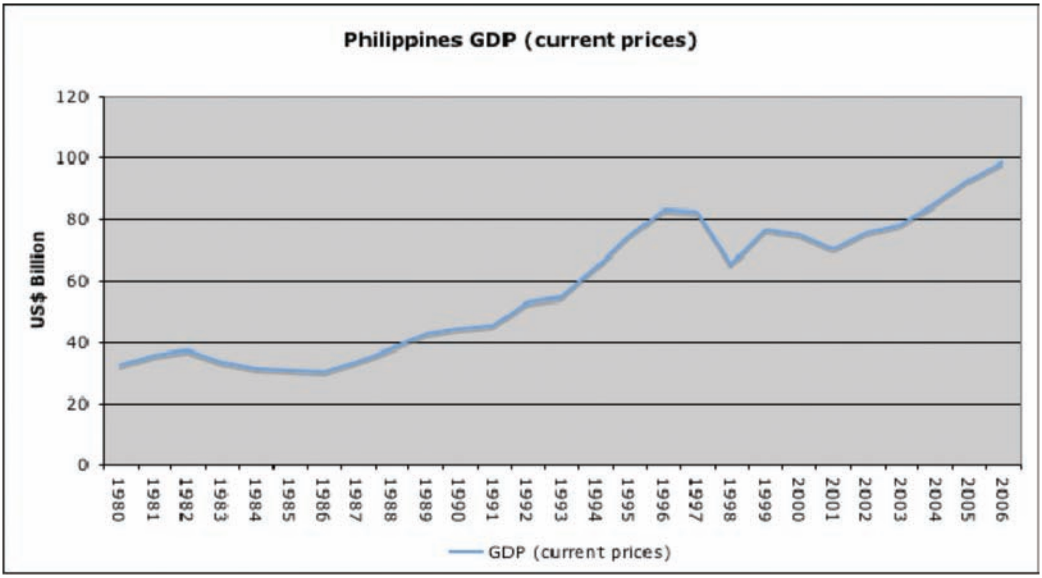
General data showing development capital inflows to the Philippines: 1980 to 2005





Raw data can be retrieved from the file: Breakdown of all financial flows into the Philippines from 1980 to 2005.xls

Aid trends in a middle-income country: The Philippines case



*Source: Econstats: Web address: http://econstats.com/weo/*C127V019.htm

Analysis of general data:

A number of important points can be taken from this data overview. The first is to note the sharp ascendance of private investment after 1993 as well as a noticable decrease in aid after this date. It is this broad evidence, which suggests that there is a link between development assistance and free market capitalisation. ODA can be seen to have provided development capital to the Philippines at a time when the market refused to, due to unfavourable economic conditions in the country. Evidence for this is most obvious in 1992 when ODA to some extent compensated for major capital flight from the private sector as a result of the Filipino economy entering a recession in 1991.[9] This can also be seen throughout the period of Corazon Aquino's presidency where the Philippines' economy recovered from the Marcos era and moved towards free market reform.

As economic growth increased in 1992 aid disbursements have slowly decreased. This can be seen by looking at private investment flows and Gross Domestic Product (GDP) both of which represent economic growth and both of which began to increase dramatically about 1993. Consequently, levels of aid dropped and debt repayments increased. In this respect aid can be interpreted as having prepared the Filipino market for privatisation and highlights the donors' belief in neo-liberal development policy. It is also important to highlight the fact that bilateral aid, as opposed to multilateral aid, dominated the

[9] Abinales and Amoroso, p. 243.

disemination of Filipino development aid after the fall of Marcos in 1984. As noted above, donors preferred to interact with the Philippines unilaterally, this reflects the fact that no international consensus existed so donors followed their own development agenda on the ground. Another aspect of this move towards independent engagement, tied aid and the aid industry, will be addressed in more detail below.

Another important aspect of this data overview is that there seems to be a correlation between the Pinoy political landscape and the flow of development capital. The most obvious example of this can be found during the unstable Estrada administration, which lasted from June 30, 1998 to January 20, 2001. During this period $ 4 billion dollars worth of investment was lost in one year following massive political and economic scandal. A short case study of this period has been provided in Appendix 5.[10] The important lesson learned from this event was that in the future, as development capital increasingly originates in the private sector and the world market, the Philippines will have to demonstrate high levels of commitment to neo-liberal economic principals in order to ensure that money continues to come in. Furthermore, this capital can easily be lost as the 1997 Asian financial crisis demonstrated. A look at the financial ups and downs of the other ASEAN founding nations below is testament to this.

The most important conclusion is the fact that development aid has lead the Philippines towards liberal market reform and away from import substitution industrialisation. In economic terms this seems to have paid off. The Philippines had a long period of economic growth throughout most of the 1990s however, as Estrada's presidency showed, the Philippines must continue to facilitate free market norms if it is to rely on foreign development capital in the future. A move towards government control over the economy could be very damaging indeed.

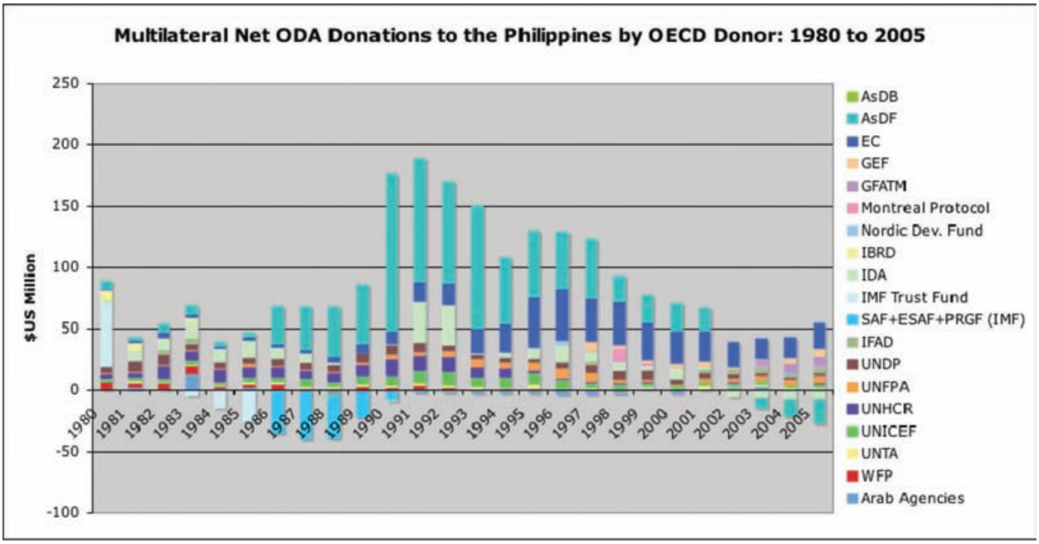
Finally, this data has demonstrated that ODA has focussed largely on economic development and growth as a root towards addressing issues of poverty. As noted above decreases in poverty over the period in question have not been dramatic, particularly in rural areas. Having said this increases in private investment and GDP do correlate with decreases in poverty post 1993.[11] The question is whether or not poverty could be reduced more quickly with increased levels of state intervention in the economy.

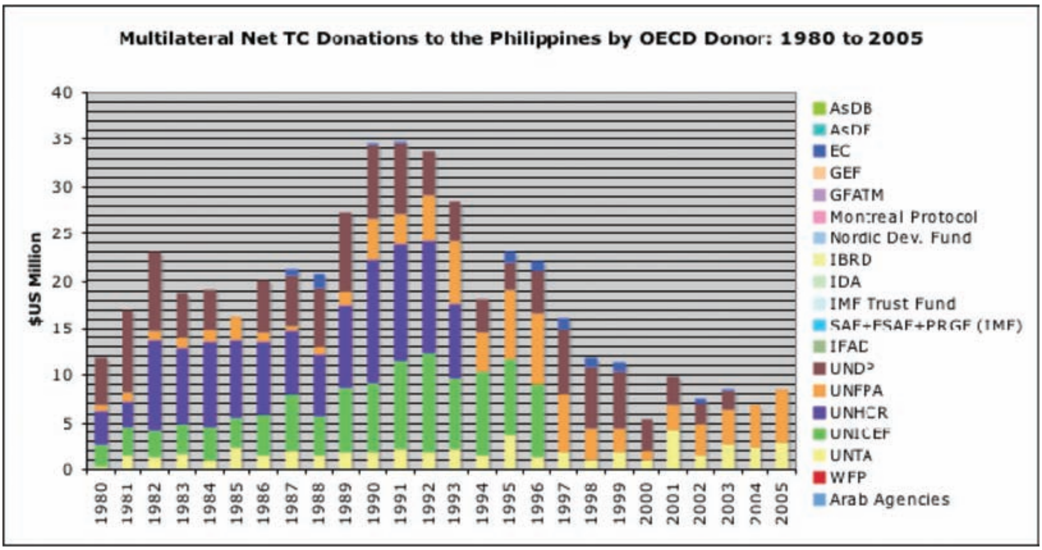
The following sections return the focus to ODA by providing a broad data overview of how development aid flowed into the Philippines since 1980. This section to looks to break down and categorise the role international donors have played in the Philippines development.

[10] See: Appendix 5: Case Study: Joseph Estrada and international capital flight
[11] See: Appendix 4: Basic Social Indicators

Aid trends in a middle-income country: The Philippines case

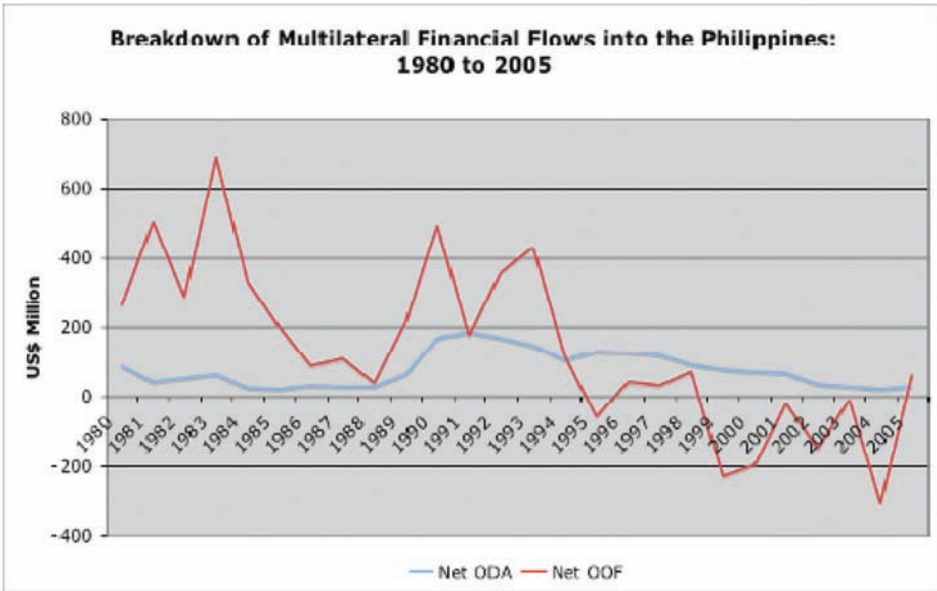
4. Multilateral inflows in depth





An overview of the international institutions involved can be found in: Appendix 3: List of Acronyms

Raw Data can be retrieved from the file: Multilateral Net ODA Donations to the Philippines by OECD Donor 1980 to 2005.xls and Multilateral Net TC Donations to the Philippines by OECD Donor 1980 to 2005.xls



Raw data can be retrieved from the file: Breakdown of Multilateral Financial Flows into the Philippines 1980 to 2005.xls

Notes and analysis on multilateral capital flows

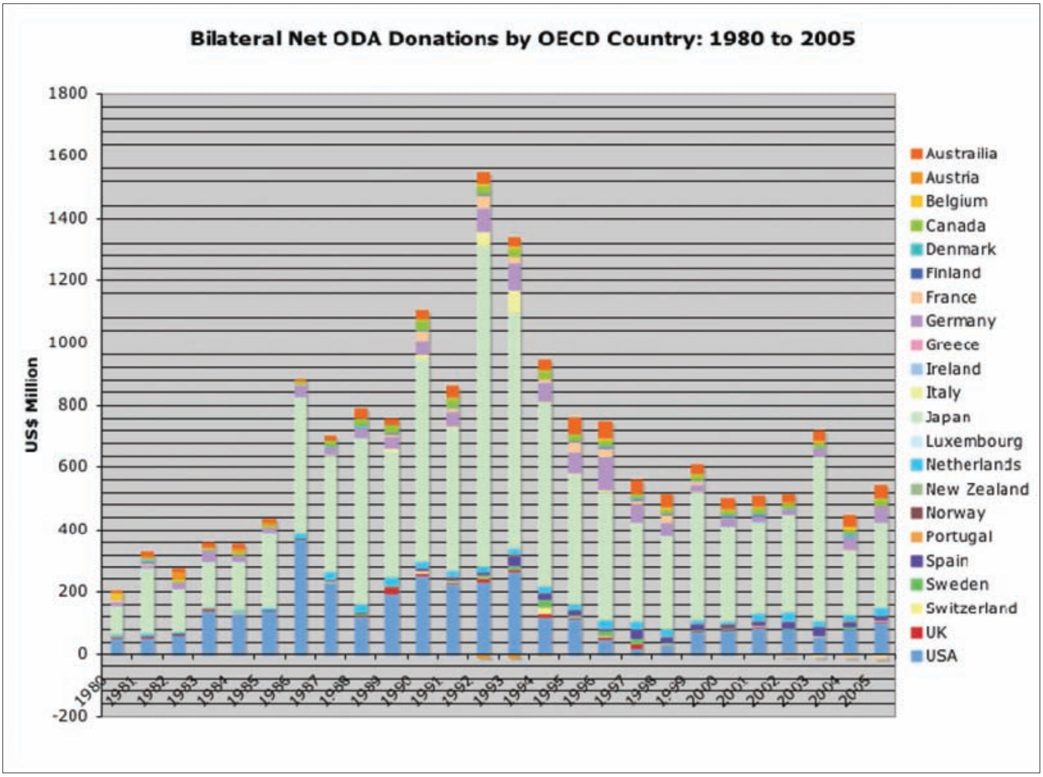
There are two major points to highlight regarding the data provided above. First the data for multilaterals is often non-specific. The figures provided showing the provision of non-concessional loans (OOF) do not highlight the institution where the money originated. In this case taking into account the amounts of money involved the study has assumed that the majority of this money has come from the World Bank and the IMF.[12] Second it is important to note that of the major donors the IMF, World Bank and Asian Development Fund largely provided loans to the Philippines, only the EC donated grants in significant proportions.

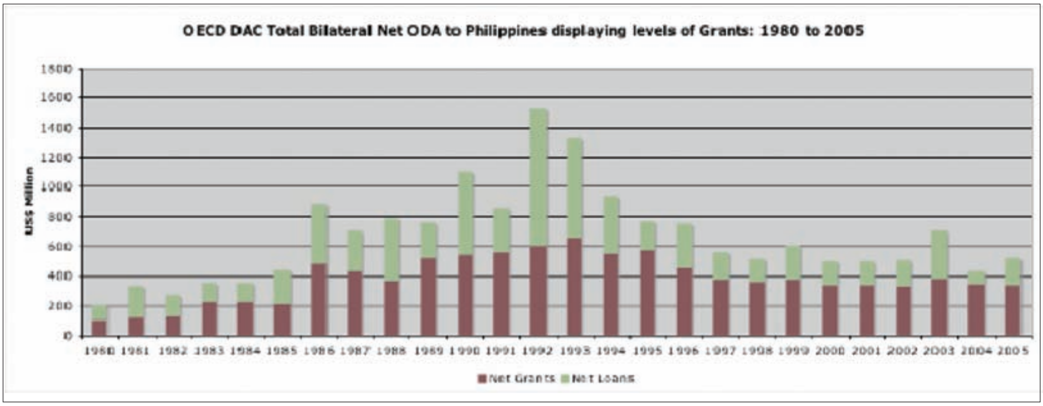
The most important conclusion to make regarding this data is that in general terms the big multilateral donors have acted as creditors or banks not donors, by lending money at non-concessional interest rates. In terms of ODA only the UN has provided technical assistance to the Philippines via its various institutions and is therefore the only institution to be directly involved on the ground.

[12] More detailed summaries of the ODA Datasets relating to the IMF, Asian Development Fund and EC donations are available in the raw data file on Multilateral Inflows.

Aid trends in a middle-income country: The Philippines case

Bilateral ODA in depth

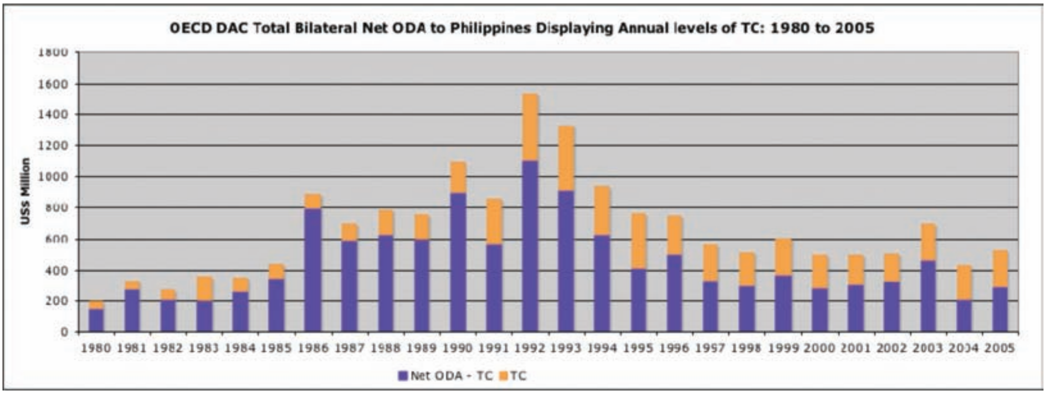


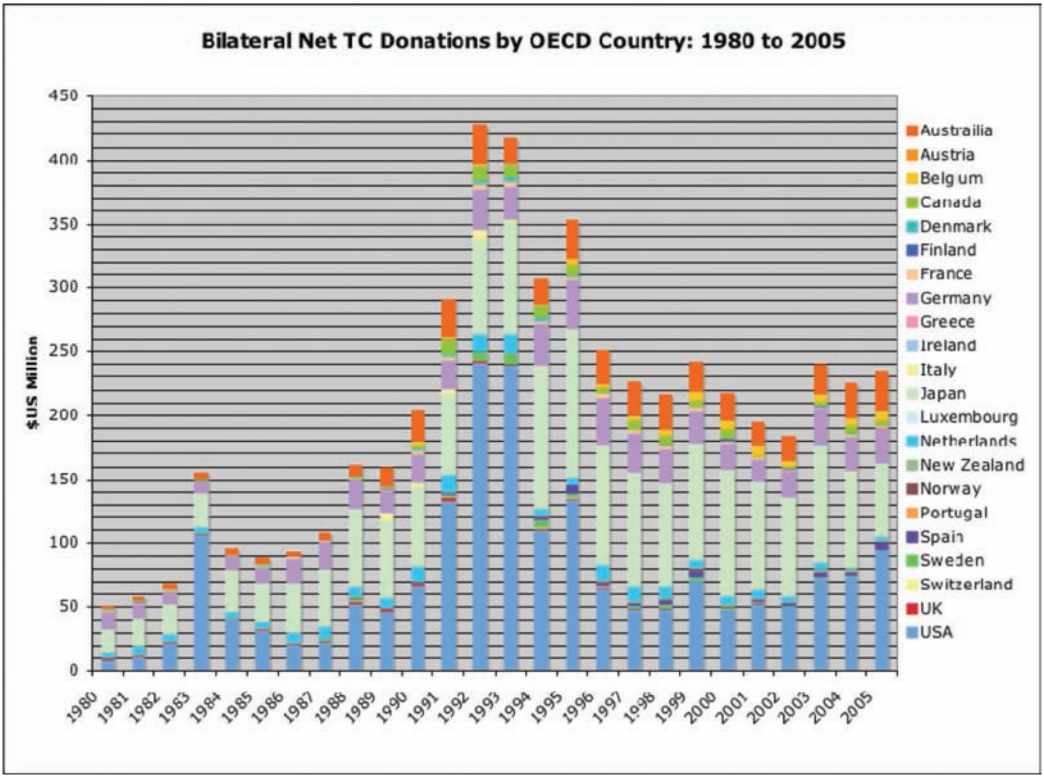


Raw data can be retrieved from the files: Bilateral Net ODA Donations by OECD Country 1980 to 2005.xls and OECD DAC Total Bilateral Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls

Aid trends in a middle-income country: The Philippines case

Bilateral TC in depth





Raw data can be retrieved from the files: OECD DAC Total Bilateral Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls and Bilateral Net TC Donations by OECD Country 1980 to 2005.xls

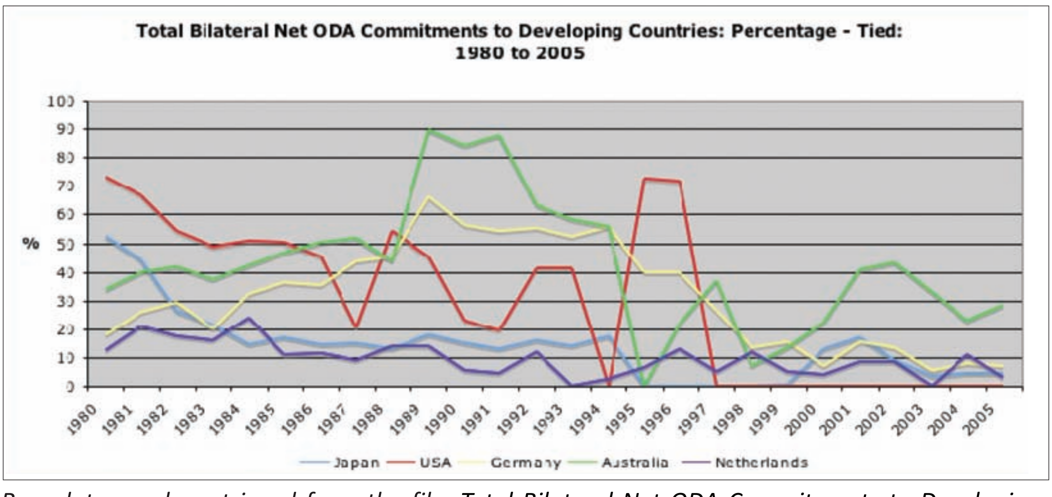
Aid trends in a middle-income country: The Philippines case

Notes on bilateral ODA

This section provides a broad overview of bilateral aid flows during the period. Some important points can be made. For a start almost every OECD nation has interacted with the country since 1980. It is clear that in total the balance of grants against concessional loans is fairly even with a slight historical bias towards grants historically. It is important to remember that a high percentage of ODA comes in terms of a loan. The Technical Co-operation (TC) graphs broadly represent how hands on the donors have been.[13] In this vein it is clear that the Philippines has been subjected to a high level of direct foreign interference within the country on the back of ODA donations.

It is obvious that a number of donors have dominated aid flows to the Philippines since 1980. Japan, the Philippines wealthiest geographical neighbour is the country's chief donor by quite some distance. This reflects Japan's ambitions as a regional leader and its desire to garner influence as it continues to outsource production to the country. Japan is followed closely by the USA, who have always had a close strategic and economic relationship with the Philippines as its former colonial power. Germany is the next biggest donor historically; all three of these countries have strong business interests in the Philippines. The next biggest donors, the Netherlands and Australia fall into similar categories, the Dutch having an interest in the Filipino market and the Australians having a strategic and business interest. It is easy to conclude therefore that aid is in more ways than one often used to gain influence in the recipient country. The final section of the paper will analyse the interaction of the nations main donors in detail.

Top 5 donors to the Philippines: Levels of Tied Aid



Raw data can be retrieved from the file: Total Bilateral Net ODA Commitments to Developing Countries Percentage - Tied 1980 to 2005.xls

[13] See: Appendix 1: OECD Statistical Reporting Directives

Aid trends in a middle-income country: The Philippines case

Notes on tied aid

The OECD datasets only provide general data regarding levels of ODA that can be classified as tied. The concept refers to aid that is disbursed only on the condition that it is provided by a company or contractor within the donating country. It is therefore representative of an important link between ODA and the private sector. Although there are no specific figures for the Philippines there is historical data available showing the level of total tied aid committed to the developing world by each OECD country. This study collated tied aid figures for each of the top five donors to the Philippines from 1980 to 2005 and calculated it as a percentage of total committed ODA for each year.

Before proceeding with the analysis it is important to be clear that the dataset for tied aid used figures for ODA commitments, as opposed to disbursements and therefore cannot provide a perfect comparison to the datasets and graphs on bilateral ODA flows used above. Nevertheless, it does provide the best historical data available on the subject. It is also very important to note that DAC member states agreed that administrative costs and technical co-operation expenditure should be disregarded in assessing the percentages of tied aid.[14] By its very nature technical assistance is tied so the figures provided below represent only a conservative estimate. An extensive overview of the issues and concerns surrounding technical assistance provided by bilateral donors is provided in Appendix 6: Defining and understanding Technical Assistance.

It is also worth mentioning that tied aid is a touchy subject for some of the OECD member states. For example, the USA failed to provide data for the year 1994 and from 1997 onwards. It can therefore only be assumed that the levels of tied aid were considered too embarrassing to be reported, the same can be said of Australia in 1995.

The data shows that much of the Philippines ODA is likely to have been tied particularly during the late 80s and early 90s, the period directly before the Philippines' drive towards economic growth. Assuming that the data collected is representative of the level of aid that was tied in the Philippines it can be concluded that aid was used to give donors' domestic companies access to the Filipino market. This conclusion seems even more likely when it is considered that TC is omitted from the data. The fact that America is one of the worst offenders in this respect is reflected in the heavy presence of American business in the Philippines today. In fact few of the Philippines major donors are exempt from this criticism. The effect this may have had on the development of the Pinoy economy cannot be underestimated.

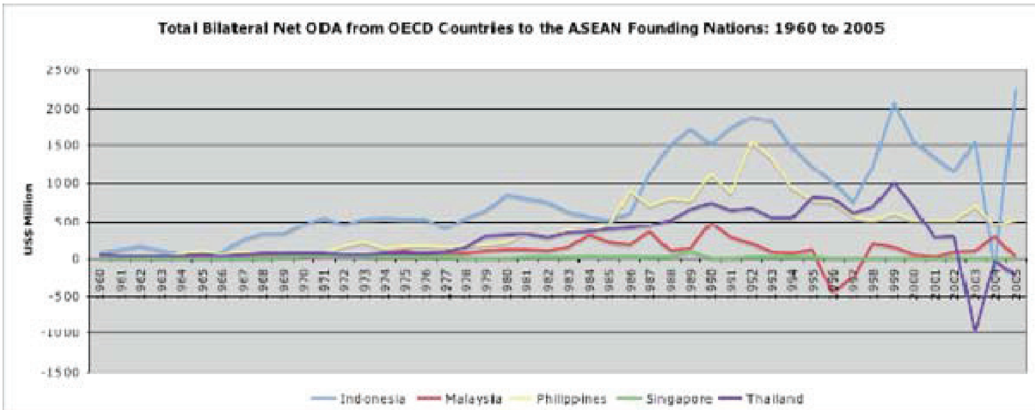
The ramifications of these findings are important not only because it brings into question the intentions behind the provision of aid but most importantly because it can firmly link ODA to the development of Western business in the Philippines. In general it seems that the immorality of such practise has been addressed by many of the worlds donor nations (this is reflected in figures provided here). However, others

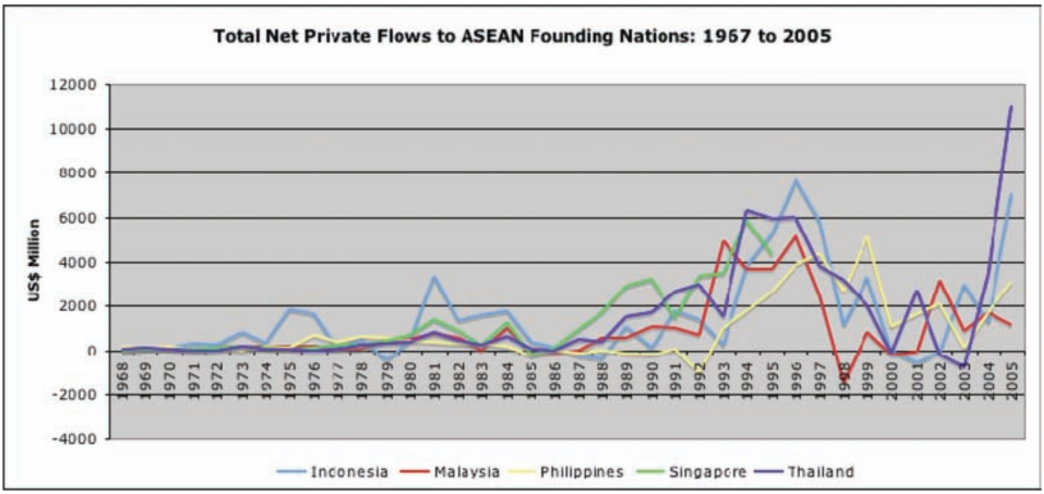
[14] See: Appendix 1: Statistical Reporting Directives

Aid trends in a middle-income country: The Philippines case

such as the USA and Australia still seem to be using aid more as a tool to benefit their own economies rather than that of the recipient country. The point is that the Philippines has all too often been seen as a market where money could be made rather than a poverty-stricken country in need of Western support. This problem has been a major focus of the international NGO community who have lobbied fervently for reform of aid practise.[15]

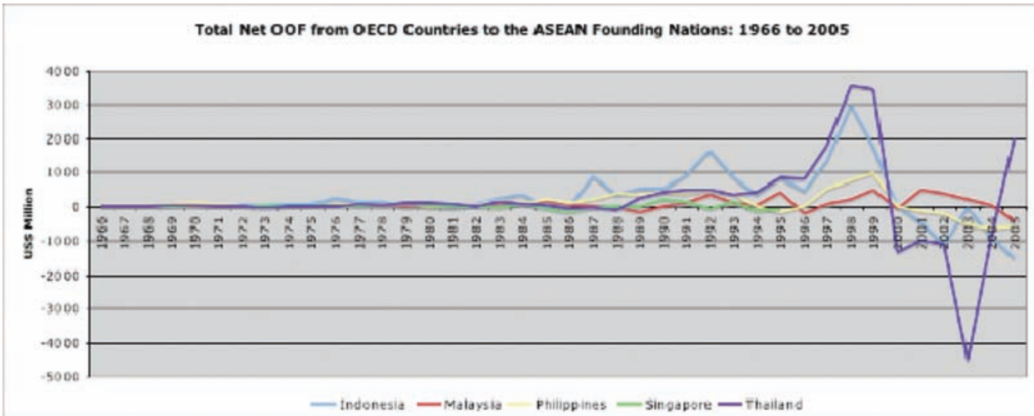
The regional perspective: Financial flows and the founding ASEAN nations





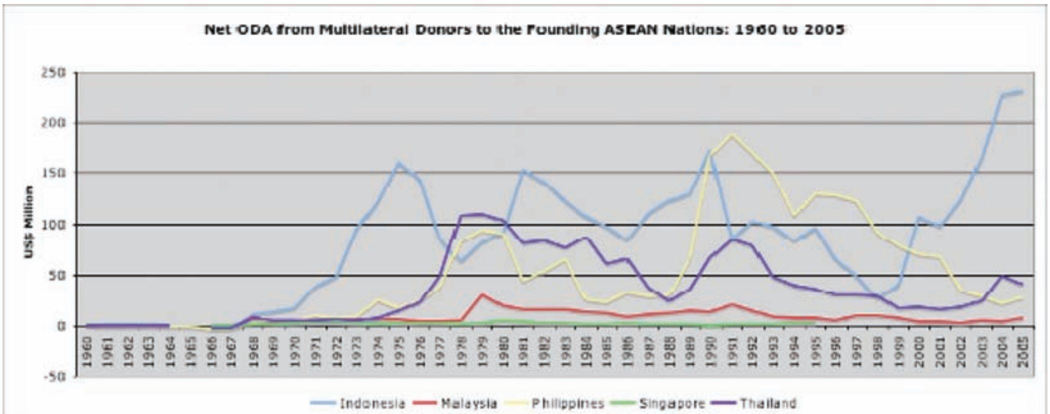
[15] For a critical overview of tied aid and technical cooperation see: ActionAid International publication: Real Aid 2 Making Technical Assistance Work. Available from:http://www.actionaid.org/main.aspx?PageID=242

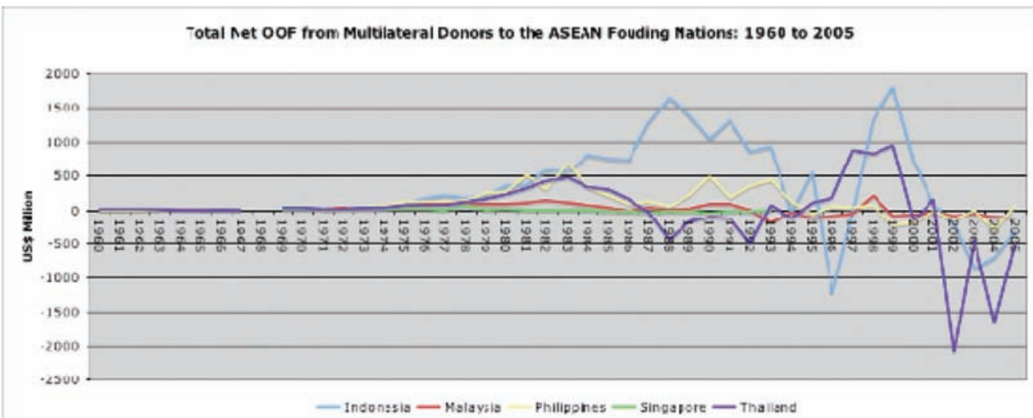
Aid trends in a middle-income country: The Philippines case



Raw data can be retrieved from the file: Financial Flows to the ASEAN Founding Nations 1960 to 2005.xls

Multilateral financial flows to the ASEAN founding nations





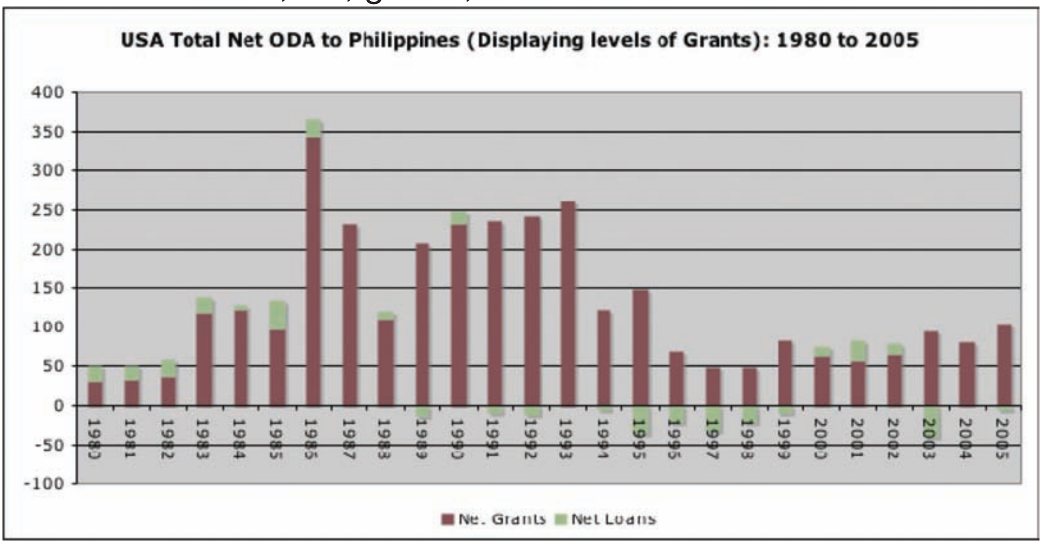
Raw data can be retrieved from the file: Multilateral Financial Flows to the ASEAN Founding Nations 1960 to 2005.xls

Aid trends in a middle-income country: The Philippines case

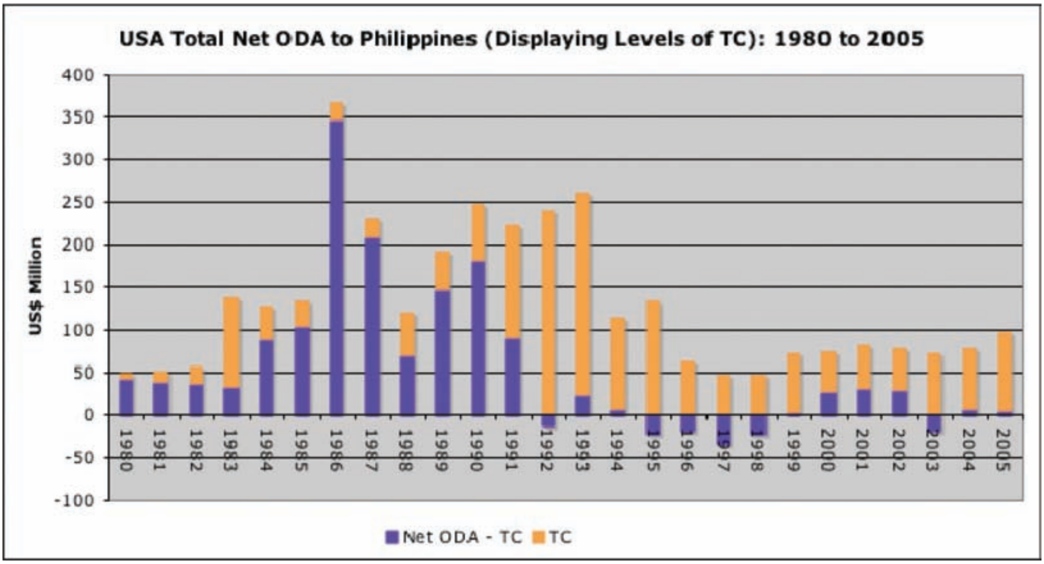
Notes on ASEAN Figures

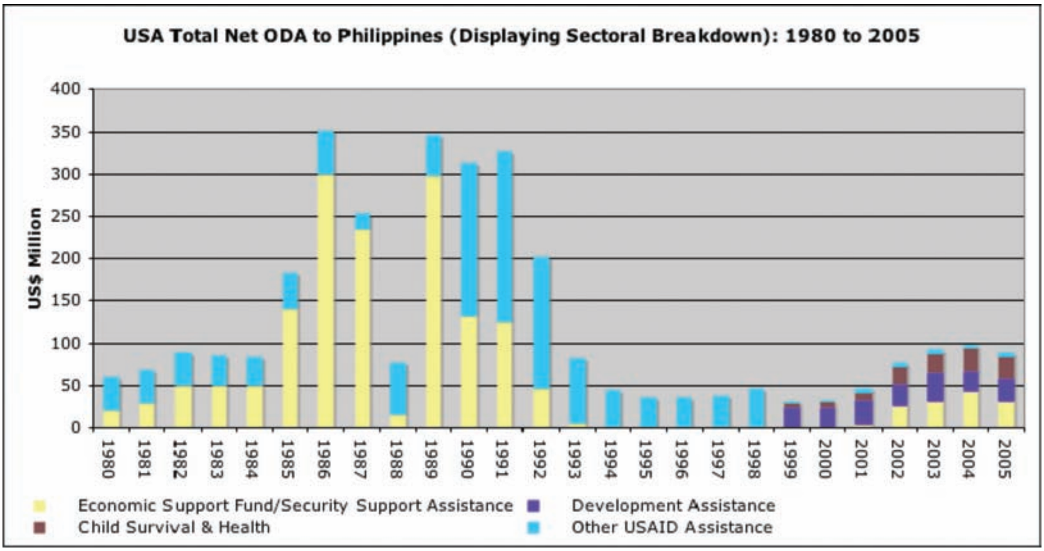
A substantial amount of information can be taken from this data. It was collected in order to find out whether a specific country in Southeast Asia had received preferential treatment. The Philippines has consistently received the second highest amount of aid from both bilateral and multilateral donors after Indonesia, which has a significantly larger population. Furthermore, the Philippines has taken out much smaller amounts of high interest loans than Indonesia and Malaysia. However, it has also received much less external private investment than the other countries particularly during the late 80s and early 90s. On the whole it is clear that the Philippines has not been disadvantaged in development capital terms. Its level of comparative underdevelopment is most likely linked to the fact that the Philippines received significantly less international private investment between 1986 and 1998 as well as the poor performance of the domestic economy during this period.

Focus: USA ODA, TC, grants, sectoral breakdown



Aid trends in a middle-income country: The Philippines case





Raw data can be retrieved from the file: USA Total Net ODA to Philippines displaying levels of TC and Grants 1980 to 2005.xls

Aid trends in a middle-income country: The Philippines case

Notes on USA ODA

When it came to looking at ODA figures from the USA it was possible to compare the OECD datasets with America's published statistics on Grants and Loans (published in the so called Greenbook of US development assistance) to the Philippines for the same time period. This proved to be interesting for two reasons, first, the Greenbook figures came up short on the OECD ones demonstrating that American politics might have an effect on the level of spending shown and second, because the Greenbook highlights in more detail how the US aid money was spent.[16] It is also important to note the great emphasis on Economic support prior to 1993 which adds weight to the conclusion that aid was used to prepare the Philippines for market capitalism.

Notes on Sectoral Breakdown

The following data uses the DAC Creditor Reporting System to detail the sectors into which ODA has been disbursed from 2001 to 2005. It is important to note that due to differences in methodology the data differs from above. Disbursal figures are represented in (Gross) as opposed to (Net) terms. (For an in depth explanation return to the methodology section.) All data is measured in $ Million and has been rounded to three decimal places in order to simplify analysis. Data is only available in this detail as of 2001 resulting in the limited time period analysed.

Sectoral breakdown: USA ODA[1]

Sector	2001	2002	2003	2004	2005
Social Infrastructure and Services		**13.024**	**42.284**	**57.477**	**67.328**
Education				0.098	6.417
Health		0.006	0.27	0.016	0.242
Population Programmes		3.903	21.433	28.517	36.144
Water Supply and Sanitation		0.303			0.254
Government and Civil Society		0.964	2.324	11.34	5.088
Conflict, Peace and Security		0.681	13.257	16.999	17.497
Other Social Infrastructure and Services		7.167	5	0.507	1.686
Economic Infrastructure		**0.875**	**12.173**	**0.067**	**11.021**
Transport and Storage		0.103	0.025		
Communications					
Energy			0.066		0.298
Banking and Financial Services		0.74	11.126		0.005

[16] Greenbook data is available at: http://qesdb.usaid.gov/gbk/ The U.S. Loans & Grants (Greenbook) publication is produced by the Economic Analysis and Data Services (contract RAN-M-00-07-00004-00). The contractor is DevTech Systems, Inc.

Aid trends in a middle-income country: The Philippines case

Sectoral breakdown: USA ODA (continued)

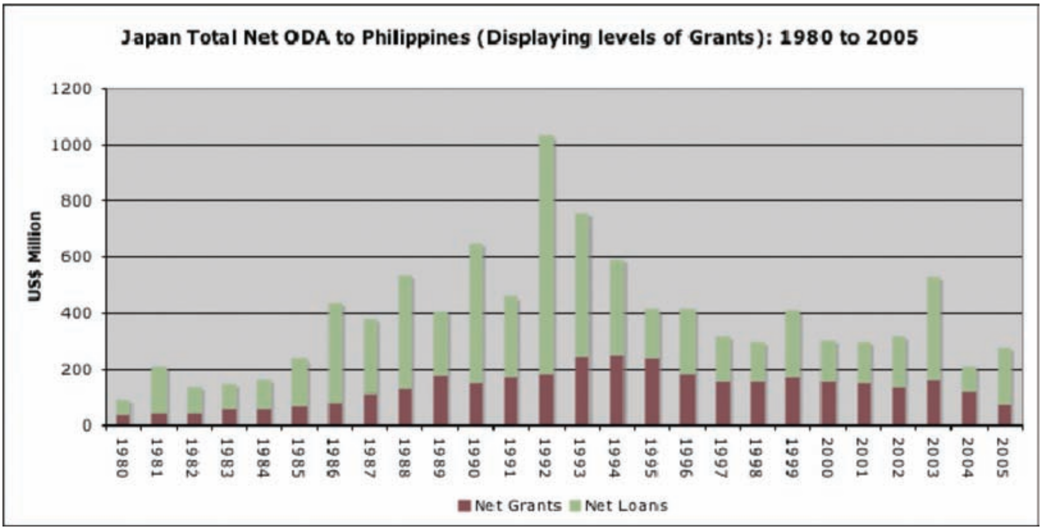
Sector	2001	2002	2003	2004	2005
Business and Other Services		0.032	0.956	0.067	10.718
Production Sectors		0.013	0.72	0.024	1.249
Agriculture, Forestry and Fishing			0.715	0.009	0.527
Industry, Mining, Construction			0.005		0.722
Trade Policy and Regulations		0.013		0.015	
Tourism					
Multisector		**7.581**	**17.295**	**16.126**	**16.378**
General Environmental Protection		5.13	11.98	12.796	14.511
Women in Development					
Other Multisector		2.451	5.315	3.33	1.867
Commodity Aid and General Programme Assistance	**40.879**	**29.346**	**7.721**	**30.087**	**28.058**
General Budget Support					
Development Food Aid/Food Security Assistance	40.879	29.346	7.721	30.087	28.058
Other Commodity Assistance					
Action relating to Debt		**0.123**	**13.898**		
Emergency Assistance and Reconstruction		**0.64**	**0.72**	**0.009**	**0.746**
Emergency and Distress Relief		0.64	0.72	0.009	0.746
Reconstruction Relief					
Distaster Prevention and Preparedness					
Administration Costs of Donors					
Support NGOs					
Refugees in Donor Countries					
Unallocated and Unspecified					
Unknown		**81.141**			
Total Sector Allocable	**40.879**	**132.743**	**94.811**	**103.79**	**124.78**

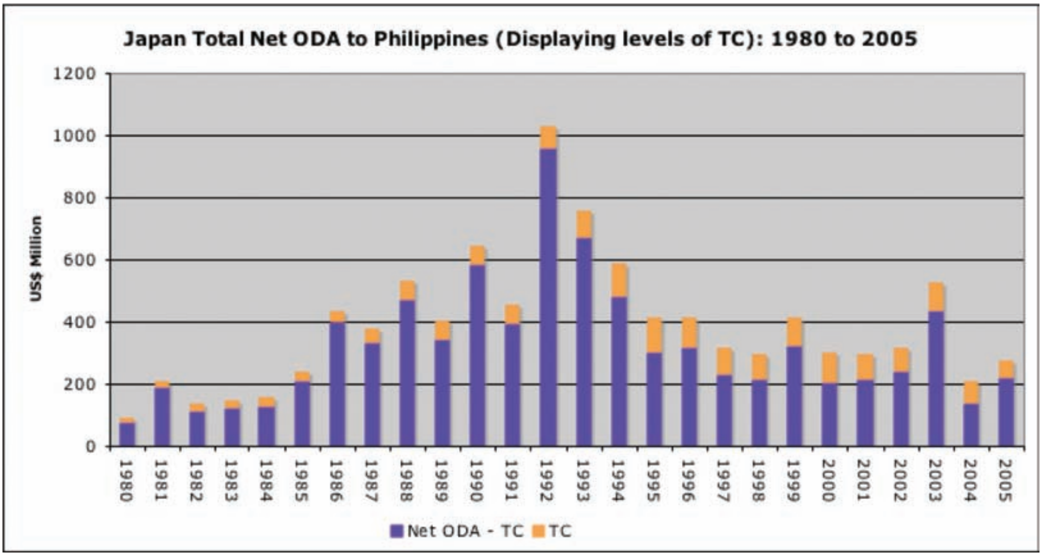
[1] All sector specific data taken from International Development Statistics (IDS) Online Database on aid and other resource flows. This data was specifically accessed from the Creditor Reporting System (CRS). Figures can be accessed from: http://www.oecd.org/dataoecd/50/17/5037721.htm

Notes: *During this recent period American assistance has focussed on population programmes (family health care), environmental protection and chiefly development food aid and food security assistance. Of all the major donor nations America has consistently invested the most in conflict peace and security. Unlike most other donors it has provided little or nothing in education, water and sanitation and any part of the production sector.*

Aid trends in a middle-income country: The Philippines case

Focus: Japan ODA, TC, grants, sectoral breakdown





Raw data can be retrieved from the file: Japan Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls

Notes: *Initial general data shows that historically Japan has provided ODA in loans, although it still provides more in grants than the rest of the donors. Japan has provided little TC as a percentage of its total ODA again in total terms it provides as much TC as Germany.*

Sectoral breakdown: Japan ODA

Sector	2001	2002	2003	2004	2005
Social Infrastructure and Services	**64.459**	**74.661**	**149.727**	**146.162**	**106.242**
Education	8.198	15.507	41.03	52.785	38.736
Health	12.239	7.382	14.831	6.078	2.945
Population Programmes			0.046	0.029	0.017
Water Supply and Sanitation	43.243	51.093	70.623	69.123	57.861
Government and Civil Society		0.678	20.84	14.439	1.667
Conflict, Peace and Security					
Other Social Infrastructure and Services	0.807		2.358	3.708	5.015
Economic Infrastructure	**324.123**	**373.288**	**435.453**	**294.829**	**444.088**
Transport and Storage	218.889	319.585	385.948	253.21	380.326
Communications	12.453		1.276	1.619	2.57
Energy	78.041	47.103	47.748	39.223	60.043
Banking and Financial Services	14.741	6.6	0.228	0.177	0.285
Business and Other Services			0.254	0.6	0.864
Production Sectors	**119.202**	**96.704**	**102.236**	**105.401**	**107.272**
Agriculture, Forestry and Fishing	77.975	63.192	45.22	43.89	37.868
Industry, Mining, Construction	33.193	17.207	37.343	54.644	65.196
Trade Policy and Regulations			0.615	4.535	0.786
Tourism				0.013	0.031
Multisector	**42.123**	**56.648**	**232.534**	**109.514**	**90.258**
General Environmental Protection	21.366	25.211	188.617	68.297	43.106
Women in Development					
Other Multisector	20.757	31.437	43.917	41.217	47.153
Commodity Aid and General Programme Assistance	**16.460**		**12.942**		
General Budget Support	**16.460**		**12.942**		
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
Action relating to Debt					
Emergency Assistance and Reconstruction				**0.358**	
Emergency and Distress Relief				**0.358**	

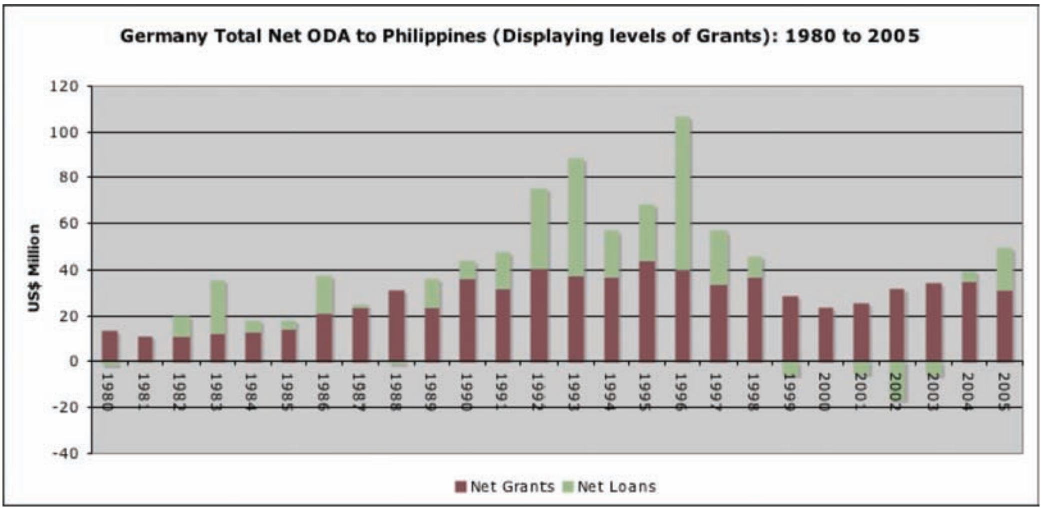
Aid trends in a middle-income country: The Philippines case

Sectoral breakdown: Japan ODA (continued)

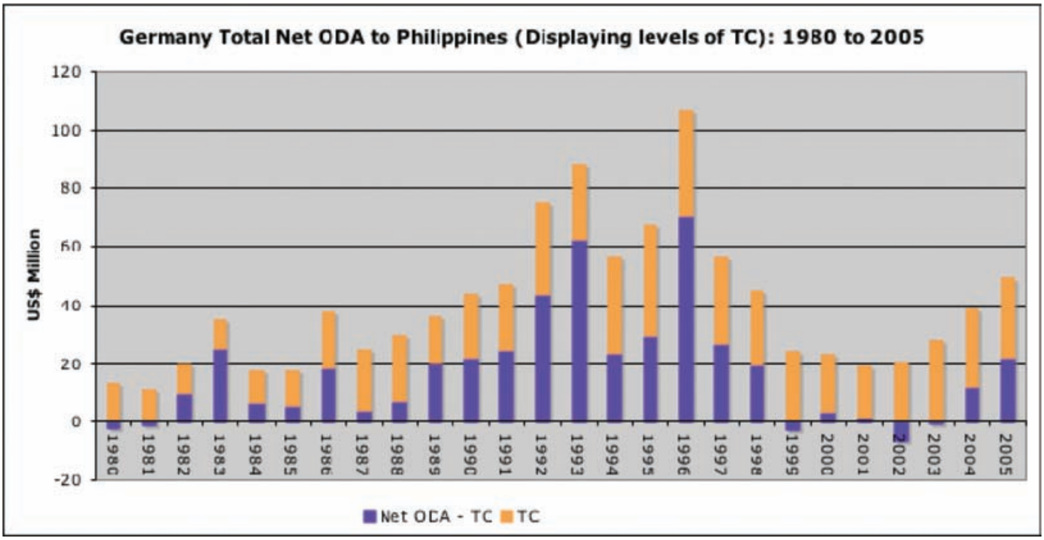
Sector	2001	2002	2003	2004	2005
Reconstruction Relief					
Distaster Prevention and Preparedness					
Administration Costs of Donors					
Support NGOs			**2.14**	**1.82**	**1.29**
Refugees in Donor Countries					
Unallocated and Unspecified			**7.175**	**4.426**	**0.919**
Unknown				**0.395**	
Total Sector Allocable	**566.395**	**601.301**	**942.208**	**662.899**	**750.068**

Notes: *During the period analysed Japan provided aid to almost every sector with a focus on transport and storage infrastructure, agriculture and industrial production, energy infrastructure, water and sanitation and increasingly education and environmental protection. What becomes obvious from the data is that Japan has been facilitating the creation of a production hub. Economic infrastructure is needed if the Philippines labour force is to be productive when employed by Japanese firms. Although this development is welcome a cynic might argue that the policy has benefited Japan.*

Focus: Germany ODA, TC, grants, sectoral breakdown



Notes: *In general Germany has favoured grants as opposed to concessional loans except for a sustained period between 1992 and 1997 where loans occasionally overtook grants. It seems that much of this money is yet to be paid back. Germany has recorded high levels of TC particularly in recent years showing a bias towards involving itself in aid programmes on the ground.*



Raw data can be retrieved from the file: Germany Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls

Sectoral Breakdown: Germany ODA

Sector	2001	2002	2003	2004	2005
Social Infrastructure and Services	**11.195**	**10.375**	**20.816**	**25.840**	**25.516**
Education	1.968	2.82	7.089	8.703	5.396
Health	0.371	0.239	2.246	4.471	3.009
Population Programmes	6.467	3.783	4.396	3.64	0.037
Water Supply and Sanitation	0.856	0.04	1.2	2.998	9.866
Government and Civil Society	0.62	2.353	4.247	4.474	5.272
Conflict, Peace and Security		0.025	0.063	0.152	0.557
Other Social Infrastructure and Services	0.913	0.116	1.575	1.404	1.378
Economic Infrastructure	**4.507**	**1.409**	**8.041**	**14.227**	**4.861**
Transport and Storage			0.264	2.511	
Communications			0.038		0.003
Energy	2.217			0.029	
Banking and Financial Services	2.18	1.217	7.146	10.983	2.317
Business and Other Services	0.111	0.192	0.592	0.704	2.541
Production Sectors	**1.542**	**1.793**	**2.114**	**6.812**	**4.45**

Aid trends in a middle-income country: The Philippines case

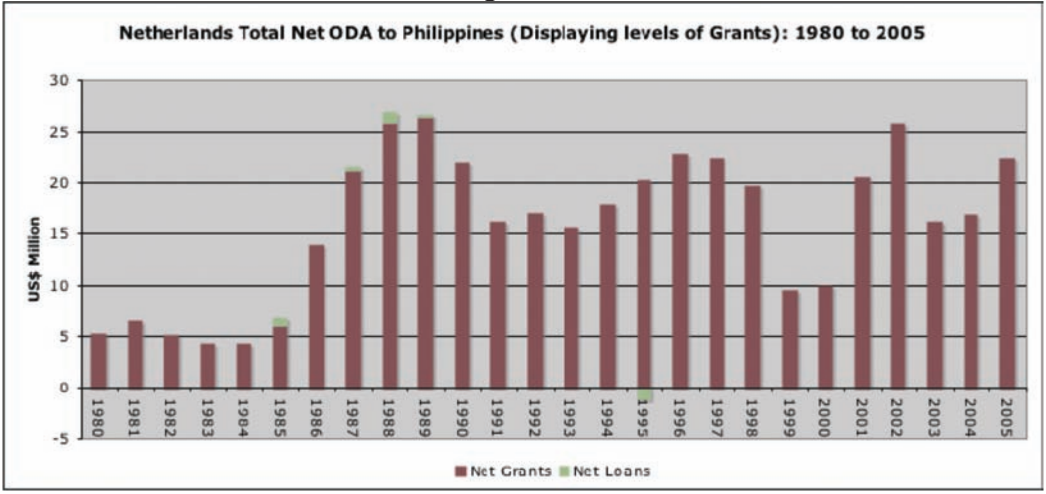
Sectoral breakdown: Germany ODA (continued)

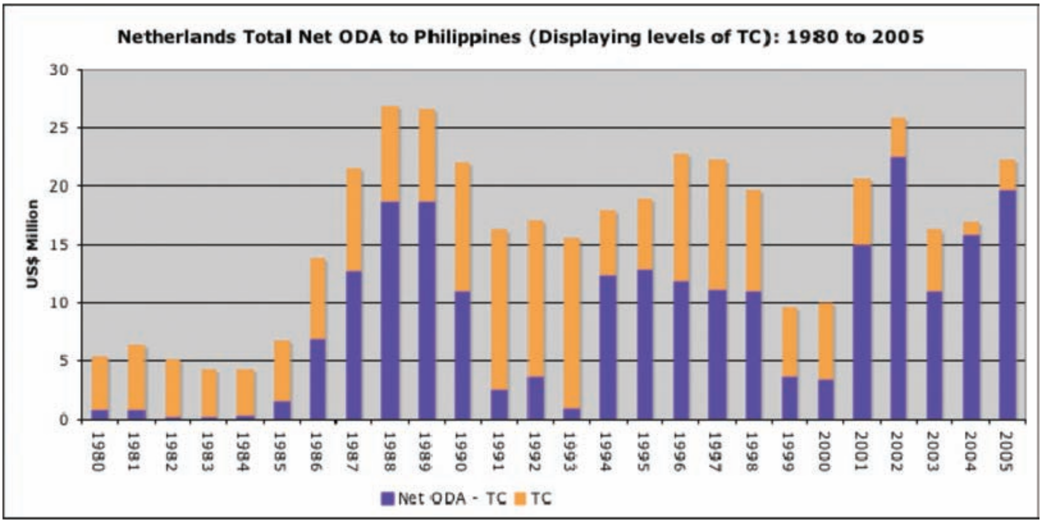
Sector	2001	2002	2003	2004	2005
Agriculture, Forestry and Fishing	1.208	1.596	1.8	3.345	3.073
Industry, Mining, Construction	0.333	0.197	0.314	3.097	1.151
Trade Policy and Regulations				0.286	0.135
Tourism				0.084	0.091
Multisector	**3.250**	**4.377**	**10.35**	**5.885**	**5.715**
General Environmental Protection	0.084	0.006	0.152	0.998	2.198
Women in Development					
Other Multisector	3.166	4.371	10.197	4.886	3.517
Commodity Aid and General Programme Assistance					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
Action relating to Debt					
Emergency Assistance and Reconstruction			**0.192**	**0.506**	**0.903**
Emergency and Distress Relief			0.192	0.506	0.168
Reconstruction Relief					0.736
Distaster Prevention and Preparedness					
Administration Costs of Donors					
Support NGOs				**0.173**	**0.176**
Refugees in Donor Countries					
Unallocated and Unspecified	**2.05**	**1.992**	**0.555**	**1.139**	**0.356**
Unknown	**0.425**	**1.985**			
Total Sector Allocable	**21.97**	**21.93**	**42.068**	**54.583**	**41.978**

Notes: *Comparatively Germany's level of aid inflows are significantly less than the USA or Japan. Having said this it focuses on very different development sectors. These include government and civil society support, banking and financial services and education. This suggests that German aid goes further towards supporting the Filipino state, helping it come to terms with political and economic problems, as oppose to simply pushing for economic growth.*

Aid trends in a middle-income country: The Philippines case

Focus: Netherlands ODA, TC, grants, sectoral breakdown





Raw data can be retrieved from the file: Netherlands Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls

Notes: *Like the USA and Australia the Netherlands has almost exclusively provided grants. This may highlight the strategy of other nations looking promote efficient practise and get a return on their investment. The Dutch provided just under half the value in grants of its larger European compatriot, Germany, during the period in question as well as reducing levels of TC over time. In recent years the Netherlands has been a exemplary donor to the Philippines.*

Aid trends in a middle-income country: The Philippines case

Sectoral breakdown: Netherlands ODA

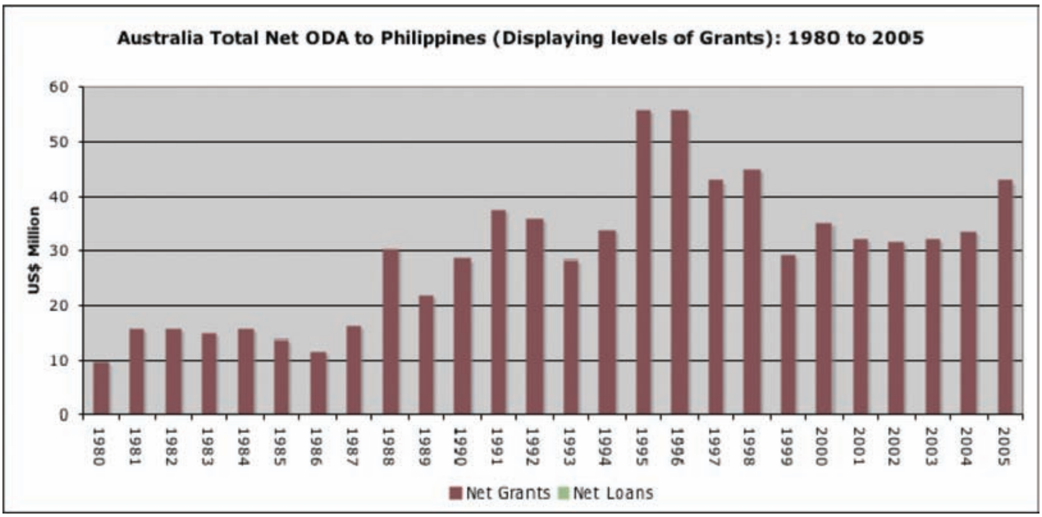
Sector	2001	2002	2003	2004	2005
Social Infrastructure and Services	**5.608**	**2.749**	**3.184**	**5.262**	**1.352**
Education	3.192	0.07		2.978	0.987
Health	0.298	0.270			
Population Programmes	0.107	0.246			
Water Supply and Sanitation	0.586	1.301	3.129	2.258	0.226
Government and Civil Society	1.290	0.72	0.055	0.03	0.13
Conflict, Peace and Security					
Other Social Infrastructure and Services	0.135	0.142			0.009
Economic Infrastructure	**0.239**	**0.653**	**0.793**	**0.717**	**1.149**
Transport and Storage					
Communications					
Energy	0.168	0.026			
Banking and Financial Services					
Business and Other Services	0.071	0.627	0.793	0.717	1.149
Production Sectors	**0.616**	**0.882**	**0.616**	**0.765**	**0,344**
Agriculture, Forestry and Fishing	0.565	0.827	0.616	0.765	0,344
Industry, Mining, Construction	0.006	0.003			
Trade Policy and Regulations	0.04	0.05			
Tourism					
Multisector	**4.679**	**4.092**	**3.318**	**1.696**	**1.94**
General Environmental Protection	3.934	3.524	3.168	1.684	1.94
Women in Development					
Other Multisector	0.745	0.568	0.151	0.013	
Commodity Aid and General Programme Assistance					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
Action relating to Debt					
Emergency Assistance and Reconstruction				**0.311**	

Sectoral breakdown: Netherlands ODA (continued)

Sector	2001	2002	2003	2004	2005
Emergency and Distress Relief				0.311	
Reconstruction Relief					
Distaster Prevention and Preparedness					
Administration Costs of Donors	**8.561**				
Support NGOs	**0.263**	**7.743**	**7.787**	**8.271**	**8.029**
Refugees in Donor Countries					**0.053**
Unallocated and Unspecified	**0.638**	**9.755**	**0.579**	**0.086**	**9.463**
Unknown					
Total Sector Allocable	**20.605**	**25.874**	**16.277**	**17.109**	**22.33**

Notes: *Of its development assistance to the Philippines during the period in question the Netherlands is unique in its massive commitment to the NGO community which dwarfs other large donors. Like Germany, the Netherlands other focuses include environmental protection, education, water and sanitation, perhaps reflecting European values in ODA disbursement.*

Focus: Australian ODA, TC, grants, sectoral breakdown



Raw data can be retrieved from the file: Australia Total Net ODA to Philippines displaying levels of grants and TC 1980 to 2005.xls

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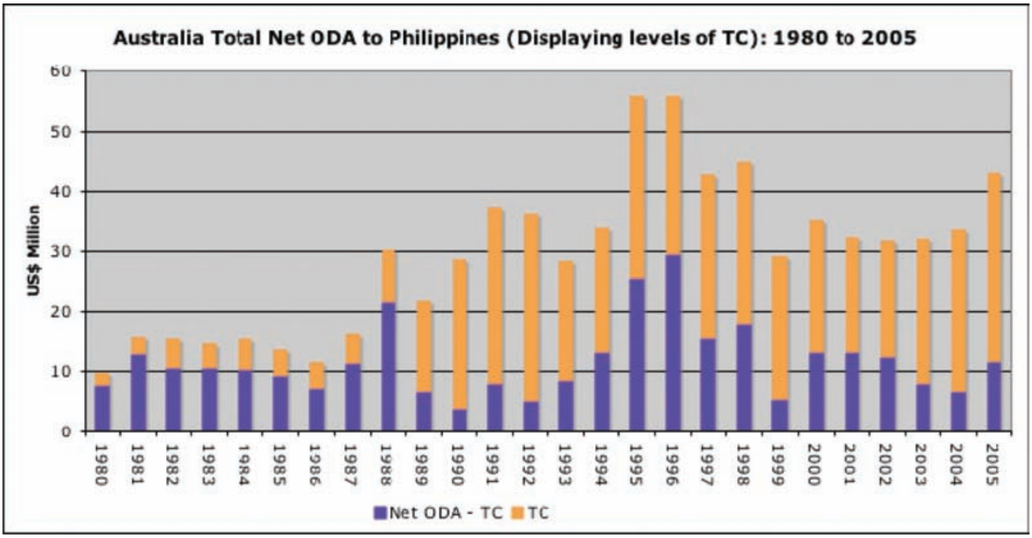

Notes: *Australian ODA disbursement seems similar to the American approach providing only grants and high levels of technical assistance after the 1990s.*

Sectoral breakdown: Australia ODA

Sector	2001	2002	2003	2004	2005
Social Infrastructure and Services	**26.124**	**25.519**	**17.56**	**20.286**	**1.463**
Education	6.012	6.006	5.675	10.730	
Health	4.811	5.311	1.9	2.895	0.19
Population Programmes	0.234				0.322
Water Supply and Sanitation	0.387	0.387	0.044	0.335	
Government and Civil Society	7.198	7.545	3.046	4.298	0.654
Conflict, Peace and Security	1.555	2.717	3.503	1.337	0.172
Other Social Infrastructure and Services	5.927	3.554	3.392	0.692	0.125
Economic Infrastructure	**0.002**		**0.002**	**0.409**	
Transport and Storage					
Communications			0.002		
Energy				0.188	
Banking and Financial Services				0.22	
Business and Other Services	0.002				

Sectoral breakdown: Australia ODA (continued)

Sector	2001	2002	2003	2004	2005
Production Sectors	**2.794**	**4.223**	**5.789**	**6.552**	**0.414**
Agriculture, Forestry and Fishing	2.671	4.204	5.787	6.552	0.411
Industry, Mining, Construction	0.018	0.016			0.003
Trade Policy and Regulations	0.105	0.004	0.003		
Tourism					
Multisector	**2.502**	**1.247**	**6.013**	**2.426**	**0.044**
General Environmental Protection			0.536	0.594	
Women in Development					
Other Multisector	2.502	1.247	5.478	1.832	0.044
Commodity Aid and General Programme Assistance					
General Budget Support					
Development Food Aid/Food Security Assistance					
Other Commodity Assistance					
Action relating to Debt					
Emergency Assistance and Reconstruction	**0.258**	**0.543**		**0.234**	**0.657**
Emergency and Distress Relief	0.258	0.543		0.234	0.594
Reconstruction Relief					0.063
Distaster Prevention and Preparedness					
Administration Costs of Donors	**0.113**	**0.008**	**0.001**	**0.085**	
Support NGOs					
Refugees in Donor Countries					
Unallocated and Unspecified	**0.007**	**0.003**	**0.247**	**0.729**	
Unknown	**0.438**	**0.16**	**2.426**	**2.759**	**40.52**
Total Sector Allocable	**32.238**	**31.704**	**32.039**	**33.48**	**43.098**

***Notes:** Australia's figures for 2005 are practically useless because their ODA disbursements seem to have been un-audited or not recorded. During the rest of the period in question Australia has focussed on education, government and civil society infrastructure as well as health and agricultural production. After USA Australia is the only country to allocate large amounts of money to conflict, peace and security reflecting their strategic interest and involvement in the war on terror.*

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Conclusion: Valuable lessons can be learned from the Philippines experience

It is important to be clear that this analysis represents only the tip of the iceberg not just regarding the information available and its breakdown but also the human and political story of the Philippines' development. Furthermore, this data is purely historical and although useful has little bearing on what might happen next.

It is likely that in the near future the Philippines will receive much less development assistance in the form of loans or grants from the World Bank and its main bilateral donors. The Philippines now falls into a group of important middle-income countries that will soon pay off their debts and graduate from the World Bank's supervision therefore having to conduct their financial affairs entirely with private banks and investors instead. Broadly speaking, this will be a good thing for the country's economic growth but will require constant domestic political and economic stability.

However, there is a flip side to the coin. This study has also shown that increased growth is not necessarily associated with reductions in poverty, particularly in the countryside. Because of these trends the NGO community must accept and address the state's drive towards economic growth. It will need to regulate the human costs associated with an influx of private investment as well as the Filipino and international companies which take advantage of it; particularly where national and local government and the judiciary fail. In this vein Filipino civil society must pay much closer attention to the political climate within industrialised countries where investment capital originates. There, high levels of regulation as well as government, judicial and local community interference ensure that companies are taxed adequately and take responsibility for their actions and externalities.

A final concern regarding the Philippines' new influx of private investment can be seen in the section about financial flows to the ASEAN founding nations. The Philippines was not hit as hard by the Asian Financial Crisis in 1997 largely because its economy was not completely full of international capital in the first place. As Filipino interaction in the world market increases the risk of a similar event disrupting the economy will increase.

Perhaps the most perplexing and frustrating part of this study relates to the failure of the donor community to better regulate and coordinate their activities in the Philippines. During the period in which data was collected donors failed to provide the country with consistent levels of ODA while constantly varying their approach to development in the country. Many different variables seem to have played a part in influencing the amount of aid the Philippines could rely on from any given donor annually including: the performance of the economy; the political situation in the Philippines; the political situation in the donor nation; as well as major shifts in world politics and approaches to development.

Another major failing of the donor community has been their obsession with economic growth as a root to development. With the exception of the Netherlands, and to some extent Germany, none of the Philippines' main donors provided aid that looked to empower civil society as well as supporting economic growth. By far the most telling finding was that no major donor has provided significant financial aid to support Filipino trade policy and regulation. If nothing else this demonstrates that donors wanted to have control of the Filipino market for their own gain. Without knowledge in this area the Philippines is without the power to combat the negative effects of international finance and will remain at the mercy of the free market.

Appendix 1: OECD statistical reporting directives

All directives are sourced directly from the OECD website: http://www.oecd.org/dataoecd/36/32/31723929.htm#15,16,17,18

1. DAC2a Official Development Assistance – Disbursements.
2. Includes directives for: Total Net ODA, Total Net Loans and Technical Cooperation.
3. Dataset DAC4 – Private Flows.
4. Dataset DAC2b – Other Official Flows.
5. DAC7b – Tying Status of Bilateral ODA.

DAC2a Official Development Assistance – Disbursements

Description: Destination of Official Development Assistance and Official Aid Disbursements. Geographical breakdown by donor, recipient and for some types of aid (e.g. grant, loan, technical co-operation) on a disbursement basis (i.e. actual expenditures). The data cover flows from all bilateral and multilateral donors except for Tables DAC 1, DAC 4, DAC 5 and DAC 7b which focus on flows from DAC member countries and the EC.

ODA (OA): Total Net

Description: Official Development Assistance (ODA) is defined as those flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following tests: i) it is administered with the promotion of the economic development and welfare of developing countries as its main objective; and ii) it is concessional in character and conveys a grant element of at least 25 percent.

ODA (OA): Loans Total Net

Description: ODA/OA Loans: loans with maturities of over one year and meeting the criteria set under "Official

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Development Assistance" and "Official Aid (ODA/OA)", extended by governments or official agencies, and for which repayment is required in convertible currencies or in kind. Rescheduling (maturity extension of loans originally made by a government or official agency) and loans made by a government or an official agency to refinance indebtedness due to the private or official sector, are included if reported as Official Development Assistance or Official Aid, otherwise as "Other Official Flows''. **The net data are reported after deduction of amortisation payments and the impact of other measures reducing debt (e.g. forgiveness). NOTE:** As a result the tables can show negative figures because the Philippines could be repaying more in debt than it receives in donations.

Technical Cooperation

OECD Description: Technical Co-operation: This is defined as activities whose primary purpose is to augment the level of knowledge, skills, technical know-how or productive aptitudes of the population of developing countries, i.e., increasing their stock of human intellectual capital, or their capacity for more effective use of their existing factor endowment. Accordingly, the figures relate mainly to activities involving the supply of human resources (teachers, volunteers, experts in various sectors) and action targeted on human resources (education, training, advice). The supply of expertise designed primarily to support the implementation of capital projects ("Investment-Related Technical Co-operation'' - IRTC) is not included under this heading.

Dataset DAC4 – Private Flows

Private sector, net is broken down, for DAC Members combined, into direct investment, portfolio investment and export credits (net). The transactions covered are those undertaken by residents of DAC Member countries. Portfolio investment corresponds to bonds and equities. Inflows into emerging countries' stock markets are, however, heavily understated. Accordingly, the coverage of portfolio investment differs in these regards from the coverage of bank claims, which include indistinguishably export credit lending by banks. The bank claims data represent the net change in banks' claims after adjustment to eliminate the effect of changes in exchange rates. They are therefore a proxy for net flow data, but are not themselves a net flow figure. They differ in two further regards from the other data in the report. First, they relate to loans by banks resident in countries which report quarterly to the Bank for International Settlements (BIS). Secondly, no adjustment has been made to exclude short-term claims.

Dataset DAC2b – Other Official Flows

Other Official Flows (OOF): transactions by the official sector whose main objective is other than development-motivated, or, if development-motivated, whose grant element is below the 25 per cent threshold which would make them eligible to be recorded as ODA/OA. The main classes of transactions included here are official export credits, official sector equity and portfolio investment, and debt reorganisation undertaken by the official sector at non-concessional terms (irrespective of the nature or the identity of the original creditor).

DAC7b – Tying Status of Bilateral ODA

Table DAC 7b is used to report the tying status of bilateral ODA commitments. Members have agreed that administrative costs and technical co-operation expenditure should be disregarded in assessing the percentages of tied, partially untied and untied aid. These items should therefore not be included in the data reported in this Table.

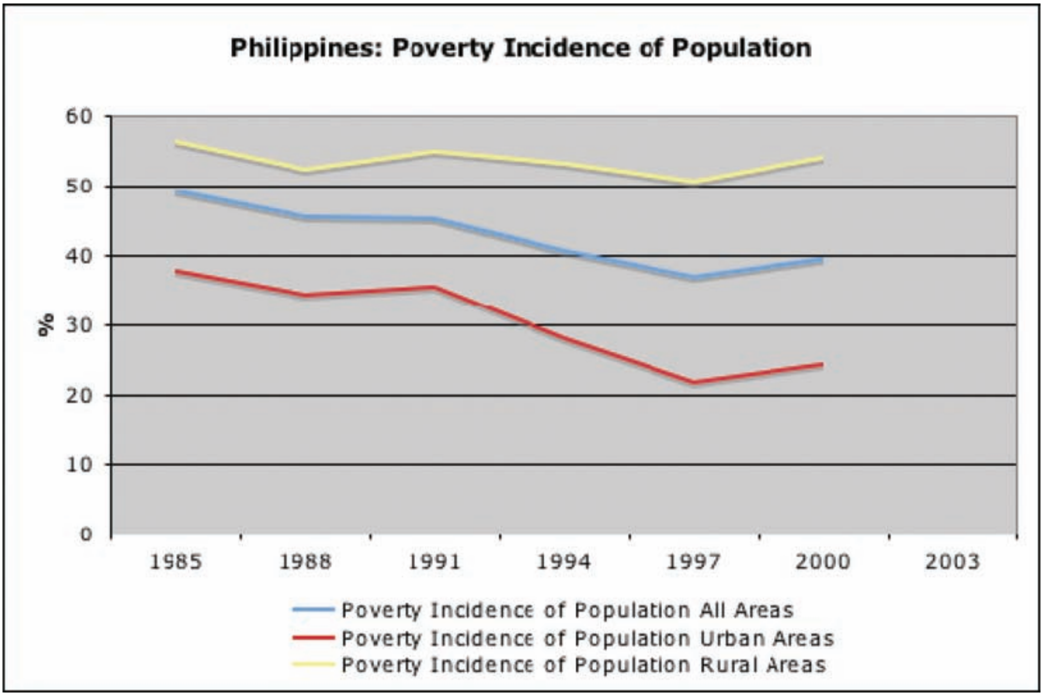
Appendix 2: Notes on retrieval of data from CRS

In CRS figures for disbursal of ODA and TC were in a different format to those taken from the Database on Annual Aggregates. Data was only available showing gross aid disbursal rather than net ODA. The data therefore takes into account total loans received without deducting repayments. As a result the amount of donation often appears significantly higher than in the original dataset. It was also noted that there was a discrepancy between datasets particularly regarding the calculation of TC. It is again likely that this is due to the difference between Gross and Net calculations.

Appendix 3: List of acronyms

AsDB – Asian Development Bank
AsDF – Asian Development Fund
ASEAN – Association of Southeast Asian Nations
EC – European Community
GEF – Global Environmental Facility
GFATM – Global Fund to Fight AIDS, TB and Malaria
Montreal Protocol – set up to provide grants that help to protect the Earths Ozone Layer
Nordic Dev. Fund – Nordic Development Fund (provides small loans for development)
IBRD – International Bank of Reconstruction and Development (official name of the World Bank until 1984)
IDA – International Development Association (Official name of World Bank post 1984)
IMF Trust Fund – Official name of International Monitory Fund until 1985)
SAF + ESAF + PRGF – Institutions that make up the modern institution known as the International Monetary Fund
IFAD – International Fund for Agricultural Development
UNDP – United Nations Development Program (provides grants most of assistance is TC)
UNFPA – United Nations Population Fund (provides grants to assist with reproductive health)
UNHCR – United Nations High Commissioner for Refugees
UNICEF – United Nations Children's Fund
UNTA – United Nations program for Technical Assistance
WFP – World Food Program

Appendix 4: Basic social indicators



Source: Philippines Institute for Development Studies Web address: http://econdb.pids.gov.ph/index.php?option=com_dirp&tab2=33&class_id=&sort_id=Place_ID&disp_flag=&dat_class=150

Definitions: Poverty Incidence of Population Urban Areas: is the proportion of individuals in urban areas whose income cannot provide for the basic food and non-food requirements called the poverty threshold to the total number of individuals in urban areas. (magnitude of poor population urban areas / total number of population urban areas) X 100

Poverty Incidence of Population Rural Areas: is the proportion of individuals in rural areas whose income cannot provide for the basic food and non-food requirements called the poverty threshold to the total number of individuals in rural areas. (magnitude of poor population rural areas / total number of population rural areas) X 100

Notes: *This graph shows that the incidence of poverty has dropped about ten percent since 1985, however it demonstrates that this is almost entirely the result of decreases in urban areas.*

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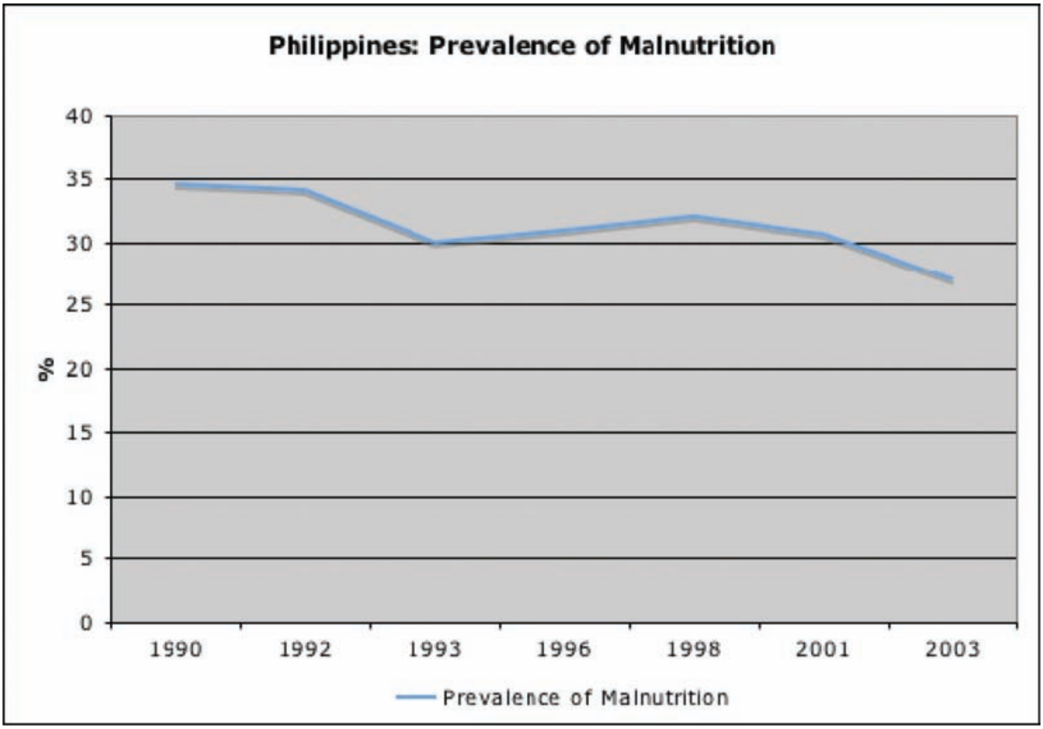

Source: Philippines Institute for Development Studies Web address: http://econdb.pids.gov.ph/index.php?option=com_dirp&tab2=246&class_id=&sort_id=Place_ID&disp_flag=&dat_class=147

Definition and notes: Contains the proportion of underweight among 0-5 year-old children.

***Notes:** This graph is quite positive demonstrating a ten percent drop in the prevalence of malnutrition from 1990 to 2003. This correlates with increased economic growth over that period.*

Appendix 5: Case study: Joseph Estrada and international capital flight

Joseph Estrada was president of the Philippines from June 30, 1998 to January 20, 2001. In this relatively short period he had a marked effect on the level of development capital that flowed into the Philippines from abroad.

Estrada came to the Presidency advocating the poor, apparently committed to populist ideology and dedicated to anti-corruption. Within months it was clear that he had failed on all counts. In terms of external interaction Estrada borrowed more from bilateral sources in 1999 (Net OOF topped US$ 1 billion that year) than he received in bilateral ODA disbursements, but most importantly he oversaw the biggest drop in net private flows in Filipino history between 1999 and 2000. Given the importance of private investment flows as a source of development capital it is important to understand why this happened and why the fall was so dramatic.

A look through the international financial press during the period of Estrada's presidency highlights the problem. On January 16, 1999 The Economist reported that the Estrada government's issue of US$ 1 billion in Philippines sovereign bonds had been met by great excitement by foreign investors. The article concluded that the Philippines had been rewarded, "for its strong economy, its banks' low exposures to property loans, and its government's professionalism in dealing with foreign investors."[17] The economy was indeed performing well and Erap's initial pro-corporate and business stance had a positive effect on international investment. However, things soon changed; by early 2000 it became clear to international investors that corruption could have a very damaging effect on the value of their investment.

On March 25, 2000 The Economist released details of the Lucio Tan scandal, the first major insider trading breach in the Philippines. What was important about this, from a foreign investors perspective, was that when Ruben Almadro (head of the Filipino Stock Exchange's (PSE) surveillance department) tried to report what he had found to senior officials (including Senator Paul Roco and the PSE chairman) they tried to silence him. On 7 March Mr Almadro and sixteen of his colleagues resigned, the PSE was no longer regulating itself and as a result investors pulled out all of their capital.[18] In August 2005 The Economist reported on the risk of investing in the Philippines highlighting evidence of corruption in the government's sale of shares in the Philippine National Bank (PNB). The only bidder was Lucio Tan, a close friend of Estrada, whose companies already received preferential treatment when borrowing from the PNB. This high level government intervention in the market provided an even stronger incentive for investors to leave because

[17] The Economist, "Virtue's own reward", Jan 16, 1999, p69(1).
[18] The Economist, "Thriller in Manila", March 25, 2000, p83.
[19] The Economist, August 5, 2000, p70.

they had no assurance that the market was operating efficiently.[19]

What can be taken from Estrada's presidency is the clear message that the markets perception of the level of corruption in the Philippines has a large affect on the amounts of investment that it receives. Well before Jose Singson nailed the final pin into the Erap administrations credibility investment had fled the country. This period demonstrates the importance of political stability and good governance to the level of investment the Philippines receives. It also shows how quickly the market can desert an economy if it finds market conditions unfavourable. Another interesting point to make is that aid in general also dropped slightly between 1999 and 2000, demonstrating that international and bilateral donors also responded negatively to political instability and poor governance.

Appendix 6: Defining and understanding Technical Assistance

It must be noted that during the course of this paper the terms Technical Assistance (TA) and Technical Cooperation (TC) have been taken to mean the same thing. TC is a newer more politically sensitive term used by international donors to emphasise mutual cooperation and is effectively a reaction to criticism that donors use TA to push for specific development policies, such as liberal market reform, and undermine local participation in the development process.

It is important to be clear from the start that this paper is concerned only with TA that comes as part of ODA. Finding a fully comprehensive definition for TA in this context is difficult. The principal problem is that in development literature TA tends to be used in the context of broader multilateral financial assistance from either of the Bretton Woods Institutions, The World Bank and International Monetary Fund (IMF), or from other large regional bodies, in this case the Asian Development Bank (AsDB). However, the concept of external donors providing a country with technical advice regarding their development policy extends out with the boundaries of international multilateral financial assistance. Within this definition the wider community of bilateral donors as well as international NGOs can be seen to provide assistance in a number of different developmental sectors including: education, energy, agriculture, security and business.

TA is therefore an important aspect of development cooperation in providing services that complement and provide advice to development programmes. It includes support for policy and economic reform in recipient countries, preparation, implementation and monitoring of infrastructure projects and other development programs as well as direct provision of social services to the poor.

TA is provided by technical advisors who can be seen to operate on two levels, as bureaucrats and on the ground. They

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are consultants, researchers and trainers that usually come part and parcel with aid packages. They are normally paid representatives of their respective donor agency and more than often come from the private sector within the donor country. At the bureaucratic level they tend to occupy related ministries to oversee government policy and the distribution of their aid and loans. On the ground they facilitate the identification, creation and operation of development projects and provide the capacity necessary for their operation.

Pressing Issues and Concerns

There are a number of pressing issues at hand regarding the provision of TA. The first is the overarching concern that it may be an under-effective drain on aid resources. In an extensive recent report Actionaid UK calculated that in 2004 $11.8 billion of the headline total $79 billion of real aid funds was spent on overvalued and ineffective TA.[20]

The second concern is that TA seriously jeopardises partisan ownership of political and economic policy. As noted above TA is often a conditional part of ODA. Technical assistants exist to oversee the provision of aid and advise national and local government on development projects. The result is that donors effectively dictate how development policy is formed. The fact that technical assistants are accountable to donors not local government means that TA can be used to exert significant foreign control over the type of economic, security and political reforms set in place by the state. ODA can effectively be used as a tool to support the donor's political and economic interests abroad.

In this regard the Philippines provides an interesting case study. For example, it is the most aggressive exponent of economic liberalisation in Southeast Asia. This policy has been supported by the nation's long-standing relationship with the IMF (the longest in history), an institution principally run and funded by the Western powers, which have business interests in the country.[21] A similar concern surrounds USAID's significant contribution to the security services in the Philippines. Its support post 9/11 has lead to a great deal of concern that American aid has directly influenced the political process by facilitating the subversion of various political groups.[22] There is therefore a great risk that external aid contributions in the form of TA are tied to reform in the economic and security sector at the expense of the will and best interests of the Filipino people.

Another important aspect of TA is that it is frequently provided by the private sector. The provision of ODA is often tied to the sub-contraction of large foreign corporations or trans-national corporations (TNCs) on aid projects. This is problematic for three obvious reasons. First, TNCs are legally bound to generate high profits for their shareholders and therefore aim to generate

[20] See: http://www.actionaid.org/1120/taking_action.html
[21] See: http://money.inquirer.net/columns/view_columns.php?yyyy=2004&mon=11&dd=29&file=1.
[22] See:http://newsinfo.inquirer.net/breakingnews/nation/view_article.php?article_id=55095

the best return possible from their business. This is awkward from an ethical standpoint because by their very nature these contractors seek to profit from aid projects. Second, there is the concern that linking the provision of external aid to contracting a domestic corporation inhibits competition over the contract. The corporation can therefore set its own prices and performance targets without having to worry about competition from rival companies. This inefficiency could constitute a drain on development funds. Finally, the use of foreign contractors further blurs the ethics of ODA because their involvement supports foreign business, investors and economies at the expense of local enterprise. TA can be used to create exploitative relationships and is guilty of turning development aid into a profitable industry.

Perhaps the most pressing concern is that TA could damage the progress of development itself by forcing ineffective policy and undermining local ownership of the process. As shown above, aid tends to be conditional upon the creation of projects that support wider policy agendas like, for example, the privatisation of state institutions. This strategy has created a culture of policy inflexibility, which in turn has lead to a high degree of policy failure. In many cases these could have been avoided had local experts been consulted in more depth.

Democratic ownership of aid in the Philippines

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

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

Filipino citizens and civil society nonetheless continue to strengthen themselves. They struggle to hold government accountable and to open up avenues for greater democratic involvement by women and marginalized sectors. In terms of aid effectiveness these social pressures, organized advocacies and principled engagement are vital for increasing democratic ownership of aid. They create the solid basis for improving decision making on where aid goes, how it is used and towards what ends. They are essential to strengthening transparency and accountability in the country's aid processes.

Overall aid trends

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

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

China was only the fifth biggest donor in 2006 but its loans were the largest on average at some US$153 million per loan (i.e. US$460 million for just three loans). The sheer size of these loans combined with China's more lax approach to ODA compared to the more established donors has tended to foster irregularities and corruption.[3] China's donor standing in the country could, however, change significantly with the signing of a China-Philippines Framework Agreement in January 2007 that potentially covers at least US$1.6–2.7 billion in additional ODA for seven infrastructure projects.[4] This rising aid presence reflects China's increasing global aggressiveness in the ODA realm and, at least in the Philippines, the filling in of gaps due to falling contributions from traditional donors.

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

The value of total on-going loans remains substantial and was equivalent to 8.1 percent of gross domestic product (GDP) in 2006; total net loan commitments in turn were equivalent to 13.1 percent of GDP.[5] ODA from bilateral and multilateral sources has fallen from its peak of 81.8 percent of the total public external debt stock in 1994 to a still large 56.4% in September 2007.[6] The total share of ODA in the external debt stock likewise fell from 66.6 percent to 38.5 percent over the same period.[7] The country has had no outstanding International Monetary Fund (IMF) loans since 2006.

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

For instance, ODA disbursements of US$454.5 million to the infrastructure-heavy Department of Public Works and Highways (DPWH) in 2006 were equivalent to 27.3 percent of the agency's expenditure program.[9] A similar situation is found in particular sectors. Total ODA disbursements of US$226.2 million to the agriculture, agrarian reform and natural resources sector in 2006, for example, were equivalent to 24.4% of the national government's allocation for the sector.[10]

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

Democratic ownership of aid in the Philippines

Aid, conditionality and ownership

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

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

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

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

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

The WB meanwhile continues with its structural and sectoral adjustment loans that have totaled some US$2.8 billion so far. It gave a US$250 million Development Policy Loan (DPL) at the end of 2006 that covered, among other things, fiscal austerity and new taxes – picking up from where the IMF left off – as well as power privatization. The DPL is an innovation from previous adjustment loans in that it was formally drawn up and given wholly only after the policy changes were made, rather than being negotiated and then subsequently disbursed based on prior formal commitments.

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

Aid has also been used to advance donor geopolitical interests at the expense of national sovereignty and development objectives. The United States (US) is the country's largest grant donor and since 2001 has accounted for between a third and nearly half of all grants received in any given year. It has used this as leverage for an increased US military presence in the Philippines as part of its global "war on terror". US foreign assistance to the country – covering both development and military aid – immediately tripled post-9/11 from US$48.7 million in 2001 to US$132.4 million in 2002.[12] Levels have remained high since then with the total US$743.0 million over the period 2002-2007 implying an average of US$123.8 million per year. This is even as the Philippine military and its paramilitary forces have been found to be complicit in mounting human rights violations and a wave of political killings, forced disappearances and abductions.[13] Outside of these grants, the US has, since 2000, been providing some US$20-40 million yearly in Public Law 480 (P.L. 480) loans ostensibly as "food aid" but really to purchase US food surpluses and support its own domestic agribusiness.

The US's whole approach is patently geared to promote its strategic military presence in the country. Its total grant package is divided into USAID funding and military and security-related funding. The share of military and security-related aid in its total grant package for the Philippines increased four-fold from 10.5 percent in 2001 to 39.5 percent in 2007, with the absolute amount increasing eight-fold from US$5.1 million to US41.7 million; the cumulative total for 2002-2007 reached US$273.1 million.[14]

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

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

A non-participatory aid system

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

There is still much to be done for citizens to be more genuinely engaged in the ODA process. The COCODA is a potentially important parliamentary mechanism but this remains basically dormant. It was only convened in 2005, a decade after the enactment of the ODA law; since then it has only had a handful of meetings mostly involving general ODA briefings. The PDF is nominally a multi-stakeholder body, but donor and government voices remain extremely dominant. There is also the risk that the PDF, by coordinating donor efforts, simply serves to further increase their individual and collective leverage over the country's policies.

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

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

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

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

Democratic ownership of aid in the Philippines

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

Conclusions: Towards a more democratic aid system

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

At the national level there is a need for more democratic planning, monitoring and implementation of aid. This means improved official mechanisms for greater involvement of citizens through parliament and CSOs – such as in national or regional development planning and consultative meetings with donors, and ODA project monitoring. There can also be improvements towards greater transparency and accountability, increased access to information, and stronger measures against rent-seeking and corruption. This presents a challenge for CSOs to have greater constructive engagement with governments and donors without compromising their grassroots grounding or core development principles. Greater CSO capacity for policy-formulation, advocacy and lobbying would help make such engagement more effective. Multi-stakeholder policy advocacy groups – but with a bias for amplifying grassroots voices – could be formed alongside aid project implementation watchdog groups. These groups could encourage indicators of aid outcomes focused more on development, tempering of disbursement-focused approaches, and enhanced anti-corruption efforts.

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

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

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