



## South-South Cooperation: A Challenge to the Aid System?



**The Reality of Aid**

SPECIAL REPORT ON SOUTH-SOUTH COOPERATION 2010

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is published in the Philippines in 2010 by IBON Books,  
IBON Center, 114 Timog Avenue, Quezon City, 1103 Philippines  
[editors@ibon.org](mailto:editors@ibon.org)  
[www.ibon.org](http://www.ibon.org)

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Layout: Jennifer T. Padilla  
Cover Photos: [unescap.com](http://unescap.com), [xanthis.files.wordpress.com](http://xanthis.files.wordpress.com)

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ISBN 978-971-0483-50-1

# The Reality of Aid Network

The Reality of Aid (RoA) Network exists to promote national and international policies that will contribute to new and effective strategies for poverty eradication built on solidarity and equity. Established in 1993, the Reality of Aid is a collaborative non-profit initiative involving non-governmental organisations from North and South.

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

The Reality of Aid has been publishing its reports and Reality Checks on aid and development cooperation since 1993.

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Representing European Country CSO partners	<b>Bodo Ellmers</b> European Network on Debt and Development (EURODAD)

Reality of Aid Global Secretariat: Josephine Dongail and Ava Danlog

Email: [secretariat@realityofaid.org](mailto:secretariat@realityofaid.org)

Website: [www.realityofaid.org](http://www.realityofaid.org)



## Acknowledgements

The *South-South Cooperation: A Challenge to the Aid System?* is a special report of the Reality of Aid written by authors from Southern CSOs whose research draws on knowledge and expertise from aid agencies, academia, and community-based organizations.

Overall editorial control of the publication lies with the Reality of Aid Management Committee. The views expressed reflect the views of the authors and do not necessarily reflect the views of the Management Committee or of IBON Foundation that published this Report.

The Reality of Aid Management Committee was assisted by Paul Quintos of IBON International, by Rosario Bella Guzman and Jose Enrique Africa as content/copy editors, Jennifer Padilla as lay-out artist and Josephine Dongail as managing editor. The translators of the Report were Marie-Gabrielle Denizet for the French edition and Rosa Inés Ospina Robledo for the Spanish edition.

We would like to thank all those who have generously contributed their knowledge and advice.



## Preface

The world's economic landscape is rapidly evolving. The first decade of the 21st century has ushered in rapid growth in the economies of emerging giants from the Global South, eclipsing the performance of the old industrial centers in the North. China is widely expected to overtake Japan as the second largest economy in the world this year. India's economic output is expected to surpass the gross domestic product (GDP) of Canada by next year. Brazil is the fastest growing economy in all of the Americas.

With economic stagnation looming on the horizon in the developed world, poor countries are increasingly looking towards other developing economies for greater trade, investments and development cooperation. The growth of regional cooperation or regionalism has also escalated as a by-product of globalization.

A number of middle-income countries from the South have recently moved from being net aid recipients to being net donors even as the vast majority of the world's impoverished population are still found in these countries. With the rapid growth of development assistance from so-called "emerging donors" from the South, there is increasing interest in South-South Cooperation especially within official government circles.

From a dedicated article extolling the importance of South-South cooperation towards aid effectiveness in the Accra Action Agenda (AAA), expectations are high that good practices in South-South cooperation will contribute important learnings towards the building of a new aid architecture that promotes effective development cooperation.

This new report from the Reality of Aid Network contributes to the growing literature on the subject by taking a critical look at the nature, shortcomings and potentials of South-South development cooperation from a Southern civil society perspective.

The report is a specialized selection of researches ranging from the emergence of new global donors such as India, China and South Africa as well as the establishment of a new international financial architecture in South America to the impact of these trends on the diverse economies of Asia, Africa and the Americas. It presents the general condition of the Southern continents along with the specific experiences of Zimbabwe, Uganda and the Philippines, and illustrates the viability as well as the deficiency of the rising South-South development cooperation. The report also contains two researches on the noteworthy contribution of Cuba in Timor Leste and South West Pacific and its ongoing cooperation with Venezuela.

This report provides development actors important lessons, not just for improving South-South cooperation but also for enhancing the development effectiveness of international development cooperation as a whole.

**Antonio Tujan, Jr.**

Chairperson

Management Committee

Reality of Aid Network



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# South-South Development Cooperation: A challenge to the aid system?

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## The Reality of Aid Management Committee

### Introduction

International development cooperation is commonly viewed in the context of North-South relations. According to the dominant development discourse, the developed North possesses the capital resources and technical skills which the poor South lacks. Indeed, this gap is used to explain the latter's underdevelopment. Therefore the North can and must promote international development by providing economic, financial and technical assistance to the South.

South-South development cooperation (SSDC) has been receiving greater attention lately as developing countries gain increasing weight in the world economy. The so-called BRICs economies – Brazil, Russia, India and China – with 40% of the world's population spread out over three continents, already account for 25% of global gross domestic product (GDP). Goldman Sachs reckons that these four emerging economies could collectively surpass the output of the Group of Seven wealthy nations by 2032, with China becoming the world's largest economy before 2030.<sup>1</sup> In terms of official development assistance (ODA)<sup>2</sup>, the developed countries belonging to the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) continue to be the source of most international development assistance – US\$121.5 billion in 2008. But the share of non-DAC contributors has been rising, especially from middle-income developing countries such as China and India.

Estimates from the United Nations (UN) Economic and Social Council (ECOSOC) place

that at between US\$9.5 billion and US\$12.1 billion in 2006, or 7.8% to 9.8% of total ODA flows in that year, up from around 5% during the 1990s – excluding Southern contributions to multilateral agencies.<sup>3</sup> Despite the global economic and financial crisis since 2008, SSDC has continued to expand. Global challenges such as energy and food crises, climate change, and pandemics like the influenza A(H1N1) have galvanized Southern countries into enhanced partnerships through interregional, regional and subregional mechanisms. Concerns about the volatile financial markets, food and energy insecurity, and alternatives to seeking emergency financing from the International Monetary Fund (IMF) are pushing developing countries to find support among themselves, especially amid economic decline in developed countries where they traditionally looked for assistance.

These contributions between developing countries are generating a new dynamism in international development cooperation. Indeed, the real significance of SSDC lies not so much in the magnitude of ODA or financial resources flowing between developing countries but rather in the character of the relationship expressed by these exchanges, especially when compared with traditional North-South development cooperation.

Developing countries and civil society have repeatedly criticized the way aid is often used as a neo-colonial tool by developed countries – imposing policy conditionalities on developing countries and tying aid to commercial, political and military interests of donors. In contrast, SSDC is often presumed to be based on principles of

solidarity rather than clientelism. For instance, the 2008 Accra Agenda for Action (AAA) of the Third High Level Forum on Aid Effectiveness affirms that, “South-South cooperation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content. It plays an important role in international development cooperation and is a valuable complement to North-South cooperation.”<sup>4</sup>

It is essential to better understand the nature, shortcomings and potential of South-South development cooperation in order to inform and strengthen CSO advocacy for greater development effectiveness of aid, whether this involves South-South or North-South relations. This article examines the drivers of SSDC and to what extent emerging donors from the South are motivated by principles of solidarity and mutual benefit or driven by strategic interests. It also examines the implications of Southern donors’ policy of mutual benefit and non-interference on the quality and developmental impact of such aid. Finally it draws some lessons for improving international development cooperation.

### Focusing on ODA

South-South cooperation has a long and notable history. In the 1950s, South-South cooperation emerged in the context of the common struggle of former colonies to attain genuine independence and development. The Bandung conference in 1955 brought together 29 countries from Asia and Africa to promote economic and cultural cooperation in the Asian-African region “on the basis of mutual interest and respect for national sovereignty.” This pioneering South-South conference paved the way for the rise of the

Non-Aligned Movement (NAM) in 1961 and the Group of 77 in 1964.<sup>5</sup>

Ever since, South-South cooperation has been practiced in numerous ways ranging from economic integration, the formation of negotiating blocs within multilateral institutions, military alliances, to cultural exchanges. It has included humanitarian assistance and technical cooperation as well as the provision of concessional financing for development projects, programs, budget support and strengthening balance of payments. Cooperative relationships have been at the level of governments and their agencies as well as between private enterprises or civil society organisations. All these efforts have made important contributions to strengthening the conditions for social and economic development in the cooperating countries.

As such, South-South cooperation is a much broader and deeper concept than foreign aid.<sup>6</sup> However a comprehensive discussion of South-South Cooperation in all its diverse and multi-faceted forms is beyond the scope of this article. Instead, this article focuses on SSDC in the form of ODA from Southern governments to other Southern countries in order to narrow down the scope of the analysis and facilitate comparability (especially with ODA from OECD/DAC donors) at least in terms of orders of magnitude and quality issues.

Nevertheless, it must be acknowledged and emphasized that focusing only on ODA excludes numerous cooperative arrangements that developing countries may consider as genuinely beneficial to development and consistent with their national development strategies and priorities including South-South cooperation by other stakeholders such as civil society organizations, academia and the media (see **Box 1**). A second caveat is that there is no

### **Box 1. Diverse Examples of South-South Cooperation**

#### **Negotiating bloc: G77 (since 1964)**

At the end of the first session of the United Nations Conference for Trade and Development in Geneva in 1964, a group of 77 developing countries signed the Joint Declaration of the Seventy-Seven Countries creating the G77, the largest coalition of developing countries/least developed countries at the UN system. The G77 currently has 131 member countries. The bloc aims to provide Southern countries the means to articulate and promote their collective economic interests and enhance their joint negotiating capacity on major international economic issues within the UN system, and promote South-South development cooperation.

#### **Economic integration: Bolivarian Alternative for the Americas (ALBA)**

Launched in 2004, the Bolivarian Alternative for the Americas (ALBA) is an integration initiative for the Latin American and Caribbean countries. It was first proposed by Venezuela in 2001 as an alternative to the United States (US) proposal for a Free Trade Area of the Americas. The organization is based on a vision of social welfare, equity and mutual economic aid rather than trade liberalization. Initially, ALBA had two member states, Venezuela and Cuba. A number of Latin American and Caribbean nations have since joined by signing the Peoples' Trade Agreement that aims to implement ALBA's principles. ALBA now has 8 members: Antigua and Barbuda (joined in 2009), Bolivia (2006), Cuba (2004), Dominica (2008), Ecuador (2009), Nicaragua (2007), St. Vincent and the Grenadines (2009), and Venezuela (2004).

#### **Project assistance: China's infrastructure projects in Africa**

The 1,200 mile Tanzania-Zambia Railroad (TAZARA or Tanzam Railway), built between 1970 and 1975, was China's largest ever aid project costing some US\$500 million. Today, China continues to finance road projects in Africa, such as the 79-kilometer expressway in Ethiopia connecting the capital Addis Ababa and Nazret (Adama). The project, financed through a soft loan amounting to US\$349 million, is expected to be completed by 2014 and will be Ethiopia's first modern highway.

#### **Sectoral cooperation: Cuban support to agriculture and food security**

Cuba actively supports and participates in the Special Food Security Program of the World Food Organization by contributing agricultural and fishery experts and technicians to share knowledge and technologies to producers in other developing countries. Under this program, Cuba has signed agreements with African countries (Cape Verde, Equatorial Guinea, Guinea Bissau) and the Caribbean (Guyana, Grenada, Haiti, St. Vincent and the Grenadines, Dominica, St. Kitts and Nevis, Antigua and Barbuda, and the Dominican Republic). For example, the South-South cooperation agreement between Cuba and Cape Verde signed in 2000 paved the way for Cuban experts and technicians to introduce drip irrigation technique for adoption by local farmers, which proved to be cost effective and suitable to the very dry conditions of Cape Verde.

#### **Technical assistance: Indian Technical and Economic Cooperation**

The Indian Technical and Economic Cooperation (ITEC), founded in 1964, aims to upgrade skills and build capacity and empowerment for developing countries. ITEC provides assistance to 158 countries in Asia and the Pacific, Africa, Latin America and the Caribbean, Eastern Europe and Commonwealth of Independent States (CIS) countries. The program has four components, namely, training, projects and project-related activities, deputation of Indian experts, and study tours. India allots 5,000 vocational training slots annually in over 200 courses at 42 leading institutions, many of which specializing in technology such as information technology (IT). ITEC has an annual budget of some US\$12 million and, since its creation in 1964, has provided over US\$2 billion worth of technical assistance.

#### **Education Exchange: Brazil's South-South cooperation in education**

Brazil's development cooperation project in the field of education has been implemented mainly with Portuguese Mercosur countries involving school capacity building and fighting illiteracy. A Centre for Training and Enterprise Development was established in Luanda, Angola in 1999, while in Paraguay, the Brazilian Cooperation Agency has implemented a Centre of Excellence for Professional Training. Argentina and Brazil signed an agreement for implementation of obligatory disciplines of Portuguese in Argentinean and Spanish in Brazilian public schools. Another project is the Bolsa Escola (School Grant) granted to families keeping their children in school which has been implemented in Portuguese speaking countries such as Mozambique.

#### **Concessional loans: Thai aid to Cambodia**

Thailand provides concessional loans to developing countries in the region through its Neighbouring Countries Economic Development Cooperation Agency (NEDA). In August 2009, for example, Thailand provided Cambodia with a US\$40 million concessional loan to upgrade a national highway on the Khmer-Thai border. The country has previously provided two concessional loans to Cambodia, bringing the total to US\$99 million. Such loans are seen to strengthen cooperation between the two countries.

#### **Venezuela PetroCaribe**

PetroCaribe is a Caribbean oil alliance with Venezuela, launched in 2005, to purchase oil on preferential terms of payment – only a certain amount is needed up front and the remainder can be paid through a 25-year financing agreement on 1% interest. The deal allows Caribbean nations to buy up to 185,000 barrels of oil per day on these terms. It also allows nations to pay part of the cost with other products provided to Venezuela, such as bananas, rice, and sugar. PetroCaribe members are Antigua and Barbuda, the Bahamas, Belize, Cuba, Dominica, the Dominican Republic, Grenada, Guyana, Jamaica, Nicaragua, Suriname, St Lucia, St Kitts and Nevis, Saint Vincent and the Grenadines (2005), Haiti (2006), Honduras (2007), and Guatemala (2008).

#### **Humanitarian relief: Turkish emergency aid**

Turkey provided over US\$31 million in emergency aid in 2008, equivalent to roughly 5.6% of total Turkish ODA that year. The country provided food and hygiene kits as well as prefabricated buildings to Pakistan when the country was hit by an earthquake. Turkey's humanitarian aid to Pakistan totalled US\$2.68 million. Turkey also provided humanitarian relief to Palestinians affected by attacks on the Gaza Strip in December 2008. It delivered food, clothing, medical equipment and ambulances, amounting to US\$3.52 million. The largest recipient of Turkish emergency aid in 2008 was Iraq, receiving US\$ 11.73 million or 37.7% of total emergency aid, comprised mostly of food packs and hygiene sets.

**Note:** As discussed in the ECOSOC study from which this box is based, the data used was gathered on a contributor-by-contributor basis, utilizing annual reports (such as the source used in updating India's contribution in this box), other publicly available sources like government budgets, and communication with Southern government officials and research institutes/NGOs. The main limitations of this approach are: (a) data is not always comparable, as for example few of these reports use the DAC definition of ODA; and (b) substantial information gaps remain. A few Southern contributors provide information to the OECD/DAC, which was also used in updating this table.

Sources: Petroleos de Venezuela SA website [www.pdvsa.com](http://www.pdvsa.com); 2008 Turkish Development Assistance Report, Turkish International Cooperation and Development Agency; The Group of 77 website [www.g77.org](http://www.g77.org); "Ethiopia: China provides loan for expressway," *Africa News.com*, 11 November 2009; FAO Special Programme for Food Security website [www.fao.org/spfs](http://www.fao.org/spfs); Price, Gareth, *Diversity in donorship: the changing landscape of official humanitarian aid – India's official aid program*, Humanitarian Policy Group Background Paper, September 2005; Statement of India's Minister of State for External Affairs to the High Level UN Conference on South-South Cooperation, Nairobi, Kenya, 2 December 2009; Intellectual Network for the South website [www.insouth.org](http://www.insouth.org); "Thailand provide \$40 million in concessional loans to Cambodia," *Deum Ampil newspaper*, 28 August 2009 accessed at [khmerization.blogspot.com](http://khmerization.blogspot.com)

uniform definition of ODA currently being used by Southern governments who do report on their foreign assistance programs. An analytical study produced by the United Nations Economic and Social Council in 2009 proposes a definition of South-South ODA as consisting of: “grants and concessional loans (including export credits) provided by one Southern country to another to finance projects, programmes, technical cooperation, debt relief and humanitarian assistance and its contributions to multilateral institutions and regional development banks.”<sup>7</sup> But this definition is still subject to debate and is not used consistently by official reports or existing studies on South-South cooperation.

## Major SSDC Contributors

An authoritative 2008 study prepared for the Development Cooperation Forum (DCF) covering 18 major Southern contributors

estimated South-South ODA flows between US\$9.5 billion and US\$12.1 billion disbursements for 2006, or some 7.8% to 9.8% of total international development assistance.<sup>8</sup> When the 2006 figure for “Real Aid” for OECD DAC donors in the reference point is used, South-South ODA represented as much as 15% of DAC Real Aid in that year.<sup>9</sup> These figures, as the study admits, are definitely estimates, given the lack of hard reported data from many smaller contributors and the divergence in definitions of what constitutes development cooperation or ODA among those who do make public their aid contributions.

Building on these estimates with latest available data (2008), disbursements for South-South development cooperation have increased since 2006 to at least US\$12.1–US\$13.9 billion. (See **Table 1**) This is in the vicinity of earlier projections indicating such development assistance growing to US\$15 billion by 2010

**Table 1. Disbursements of Selected South-South ODA Flows, 2008 (in US\$ million) Gross National Income (GNI)**

	Amount	% of Gross National Income (GNI)	% to Total SSDC
Saudi Arabia /3	5,564	1.5 /a	40
China /1	1,500 - 2,000	0.06 - 0.08	14.4
Venezuela /1	1,166 - 2,500	0.71 - 1.52	18
Turkey /3	780	0.11	5.6
South Korea /3	802	0.09	5.8
India /2	568.6	0.05	4.1
Taiwan /3	435	0.11	3.1
Brazil /1	356	0.04	2.6
Kuwait /3	283	...	2
South Africa /1	194	0.07	1.4
Thailand /3	178	...	1.3
Israel /3	138	0.07	1
United Arab Emirates /3	88	...	0.6
Malaysia /1	16	0.01	0.1
Argentina /1	5 - 10	0.0025 - 0.0050	0.07
Chile /1	3 - 3.3	0.0026 - 0.0029	0.02
<b>TOTAL</b>	<b>12,076.6 - 13,915.9</b>		

Sources:

/a - GNI data used is for 2007

/1 - ECOSOC, *Background Study for the Development Cooperation Forum – Trends in South-South and triangular development cooperation, April 2008 – Table 2*

/2 - Indian Ministry of External Affairs *Annual Report 2008-2009 – Appendix VII*

/3 - OECD/DAC, 2009 – *Table 33 (Statistical Annex of the 2010 Development Cooperation Report)*

based on pledges.<sup>10</sup> These figures exclude Southern contributions through multilateral facilities as well as triangular development cooperation involving Northern contributors.

According to the available data, the biggest bilateral non-OECD contributors are the Kingdom of Saudi Arabia, the People’s Republic of China, the Bolivarian Republic of Venezuela and India, all noted to have previously provided at least \$0.5 billion each annually. Together these four countries contributed over 76% of the estimated total ODA flows coming from the top 16 Southern contributors in 2008. Saudi Arabia and Venezuela now provide over 0.7% of gross national income (GNI) in development aid flows.

### Saudi Arabia

Saudi Arabia has been the single largest aid donor in the world since 1973 as measured by the ODA/GNI ratio.<sup>11</sup>

Almost all of Saudi Arabian ODA is provided bilaterally (95%), mainly in the form of loans, with a large share poured into other Arab countries.<sup>12</sup> But in recent years, assistance to South Asia, particularly Pakistan and Bangladesh, and to East Asia is growing. China, for instance, has received roughly 15% of new Saudi Fund commitments since 2003 (it previously did not receive any).<sup>13</sup> The Saudi Fund, which plays a relatively minor role in distributing Saudi Arabian ODA but still accounts for a substantial share of total Arab aid flows, claims that only 50% of its aid now goes to Arab states.<sup>14</sup>

While aid from Saudi Arabia and other Arab countries has been very substantial over the years, it has also been very volatile – due both to the volatility of revenues from oil and gas exports and to their strategic use of aid to support their foreign policies (See below).

### China

Chinese development assistance to other countries started in the mid-1950s, increased in the 1960s and 1970s, and decreased in the 1980s before picking up again in the 1990s. In the earlier periods, support was focused on agriculture, technical assistance, and a few infrastructure projects such as the 1,200-mile Tanzania-Zambia Railroad – its largest aid project in history.

Current estimates of Chinese aid vary widely. A study citing data from the China Statistical Yearbook 2003-2006 said China provided US\$970 million in aid in 2005, up from US\$650 million three years earlier. Others estimated Chinese aid to Africa alone might be some US\$2 billion.<sup>15</sup> ECOSOC estimates in 2006 put the amount to be between US\$1.5 billion and US\$2 billion, while another study showed a dramatic increase in Chinese “aid and related investments” amounting to as much as US\$27.5 billion in 2006 and US\$25 billion in 2007.<sup>16</sup> (See **Table 2**) The latter is based on news reports of Chinese foreign assistance and government-supported economic projects in Africa, Latin America, and Southeast Asia which includes activities that more closely resemble foreign direct investments rather than ODA according to the DAC/OECD definition.<sup>17</sup>

**Table 2. Reported Chinese Aid by Year, 2002-2007 (in US\$ million)**

Year	Total Aid
2002	51
2003	1,482
2004	10,485
2005	10,106
2006	27,518
2007	25,098

Source: NYU Wagner School, *Understanding Chinese Foreign Aid: A Look at China’s Development Assistance to Africa, Southeast Asia, and Latin America*, April 25, 2008.

Indeed it is difficult to draw the line between Chinese development assistance and trade/investment promotion. China's foreign assistance is mainly comprised of concessional or low-interest loans and government-backed or subsidized investments in infrastructure and natural resources. The wide range of estimates of Chinese aid illustrates the difficulty of having varying interpretations of what constitutes ODA.

Nevertheless, there appears to be consensus that Chinese aid is substantial and increasing in recent years, especially in Africa. China reportedly planned to double aid to Africa by 2009. In May 2007, China announced it would provide roughly US\$20 billion in infrastructure and trade financing to Africa in the next three years. It has also crafted a \$5 billion China-Africa development fund to stimulate Chinese investments in Africa.<sup>18</sup> China has also written off debts, with conservative estimates putting such debt cancellation at some US\$2.13 billion for 44 countries, 31 of which are in Africa. Other reports suggest China has surpassed the G8 in debt relief as it has already cancelled about US\$10 billion worth of debt owed by African countries.<sup>19</sup>

### Venezuela

Venezuela has become an important actor in South-South cooperation in the last few years, particularly under President Hugo Chavez. The Venezuelan government is reported to have committed some US\$43 billion worth of direct and indirect investments, subsidies, grants and donations between 1999 and mid-2007, of which over 40% could be classified as social investments.<sup>20</sup>

The country's overseas social spending from 2004-2007 include oil subsidies to Cuba; cash donations to Bolivia; medical equipment

donations to Nicaragua; heating oil subsidies to over a million American consumers; US\$20 million to Haiti for investments in education, health care, and housing. Venezuela has reportedly provided US\$2 billion to Cuba<sup>21</sup> and donated 364 tons of food to Haiti when food riots broke out in 2008.<sup>22</sup> It purchased government bonds from Argentina to enable the latter to repay its IMF loans ahead of time and terminate the conditionality-heavy IMF programme. and entered into multimillion-dollar investment deals with China and Iran to promote development.<sup>23</sup>

Through the PetroCaribe initiative, Venezuela provides small Caribbean countries almost 200,000 barrels a day of oil and petroleum products at subsidized rates. The subsidy is estimated at around US\$1.7 billion annually, which already puts Venezuelan aid at the same level as those provided by some OECD countries.<sup>24</sup>

### India

India, along with China, is commonly referred to as an emerging donor. Yet its international development assistance programs date back to the 1950s when India started to provide aid to Nepal. It established the Indian Technical and Economic Cooperation (ITEC) program in 1964 through which India has provided over US\$2 billion worth of technical assistance to other developing countries. It has a long history of training public administration officials from other developing countries.<sup>25</sup>

India has contributed to the African Development Fund, the concessional window of the African Development Bank (AfDB) Group, since 1982. More recently, it has boosted its overseas development assistance in the African region.

At the Africa-India Forum Summit in April 2008, the Indian government pledged to enhance programs of training and capacity for health professionals and physicians in Africa. Joint projects will involve expansion of railway networks, development of regional capital and stock markets, food and health security, agriculture (food security, eradicating poverty and improve people's livelihood) and rural development, pilot projects on establishment or micro, small and medium enterprises, and science and information, communication and technology for development, among others. Moreover, India has written off debt owed by countries under the Heavily Indebted Poor Countries (HIPC) initiative as well as restructured commercial debts. According to World Bank (WB) statistics India's total debt write off is about US\$37 million, with many debt relief agreements yet to be signed.<sup>26</sup>

There are no consolidated estimates of India's overseas development assistance as there is no centralized agency administering its foreign aid programs. Nevertheless, its budgetary allocation for aid-related activities, including grants, contributions to international organizations (IOs) and international financial institutions (IFIs), direct loans, and subsidies for preferential bilateral loans amounted to \$547 million in 2008. In addition, while these would not be included as "ODA", it also approved lines of credit through the Exim Bank of \$704 million in 2007-08.<sup>27</sup>

### Others

Other developing countries giving substantial development assistance are OECD members Turkey and South Korea, the latter a new DAC member effective 1 January 2010. Analysts note the difficulty in tracking aid from Arab donors, but Kuwait and the United Arab Emirates are also major contributors.

Brazil, South Africa and Thailand are also among emerging economies contributing significantly to SSDC, particularly within their respective regions. Since the 1950s, Cuba has been involved in South-South cooperation activities with more than 167 countries in Asia, Africa, Latin America and the Caribbean. It is difficult to compare Cuban foreign aid levels since they don't report in financial terms. But the Cuban government reports that today there are 37,000 Cuban health workers in 98 countries and 4 overseas territories providing technical training or humanitarian assistance.<sup>28</sup>

India, Brazil and South Africa formed the "IBSA trilateral" in 2003 to serve as a platform for the three countries to engage in discussions for cooperation in the field of agriculture, trade, culture, and defence among others. There are numerous multilateral SSDC initiatives that are in the offing, such as the ALBA (see Romero in this volume) and the Bank of the South (see Ortiz and Ugarteche in this volume). The proliferation of South-South regional cooperation arrangements is partly driven by the search for alternatives to the North-dominated neo-liberal international financial institutions (IFIs) and free trade pacts.

### Drivers of SSDC

In this section we examine the major drivers of SSDC today, with particular attention to the policies and practices of the four major non-OECD donor countries – Saudi Arabia, Venezuela, China and India (See **Table 3**). As with traditional Northern donors, it is important to distinguish between the official rhetoric of emerging donor governments and their actual development cooperation practice as evident in the pattern of aid flows and the terms of their disbursement.

**Table 3. Major Contributors of South-South Development Cooperation, Top Recipients, Type of Aid and Priority Sectors, 2008**

Country	Amount of Aid (in US\$ million)	Top Recipient Countries/ Regions	Type of Activity	Priority Sectors/ Projects
Saudi Arabia	5,564	Mostly Arab countries, also South Asia (esp. Pakistan and Bangladesh), and China	Saudi Fund gives mainly project-type assistance (but no technical cooperation), with program aid historically 4% of total; direct bilateral support includes some budget support and debt relief	Lead sector is transport and communication, then health, education, agriculture and energy
China	1,500 - 2,000	86 countries: Asia (40%), Africa (25%), Latin and Central America (13%), other countries (10%)	Most aid in form of projects, in-kind, technical cooperation and debt relief	Mostly energy, transport and communications, but also education and health (often construction of schools and hospitals)
Venezuela	1,166 - 2,500	Latin America & Caribbean	Venezuela's oil aid deals are essentially BoP support; also gives some humanitarian assistance and project-type aid through BANDES	Energy is main sector, but also projects in health, education, housing, water and private sector development
India	568.6	Mostly Asia: Bhutan (45.6%), Maldives (19.1%), Afghanistan (15.8%)	Aid fundamentally project oriented (including technical cooperation), with exceptions of Bhutan, Nepal and Afghanistan; provides some debt relief	Grants mostly rural dev't, education, health, technical cooperation, loans for infrastructure (ex. energy, transport), also provides disaster relief

Sources: ECOSOC, *Background Study for the Development Cooperation Forum – Trends in South-South and triangular development cooperation, April 2008*; Indian Ministry of External Affairs *Annual Report 2008-2009*

## Official Aid Policies

Most developing countries still regard the principle of equality and mutual benefit – expressed in the Bandung Conference of 1955 – as a central tenet of SSDC. As such, Southern donor countries are reluctant to be seen as reproducing traditional donor-recipient hierarchies.

China's policies on development assistance are still officially guided by eight principles first laid out by former Premier Zhou Enlai during the 1960s (see **Box 2**), foremost of which is the principle of equality and mutual benefit.

India's foreign aid program likewise dates back to the 1950s. As one of the pillars of the Non-Aligned Movement, India promotes

**BOX 2. Eight Principles of Chinese Development Assistance**

- a. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.
- b. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.
- c. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for repayment when necessary so as to lighten the burden of the recipient countries as far as possible.
- d. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.
- e. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.
- f. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.
- g. In providing any technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.
- h. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities.

*Source: Ministry of Foreign Affairs of the People's Republic of China, Premier Zhou Enlai's Three Tours of Asian and African countries accessible at <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18001.htm>*

cooperation and partnership among third world countries for mutual benefit based on collective self-reliance.

Of the four major Southern ODA sources, the Saudi Arabian government is perhaps the most candid in its official aid policy. The Saudi Fund's declared objectives are: to provide development financing for other developing countries and to promote non-oil exports from Saudi Arabia.<sup>29</sup>

On the other hand, the present Venezuelan government frames its foreign assistance program in more political terms. It professes to champion internationalism based on a Bolivarian Socialist tradition. It seeks to win autonomy and policy space to implement different development strategies supportive of the region's sovereignty and responsive to citizens, free from the dominant influence of the Washington Consensus.<sup>30</sup>

Examining the ODA priorities of emerging donors, however, reveal their strategic use of ODA to further ends other than pure solidarity.

### Geopolitical Interests

Most Southern contributors of aid prioritize neighbouring countries in their development assistance programs.<sup>31</sup> This may be due to cultural and historical affinities which make such cooperation more productive. It can also be a way of promoting local stability and security while enhancing a donor country's stature and influence within the region.

For instance, almost half of Saudi Arabia's foreign aid goes to other Arab countries with a predominantly Muslim population within the region; compared to only 15% for Sub-Saharan Africa which includes many of the world's poorest countries. Countries which vote in tandem with the Saudi Arabian government in the UN get 68% more aid compared to other countries. When Iraq invaded Kuwait in 1990, Saudi Arabia withheld aid to countries that supported the invasion and, after the war, boosted aid to countries that supported the US-led invasion of Iraq. Turkey, Egypt and Morocco became leading recipients of Saudi aid even though these are all middle-income countries.<sup>32</sup>

China's foreign aid program during the Maoist period was also more politically motivated. It was intended to help post-colonial regimes modernize and become self-reliant while securing China's leadership in the Third World anti-imperialist struggle, the Non-Aligned Movement and the international Communist movement. It was also designed to mitigate the influence of Taiwan's Kuomintang government and counter its diplomatic efforts to maintain international recognition as the government of China.<sup>33</sup> Until

today, China requires its partners to adhere to its One-China policy even though commercial interests have become the prime motivation for Chinese aid in the post-Mao era.<sup>34</sup>

Venezuela's aggressive promotion of South-South cooperation may be as much a defensive strategy against US efforts to destabilize and isolate the Chavez government as it is about its commitment to Southern peoples' solidarity and self-determination.<sup>35</sup> Indeed, the Venezuelan government appears quite eager to gather more allies including Russia, Iran and other governments who clearly do not harbour socialist ideals but are no less critical of US imperialism.

India has long considered itself a regional power. Its development assistance program which used to be concentrated in its immediate neighbourhood reflected this. But in the wake of its rapid economic growth since the 1990s, it is now eagerly projecting itself on the global stage, for instance, vying for a seat in the UN Security Council. In this light, India has begun to extend its development assistance way beyond its immediate neighbours – from Central Asia to islands in the Pacific Ocean to Southeast Asia and Africa – in order to help boost trade, ensure its access to energy resources, project soft power and build military alliances.<sup>36</sup>

### Commercial Interests

As already mentioned, one of the main objectives of Saudi aid is to promote Saudi exports and support the diversification of Saudi income sources beyond crude oil exports. In the case of China, the primary motive behind its development assistance today seems to be its need to extend its energy and raw materials sources, which it needs to sustain its manufacturing-for-export industrialization strategy.

For instance, China provides low-interest loans with generous grace periods and long repayment terms which debtor countries can repay with natural resource exports.<sup>37</sup>

According to one analyst of China's role in Africa:

“Since 2004, China has concluded such deals in at least seven resource-rich countries in Africa, for a total of nearly US\$14 billion. Reconstruction in war-battered Angola, for example, has been helped by three oil-backed loans from Beijing, under which Chinese companies have built roads, railways, hospitals, schools, and water systems. Nigeria took out two similar loans to finance projects that use gas to generate electricity. Chinese teams are building one hydropower project in the Republic of the Congo (to be repaid in oil) and another in Ghana (to be repaid in cocoa beans).”<sup>38</sup>

Chinese commercial interests are apparent in many of its projects. In 2008, for example, China invested US\$100 million to rebuild the TAZARA line that was falling apart due to underinvestment and poor maintenance. Rebuilding the line also links two of China's Special Economic Zones (SEZs) in Chambishi (Zambia's copper belt where China has huge investments) with SEZs in Dar es Salaam, where China has invested in the modernisation and extension of the port. It will also link up in Zambia with the Benguela line crossing Angola to the Atlantic coast, also being rebuilt by China. These two Chinese funded projects will create a first-ever functioning east-west corridor across the African continent and facilitate the free movement of goods from the landlocked interiors of Zambia to the sea port of Dar es Salaam.<sup>39</sup>

Indian aid for infrastructure projects in its neighbours, Bhutan, Nepal and Afghanistan are as much about promoting regional security and goodwill as it is about securing hydroelectricity and energy for India itself. Now, like China, it has its sights set on Africa where Indian products in light engineering, consumer goods, and intermediate products are expected to do well because of their low costs and adaptability to local conditions. India's diplomatic offensives are particularly felt in West Africa's Gulf of Guinea, where 70 percent of African oil is extracted. India pledged US\$500 million in concessional credit facilities to eight resource-rich countries: Burkina Faso, Chad, Equatorial Guinea, Ghana, Guinea-Bissau, Ivory Coast, Mali, and Senegal.<sup>40</sup>

Other recent initiatives that are said to be earning tremendous goodwill for India among Africa governments include the Techno-Economic Approach for Africa India Movement and the Pan-African E-Network.

In a 2008 study of the ODA practices of China, India, South Africa and Brazil, Rowlands concludes:<sup>41</sup>

“Emerging donor practices suggest that politically motivated assistance is of particular importance regionally, while commercial interests seem more influential the further away the recipients are located. Notwithstanding, economic motivations remain present in regional assistance since economic integration may be a key priority, as in the case of South Africa. ... Such a pattern may be apparent in the behaviour of traditional donors, such as the emphasis by the United States on Latin America and the Caribbean, and

of Europe on Africa. ... This example [on the part of emerging donors] need not be considered undesirable or evidence of deception... Instead, it is a logical allocation of resources to ensure an emerging donor's own immediate development interests. ... Of course, it is also true that the more powerful the donor, the more dispersed and far-flung its political interests."

This behaviour is, of course, consistent with the practices of traditional donors from the North. The empirical record confirms that actual North-South ODA flows are determined as much by political and strategic considerations of donor countries as by economic need and the policy performance of recipient governments. For instance, according to a study by Alesina and Dollar (2000), the leading bilateral donors from the North provide significantly more ODA to their former colonies. They also provide more aid to countries that vote with them at the UN.<sup>42</sup> Another study by Neumayer (2003) finds that aggregated Western bilateral and multilateral ODA tends to go to countries to which these countries export their goods. Some donors, especially France, but also Germany and Japan, give more aid to recipients that import a larger share of these donors' goods.<sup>43</sup>

If allocations of military aid and export credits are examined alongside ODA, the weight would surely shift even more decisively towards Northern donor self-interest, rather than recipient needs, as the prime motivation for traditional foreign aid. Put simply, aid is used as a tool for diplomacy, investment and export promotion by the major donor countries, including now newly emerging donors from the South.

## **SSDC and Development Effectiveness**

If traditional Northern aid providers and major emerging donors have similar motives for their aid provision, is the quality of their development assistance also comparable?

### **Conditionality**

One of the principal criticisms repeatedly raised against traditional aid regards the use of policy conditionalities. Northern bilateral and multilateral donors frequently attach macroeconomic and governance conditionalities to their development assistance, even though they have signed on to the Paris Declaration which recognizes the principle of (partner) country ownership of aid. The continued use of policy conditionalities in development assistance violates the sovereign right of people to determine their own country priorities and strategies for development.

Southern donors do not usually impose any macroeconomic or governance conditionalities. They also come with less procedural requirements which translate to quicker disbursements and more predictable financing, which programme countries prefer. Disbursements are usually suspended only if a program country falls into arrears with debt servicing.<sup>44</sup> Southern countries invoke the principles of non-interference and respect for sovereignty for this approach.

But this approach has also received a lot of criticism both from traditional donors and civil society. Multilateral donors such as the International Monetary Fund (IMF) and WB are vexed because partner countries that refuse to implement their policy prescriptions can

now turn to Southern donors for development assistance “without strings attached.” Interestingly, the Democratic Republic of the Congo (DRC) received a new aid package from donors and the IMF, after pressure from these donors led to revisions in a significant US\$10 billion Chinese “minerals-for-infrastructure” loan package for the DRC.<sup>45</sup>

More importantly, China and to a lesser extent India have been heavily criticized for ignoring the appalling human rights records of some of their partners. For instance, Human Rights Watch has raised issues with recent Chinese investments in Angola, reporting that Angolan troops stationed in the oil-rich Cabinda area torture civilians to control their movements. CSOs have also voiced concern over poor working conditions of workers and non-compliance with environmental safety regulations. Regular mine accidents in Zambia have come under scornful assessments while environment activists in Mozambique have also opposed Chinese timber buyers who get tropical hardwoods from Mozambique’s semi-arid forests. In the same vein, a proposed dam in Mozambique, Mphanda Nkuwa has been criticised for weak social and environmental assessment with fears that it has potential negative impacts for the Zambezi delta.<sup>46</sup>

Providing aid with complete disregard for human rights, social and environmental considerations is seen as condoning or even support for continued mis-governance, for the sake of gaining access to their country’s resource base and markets.

### Tied Aid

While Southern donors avoid being seen as interfering with the domestic economic policies and political processes of partner countries, this policy of respecting national sovereignty

does not extend to the use of development assistance for local or regional purchasing of goods and services. The 2008 DCF study reports that project assistance from Southern donors is primarily tied to the purchase of goods and hiring of contractors from the donor country. This is particularly true for China, India and Venezuela.

For instance, in most of Chinese development assistance to Africa, Beijing requires that 70 percent of infrastructure construction and other contracts are awarded to “approved”, mostly state-owned, Chinese companies and the rest handed to local firms, many of which are also in joint ventures with Chinese groups.<sup>47</sup> Many projects have been undertaken with imported Chinese labour.

Arab donors are reported to be the exception since their procurement guidelines stipulate competitive bidding and allow for local suppliers to participate. The 2008 ECOSOC report notes that recent pronouncements from China may indicate a willingness to move towards limited competitive bidding.

In contrast, OECD/DAC donors have adopted a policy of untying bilateral aid. Most DAC donors have made significant progress in this respect with the US as a notable exception. However, DAC donors’ technical assistance and food aid programs are not covered by this policy and, hence, remain heavily tied.<sup>48</sup>

Numerous studies of aid from DAC countries have shown that tying aid not only undermines program country systems but also inflates the costs of development projects by 15 to 30%. The ECOSOC study, however, reports that a number of program countries indicate that the goods and services provided by tied aid from Southern donors such as China and India are in fact better priced and of appropriate quality. But there is also evidence that this may not be

the case.<sup>49</sup> Technical assistance from Southern countries is also seen as more appropriate to local conditions and needs compared to Northern expertise which is also more expensive.

The AFRODAD chapter in this book suggests that perhaps some Southern development assistance projects (e.g. Chinese projects in Zambia) have lower costs and faster completion times because labor, environmental and social standards are compromised. Landingin in this volume presents evidence that Chinese projects violate national laws and rules on procurement, with allegations of overpricing and corruption.

### **Transparency**

Transparency is another problematic aspect of Southern development assistance. There is a serious lack of accessible and comprehensive information on Southern development assistance. This is not surprising since even the major Southern donors do not have central coordinating agencies to manage and monitor development assistance at the national level. China has a Department of Aid to Foreign Countries within the Ministry of Commerce but its loans (and debt relief) are handled by the China Exim Bank. Most others have different focal points for different aspects of development assistance embedded in different agencies (such as Foreign Affairs, Finance or Economic Planning Ministries) or multiple divisions within the same ministries, sometimes with diverse mandates and various sources of funds.<sup>50</sup> Since Southern donors explicitly reject the role of the DAC in setting ODA standards, the problem is as basic as not having a common definition of foreign aid or international development cooperation by the emerging donor governments.<sup>51</sup>

This incoherence is compounded by the deliberate secrecy of many Southern governments

on both sides of the partnership. For instance, China does not release official statistics on its foreign aid activities. Saudi Arabian and Chinese officials refuse to reveal details of development assistance such as project costs, loan terms and repayment conditions.<sup>52</sup>

At the international level, there is no equivalent of the DAC where Northern donors collectively agree on data standards and then report on an annual basis based on these standards, with a DAC support system to organize and disseminate this comparable data through print media and electronic databases. A handful of Southern donors report to the DAC (South Korea and Turkey), while Arab donors have their own Coordination Secretariat, which publishes a report on loans and technical assistance twice a year. But the majority of Southern donors report to no such mechanism at the international or regional level.<sup>53</sup>

CSOs have reportedly raised concerns over limited transparency in the use of funds emanating from SSDC and have urged for greater disclosure on investments from SSDC. The lack of transparency and dearth of information invites corruption. As Landingin illustrates in his contribution to this book, cheap Chinese ODA can easily win the support of corrupt officials even for projects of dubious merit, leaving citizens with the burden of repaying these graft-ridden loans.

### **Sustainable development**

In financial terms, unlike current sector allocations by DAC donors, the bulk of SSDC goes to expenditure on infrastructure and the productive sectors. According to the ECOSOC (2008), funding for transport and communications, energy and other economic infrastructure development, accounts for 50

percent of ODA from major Southern donors, while about a fifth is allocated to the health and education sectors.

In many program countries with severe budgetary constraints for capital spending, this emphasis is much appreciated especially since Northern development assistance has been concentrated in the social sectors since the early 2000s.

Capital expenditure in infrastructure and the economic sectors can yield immediate gains for aid-recipient countries in terms of increased production, trade and possibly export earnings. Some studies cited in the AFRODAD article in this book, for instance, credit Africa's increasing linkages with China for higher export volumes, improved terms of trade, higher gross national product (GNP) growth, an increase in public revenues and improved debt tolerance for African countries.

But critics, such as Samir Amin, ask what happens when the raw materials for export are depleted?<sup>54</sup> In other words, unless SSDC or any other aid package contributes to a comprehensive and locally-owned national strategy that develops agriculture, industry and services in an all-rounded, integrated and sustainable manner, then whatever short-term economic gains brought by aid are illusory. Indeed they may even be counter-productive in the long-run as the people in impoverished countries may end up even poorer, more deeply indebted and left with a degraded resource base. Rocha et al (2007) also point out that investments within the SSDC framework have failed to generate additional employment to their destination points while CSOs also cite lack of evidence of technology transfer with most sub-contracted firms being from the point of origin.<sup>55</sup>

## Democratic Ownership and Accountability

The responsibility for charting a national development strategy necessarily lies with the program country, not the donor, if the principle of country ownership and sovereignty is to be respected. However, in most accounts of SSDC there is hardly ever mention of citizen's or even parliamentary participation in steering these initiatives. ODA from the emerging lenders have been restricted to government-to-government affairs pursued as pure commercial undertakings, with little opportunity for CSO participation.

The serious lack of transparency discussed above precludes any real democratic ownership of SSDC. Without information there can be no meaningful participation in shaping policies and monitoring outcomes. Citizens are inhibited from exercising their right to make demands on their own government as well as purported partners. It undermines the accountability of the institutions involved in SSDC to the people on both sides of the partnership.

## Capacity Development

One area of SSDC that does have direct benefits to people in partner countries is capacity development. Indeed, education, health and technical cooperation make up the majority of SSDC projects of the less affluent Southern donors such as Brazil and Cuba. As noted by the G77, South-South technical cooperation is not constrained by the economic wealth of countries since all developing countries have diverse and varying degrees of capacities and experiences that can be shared with other countries.<sup>56</sup>

In fact, one major advantage of southern donor countries in technical cooperation is that they are able to draw on their own experiences that more closely resemble program country contexts than those of Northern donors. Their consultants are also significantly less costly than their Northern counterparts.

Cuba takes technical cooperation to a deeper level, according to Anderson's study of Cuban health cooperation in Timor Leste (in this volume), through "large scale systematic programs with strong mass training component and a public service ethos." This takes capacity development to the grassroots and enhances the contribution of SSDC to the empowerment of the poor and marginalized to claim their right to development.

In this connection, it would be enlightening to also examine South-South capacity development initiatives by other stakeholders such as CSOs, academe and media but this can be the subject of future researches.

### Key Messages

1. SSDC should be encouraged and promoted at various levels – bilateral, sub-regional, regional and interregional as well as multilateral or sectorally. It can be bolstered by adequate and structured support from developed countries and the UN.

SSDC levels are rising and, in the case of a few contributors such as Saudi Arabia, China, Venezuela and India, involve considerable sums of development finance. Overall, however, emerging donors still only provide a small portion of international assistance. Nevertheless, amidst the possible decline of financial flows from the North brought about by the financial crisis, SSDC

brings in important additional development finance for developing countries today.

2. SSDC can be further developed not just as additional financing for development in the South but also as an alternative to traditional aid. Development assistance that offers better and more flexible terms and less intrusive conditions compared to the conditionalities and complicated procedures associated with OECD/DAC aid and the IFIs are most necessary. Likewise, development financing for sectors that are unfunded or underfunded by traditional aid sources are most welcome.
3. The human rights and democratic framework of SSDC should be strengthened so that the acclaimed advantage of Southern donors in terms of their avowed respect for sovereignty and policy of non-interference is not abused. Respect for national sovereignty should not mean ignoring gross human rights violations, environmental destruction, corruption and blatant abuse of power in partner countries. There is strong evidence in this Report that such concerns have not been in the forefront of Southern donors' engagement with their partners. But neither should these concerns lead to attaching conditionalities to development assistance. Every country in the community of nations has obligations under International Law and international Human Rights Covenants and Conventions. Human rights should not be attached to ODA as conditionalities; rather they are obligations assumed by all governments and should therefore inform their dialogue and agreements on international cooperation.

Aid, whether provided by DAC donors or Southern donors, is a "global public

good”, which must strengthen the capacities of countries to meet their human rights obligations and for people in these countries to claim their civil, political, social, economic and cultural rights. In this regard, development cooperation should build state capacities to implement and report on adherence to international conventions and standards, enhance national accountability systems, strengthen local civil society groups and improve their capacities to build awareness so that the people can hold their own governments to account. There is no evidence to date that SSDC has strengthened these aspects in its development cooperation.

4. SSDC should adhere firmly to the principle of mutual benefit and equality with due respect to unequal conditions of partnership that often prevail even between South-South cooperating countries. This implies that the interests of the weaker program country should be respected in an affirmative manner as genuine solidarity, mutuality and equality demand. However, despite the avowed policy of mutual benefit and non-interference, there is no evidence that SSDC is given with no strings attached. While mutual benefit does not necessarily imply “interference”, SSDC is often characterized by highly unequal relationships with the poorest countries, in which the donor interest can easily be paramount. Southern donor interests can range from simply earning diplomatic goodwill and loyal allies abroad, to facilitating trade and investment of Southern donor-based (state) corporations, to bolstering the donor country’s budding hegemonic ambitions.

ODA as a global public good is a mechanism for global redistribution of

wealth, particularly for Northern donors, given their overwhelming responsibility for policies that perpetuate gross inequalities. In the case of SSDC, where the donor country itself still has tremendous poverty and development challenges, it is perhaps to be expected that Southern donors, at this stage of South-South cooperation, have tended to be more selective and strategic in selecting their partners. But donors, whether from the North or the South, should not hide behind the rhetoric of promoting development or non-interference when they are really primarily motivated by their own mercantilist and geopolitical interests.

5. Civil society organizations have a crucial role to play in ensuring that the boom in the SSDC is managed in a manner that contributes to the eradication of poverty as well as sustainable economic growth and development. However, in almost all the major countries involved in SSDC, the relationship between CSOs and the state is less than facilitative for this role. The institutional and legislative framework governing CSOs and the enforcement capacity of the state is designed to deter CSO input into the discourse on SSDC. CSO concerns over the negative human rights and environmental implications of some SSDC initiatives are dismissed as anti-development. On the other hand there is weak capacity among the CSOs to organise and mobilise around the core issues they have about the SSDC, as such they do not engage much with SSDC issues as they do with the OECD-led aid effectiveness agenda.
6. Civil society organizations are paying more critical attention to the aid practices of emerging Southern donors and their wider

implications for policies that promote development effectiveness. CSOs insist that ODA, whether from the North or from the South, is developmentally effective if it is strengthening the capacities for poor and vulnerable populations in the poorest countries to claim their political, social, economic and cultural rights. Such efforts must also take account of the fundamental importance of gender equality and women's rights for development progress. CSOs in the Reality of Aid Network and in Better Aid, from both the South and the North, have called for aid reforms consistent with lessons on development effectiveness, arising from decades of aid relationships.<sup>57</sup> (See CSO Statement on South-South Cooperation annexed to this volume)

In this regard, CSOs associated with this Report are calling for donors and recipients in SSDC to contribute to strengthening development effectiveness through:

- **Alignment to national development and poverty reduction strategies**, which have been developed through broad-based processes with the participation of parliaments, CSOs, academic institutions, and independent media. These stakeholders, especially those from impoverished and marginalized sectors, should play key roles in designing, implementing, monitoring and evaluating SSDC initiatives.
- **Greater transparency** especially in relation to the terms of SSDC projects, loans and subsidized export-credit arrangements. Indicators for evaluating the social and environmental risks and actual impacts of SSDC should be developed, with disaggregated figures for different sectors of the population.
- **Enhancing mutual accountability** of Southern donors and program countries to each other and to their citizens by expanding the range of actors involved in assessing aid and development effectiveness, particularly at the country level. This should include elected national and local representatives, national and grassroots CSOs. Citizens' audits of SSDC undertakings should be supported.
- **The unconditional untying of aid** should also be directed to Southern donors, who must be both transparent and open with developing country partners with respect to the comparative advantages of goods and services provided through their aid relationships. Whatever advantages that Southern technical or production personnel may have over their Northern counterparts, the recipient governments must have the freedom to apply its country systems and standards to SSDC projects as appropriate to their priorities and needs.
- **The cancellation of debts** from Southern creditors that are found to be odious or illegitimate, which is in line with a global CSO call to cancel all such debt.
- **Multi-stakeholder processes and engagement** at the national and international level, to be facilitated by governments and multilateral institutions. This can enhance harmonization in aid policies in line with human rights obligations and internationally agreed development goals while respecting democratic and local ownership of the development process. People-based SSDC can

better contribute to the progressive realization of human rights, gender equality, decent work, ecological sustainability and social justice.

7. SSDC best practices should be studied and promoted, not just among developing countries, but also among developed countries and multilateral institutions. The determination of best practices requires Southern governments, as both donors and recipients, to be more transparent, disclosing the levels and terms of development assistance to the public in a timely and accessible fashion. The UN DCF Secretariat is in an excellent position to be the central repository of information provided by governments and to conduct technical studies on SSDC. This will enhance transparency, accountability, policy coherence and norms-setting in international development cooperation for all donors to better promote national and internationally-agreed development goals. Best practices in South-South ODA and technical cooperation should be situated

within the full range of all forms of South-South cooperation.

8. The growing participation of new donors from the South in international development cooperation heralds shifts in the norms and practices in international development cooperation more generally. As these emerging donors gain more experience, join more multilateral efforts and seek greater international recognition, their perspectives should be brought to bear on reforms being contemplated by other donors and the OECD/DAC. The DCF can be the focal point within the UN system for mutual learning and greater harmonization in aid policies in line with human rights obligations and internationally agreed development goals. It has the potential for a more holistic and balanced approach to reforming international development cooperation; but meaningful multi-stakeholder participation as full and equal participants by other development actors (CSOs, parliamentarians) in the preparations and deliberations of the DCF must also be strengthened.

## Endnotes

<sup>1</sup> Alan Beattie. *BRICS: The changing faces of global power*, Financial Times, January 17, 2010 accessed at <http://www.ft.com/cms/s/0/95cea8b6-0399-11df-a601-00144feabdc0.html>

<sup>2</sup> The terms “ODA”, “development assistance” and “aid” will be used interchangeably throughout the paper.

<sup>3</sup> United Nations Economic and Social Council, *Background Study for the Development Cooperation Forum: Trends in South-South and Triangular Development Cooperation*, April 2008.

<sup>4</sup> Accra Agenda for Action accessible at <http://www.accrahlif.net/WBSITE/EXTERNAL/ACCRAEXT/0,,contentMDK:21690826~menuPK:64861649~pagePK:6486188>

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<sup>5</sup> Final Communiqué of the Asian-African conference of Bandung, 24 April 1955, accessible at [http://www.ena.lu/final\\_communique\\_asian-african\\_conference\\_bandung\\_24\\_april\\_1955-020000556.html](http://www.ena.lu/final_communique_asian-african_conference_bandung_24_april_1955-020000556.html)

<sup>6</sup> United Nations Economic and Social Council, *South-South and Triangular Cooperation: Improving Information and Data*, 4 November 2009

<sup>7</sup> ECOSOC 2008, op.cit., p. 10

<sup>8</sup> RealAid for OECD DAC donors excludes debt cancellation, estimates of the costs for refugees in donor countries for their first year and imputed costs associated with

students from the South studying in donor countries. See the 2008 Global Reality of Aid Report, “World Aid Trends” chapter accessible at [www.realityofaid.org](http://www.realityofaid.org).

- <sup>9</sup> Ibid.
- <sup>10</sup> This is according to official data, which excludes substantial unreported resource transfers made by Saudi ruling families coursed through official channels for building mosques, schools, hospitals, etc. (Villanger 2007)
- <sup>11</sup> Ibid.
- <sup>12</sup> Ngairé Woods. *Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance*, International Affairs Vol. 84, Issue 6, 2008.
- <sup>13</sup> According to Villanger (op. cit.), the Saudi Fund distributed between 2% and 7% of total Saudi foreign aid from 1973-89 but represents 9% of total Arab aid finance from 1974-2006.
- <sup>14</sup> Carol Lancaster. *The Chinese Aid System*, Center for Global Development Essay, June 2007.
- <sup>15</sup> Thomas Lum; Hannah Fischer; Julissa Gomez-Granger; and Anne Leland. *China’s Foreign Aid Activities in Africa, Latin America and Southeast Asia*, Congressional Research Service (United States Congress), February 2009.
- <sup>16</sup> The OECD defines ODA as: “Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount). By convention, ODA flows comprise contributions of donor government agencies, at all levels, to developing countries (“bilateral ODA”) and to multilateral institutions. ODA receipts comprise disbursements by bilateral donors and multilateral institutions. Lending by export credit agencies—with the pure purpose of export promotion—is excluded.” From the OECD Glossary of Statistical Terms accessed at <http://stats.oecd.org/glossary/detail.asp?ID=6043>
- <sup>17</sup> United Nations Development Programme Special Unit for South-South Cooperation, *South Report 2009: Perspectives on South-South Cooperation for Development*, 2009.
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- <sup>49</sup> Rowlands, op.cit; ECOSOC 2008, op.cit.
- <sup>50</sup> Davies, op.cit.
- <sup>51</sup> Villanger, op.cit.
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# South-South Cooperation or Southern hegemony? The Role of South Africa as a 'superpower' and donor in Africa

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**Moreblessings Chidaushe**

*Former Coordinator for the Reality of Aid Africa Project*

## Introduction

The Bandung principles, rightly ambitious in their nature, present an aspired and ideal form of South-South development cooperation (SSDC) complete with the critical fundamentals of collaboration including mutual interest, peaceful co-existence, respect for national sovereignty, non-interference in internal affairs, equality amongst developing partners, respect for national independence, cultural diversity and identity, and local content. With the application of and respect for these principles, countries in the global South that have been exploited for many decades by the rich and dominant global superpowers can come together and presumably build a strong solidarity force that can foster self-initiated development and shield them from the bullying by former colonial masters. Such a force would be critical in reducing the imbalances inherent in the current global governance system, which perpetually undermines the poor and maintains their permanent state of poverty and inequality.

Decades of exploitation, marginalization of the poor and ineffective aid, amongst others, have led to disgruntlement and challenged the South to come up with an alternative framework for global engagement hence the increasing SSDC discourse. Regional integration, although largely infiltrated by donors using aid resources as leverage, is one such effort to build and strengthen the one-voice approach. Across Africa, the East African Community (EAC), Economic Community of West African States (ECOWAS), Maghreb and Southern

Africa Development Community (SADC) are prioritizing this approach which eventually builds into the African Union, ideally to consolidate the African voice, position and action.

At a more international level, the recent rise of the Brazil, Russia, India and China (BRICs) and the India, Brazil and South Africa (IBSA) groups are worth noting. These countries share a lot in common including similar socio-economic challenges, colonial histories, developing economies, and strategic geographical and global positioning. Through these blocs, those in the South are collaborating on a wide range of areas including science, technology development, education, health, and cultural exchanges. To date, some of the initiatives and benefits range from collective experiences, technology and economic collaboration, common positions in international fora, trilateral cooperation, project funding for initiatives like introducing a new rice seed to Guinea-Bissau, implementing solid waste collection in Haiti, refurbishing health centre in Cape Verde and developing new sports complex in Palestine (WWICS 2009). Despite noting some challenges, especially around resources and unequal terrain, these countries are determined to champion the SSDC project for the long-term.

This report aims to interrogate the nature of the existing SSDC. It acknowledges that the Bandung spirit is most noble and loaded with good intentions. However, the report questions whether these principles are the most ideal framework for achieving the SSDC vision aiming to give the poor muscle in the international arena

and fostering self-determined development in the South. It also questions the extent to which South-South relations are truly equal and mutually beneficial and, most importantly, whether they are indeed a force for the South or in fact a new form of hegemony seeking to further undermine the poor and weaker nations thus consolidating the current global imbalances. The report has a special focus on the role of South Africa as a major proponent of SSDC in the continent and as a donor to other African countries.

### 'The Big Brother'

South Africa is Africa's biggest economy, with a gross domestic product (GDP) of approximately US\$467 billion (2007). It rapidly grew under the apartheid regime upon the discovery of vast gold deposits in the 19<sup>th</sup> century in the Johannesburg area commonly referred to as '*Egoli*', the place of gold. South Africa is classified as a medium-income country according to the United Nations Development Program (UNDP) Human Development Index (HDI). The country holds a unique position not just in SADC but also across the African continent and similarly internationally where it often represents Africa. It possesses Africa's strategic economic and military might and is politically stable thus the responsibility to both foster and lead South-South cooperation in Africa. The rest of the African countries sit at the bottom of the HDI ranks, have small economies, severely weak institutional and administrative capacities, are mostly dependant on foreign aid, and have more than half of their populations living below the poverty line hence little hope and capacity to champion SSDC.

South Africa could be to Africans what America is to the rest of the world – the land of opportunity. Most SADC economies can only minimally, if

at all, make significant contributions to the ideal SSDC partnerships without being undermined or marginalized by the bigger and stronger economies like South Africa. Because it teams up the strongest amongst the weak, the current SSDC framework thus seems to be more of a club for the Southern elite rather than a genuine South-South alliance meant to strengthen the weak.

South Africa's donor efforts date back to the apartheid era when it gave aid to some African countries seeking favors and votes within the United Nations (UN). This transformed significantly in the post-apartheid era and more specifically under former President Thabo Mbeki's administration. Mbeki pioneered an African Renaissance Agenda in which he sought a new and leading role for South Africa in fostering the regeneration of the African continent. The African Renaissance Fund (ARF) has through the New Partnership for Africa's Development (NEPAD) given aid to several African countries for peacekeeping, technology development, research and education, amongst others. Other support for projects in the areas of agriculture, justice, public service, public works, trade and industry has also been given.

It must be noted however that South Africa's aid has hardly been coordinated. The country currently does not have a formal mechanism in place to coordinate both internal and external development aid thus both impact and statistics are difficult to trace. Figures for aid going out of the country have been estimated between 1 and 3 billion ZAR, (2006), (up to US\$500 000) or approximately 0.18% of the annual budget. On the other hand, aid coming into the country forms only 1% of the national budget. Compared with other African countries that depend on development aid of up to 50% of their national budgets, external aid does not hold a central position in South Africa.

Apart from making efforts to put in place mechanisms to administer both incoming and outgoing aid, the country is currently leading the debates on the aid effectiveness (AE) agenda and sitting in the technical committees within the Organization for Economic Cooperation and Development (OECD) AE processes. There is also ongoing discussion on the establishment of a development agency, South Africa International Development Agency (SAIDA).

Because of its strategic economic and military might and approach, South Africa has assumed a 'big brother' role in Africa. But this role is highly revered more from outside the continent than from within. The international community puts constant pressure and high expectations on South Africa to lead and guide the rest of the continent. It is expected to champion democracy, security efforts and socio-economic development. The country has in turn taken up and used this position and the expectations to spread its wings across the breadth of the continent for example through peacekeeping efforts in Burundi, Sudan, the Horn, Democratic Republic of Congo (DRC) and Zimbabwe amongst others. Economically, its corporate operations such as Game, Woolworths, Engen, Shop-Rite, and the Anglo American and DeBeers mining giant operations have mushroomed across the continent. In Bond and Kapuya's words, this role and expansion is due to South Africa's state power being used to lubricate otherwise difficult markets (Bond and Kapuya 2006).

Depending on who is talking, this role has prompted various reactions from arrogant, undermining, aloof, careless, to exemplary, needed and strengthening – thus, at different levels and places, South Africa's role is either being shunned or embraced. The key question for most Africans is whether or not South African corporations are unlocking Africa's production

and trading potential and if they are strengthening Africa's private sector. Literature analyzing the behavior of these corporations and whether or not they are behaving any different from the transnational corporations (TNCs) indicates that they are not interested in strengthening Africa's private sector and human resources and have their focus on profit-making. Reports of worker exploitation are commonplace with low wages, contract workers and poor working hours characterizing working conditions for locals employed by South African corporations. Nearly all products and goods are imported as finished goods from South Africa denying local production and manufacturing opportunities and also undermining small – to medium-scale producers/businesses who often cannot survive the competition. Key management positions are usually held by South Africans.

South African interests of economic expansion are no better than the exploitative aims of TNCs. Thus, in Africa, South Africa's role is not always taken positively, and such a view undermines its so-called leading role in forging genuine partnership under the spirit of SSDC.

The African elite seem to embrace South Africa's role as they benefit from superior jobs, education, shopping and services they would ordinarily not easily access in their own countries. The poor, on the other hand, shun this role as they feel exploited, especially in the workplaces, and are undermined and unwelcome by South Africans and their corporations both in and outside South Africa as the corporations' operations mushroom across the continent.

The explosion of the Afrophobic attacks – generally referred to as the xenophobic attacks across South Africa in 2008 and 2009 in which mostly poor Africans (Zimbabweans, Mozambiqueans, Congolese, Somalis) especially

those living in informal settlements and poor townships were brutalized, leaving more than 70 dead – are an example of the unwelcoming behavior of sections of South African society (and by extension, of corporations) towards fellow Africans. The attacks did not target any other races despite huge contingents of foreign whites, Chinese, etc. in South Africa. This South Africa for South Africans attitude contradicts the spirit of the country's Constitution which asserts that South Africa is for all who live in it, according to the "rainbow nation" term that was coined. But the current context in the country undermines the noble intentions of the Constitution which has been widely criticized as only good on paper. The South African government has yet to take concrete action regarding the issue of xenophobia so attacks have continued to erupt throughout 2009 and into 2010.

South Africa is well aware of the rest of Africa's attitude towards it, sometimes described as the new imperialism and hegemony. As early as 2004 the South African government publicly noted with concern that "many South African companies working elsewhere in Africa come across as arrogant, disrespectful, aloof and careless in their attitude towards local business communities, work seekers and even governments." Yet the South African government has exerted minimal efforts to improve this image. As witnessed in the recent mining, environment and climate change debates, South Africa seems to prioritize its economic development agenda regardless of the high costs both internally and externally. Such agenda far outweighs social development and concern towards fellow Africans and allows South African corporations to get away with aggressive behavior towards other African countries. Such an agenda takes a high toll on

the poor of South Africa and the entire continent and also on the spirit of SSDC.

In their paper, "South Africa in Africa," Adebayo, et al, raise the fundamental question on the nature of partnership and leadership that South Africa is pursuing as well as the interaction it has and should foster with its neighbors and the rest of Africa. First, they question the country's fitness to govern the rest of the continent given that the country itself has not yet been liberated and transformed from the apartheid legacy. Apartheid is still heavily embedded in the country's administrative and operational structures. An International Race Relations Institute study revealed in 2009 that 60% of the country's economy is still in white hands and a huge number of management positions across the corporate sector is still in white male hands. In 2009 there were also mass strikes across the country with some large corporations being accused of still exercising race based remuneration for similar work, fifteen years into democracy. Without real transformation of the people owning the means of production, the authors argue, apartheid can only be spread across the continent in the name of expanding the country's role in Africa. (Adebajo et al 2007)

The Black Economic Empowerment (BEE) initiative, an affirmative action programme targeted at mainstreaming black South Africans into the center of economic activity, has dismally failed and instead created a new layer of black elite locally known as the 'black diamonds' – mere replacement of the rich white further marginalizing the majority poor. Blacks often serve as fronts for the white elite in big companies with no power or influence in corporate South Africa and by extension across

Africa. Thus, unless revamped, South Africa's expansion across Africa under such a framework regenerates economic and social colonialism and departs significantly from the genuine spirit and vision of a Bandung as it gives Africa back to the hands of a few white elite who control the resources and economies. Clearly, while South Africa aims to play a key role in development aid and SSDC in the African continent, it is not unfounded to conclude that currently it may not be ready for this crucial role. South Africa needs to transform and strengthen itself first to ensure that its structural weaknesses are not replicated in the continent, thus further weakening the African opportunities for genuine SSDC as enshrined in the Bandung principles.

### To what extent does South African aid differ from traditional Western aid?

As mentioned above, the consolidation of South Africa's big brother role has required it to emerge as a major donor in the continent. Approximately 70% of South African aid is currently targeted for SADC member states and, across the continent, the aid targets "general improvements in governance and local priorities such as conflict prevention, peacekeeping, resolution, mediation, post-conflict reconstruction, and research for development." (SAIIA, 2008) On the other hand, traditional Western aid has largely been criticized as being ineffective and undesirable, for being donor-driven, tied and linked to strategic political and economic interests of the donor countries rather than the needs of the poor. Despite decades of billions of aid, no positive and significant change or impact is visible on the ground.

Calls are therefore growing for a new framework to ensure that development aid is more effective than it currently is. Seeking to be a different kind of donor, South Africa is under pressure to foster a different model of aid delivery and it tries "to avoid following the traditional North-South donor hierarchies by fostering cooperative engagement with its African partners." (SAIIA, 2008) This ambition is not always easily achieved as South African expertise and input is often more visible/dominant even where projects are collaborated with other countries indicating that much like the traditional western tied aid, the big brother interests and priorities sometimes do get in the way of South Africa's aid delivery. Technical Assistance (TA) concerns raised by such reports as Action Aid's 'Real Aid' studies indicate that in some cases more than one third of development aid goes back to donor countries in the form of tied aid and technical expertise. By dominating its expertise even in collaborative projects, South Africa is unfortunately perpetuating the traditional western aid delivery mechanisms and needs to guard against that if it is to champion the spirit of mutual respect under the Bandung principles.

Under the broad framework of governance and democracy, conflict prevention and resolution, socio-economic development, integration, humanitarian assistance, and human resources development, South Africa has supported a number of projects across Africa through loans and grants and other financial and technical assistance under the African Renaissance Fund (ARF) pioneered by Former President Thabo Mbeki. (See **Tables 1 and 2**)

**Table 1. ARF Grants, 2004-2005**

Grant	Value (R'000)
Institution and capacity-building project for Southern Sudan	7,100
Burundi Peace Process	10,000
DRC pre-election public support program	3,500
South African women in dialogue	3,500
Zimbabwe parliamentary election observers	5,000
DRC post-conflict reconstruction and development	25,000
<b>Total Grants</b>	<b>54,100</b>

**Table 2. ARF Grants, 2005-2006**

Grant	Value (R'000)
African Institute of South Africa, Terrorism Commission	1,700
Liberian disarmament and elections	25,750
Independent Electoral Commission, DRC Observer Mission	11,000
Humanitarian assistance to the Western Sahara (SADR)	10,000
DRC pre-election support	10,000
DPSA	1,400
<b>Total Grants</b>	<b>59,850</b>

*SAIIA 2008, extracted from African Renaissance Fund Annual Reports, 2004-5 & 2005-6*

Other projects in agriculture, finance (training of Reserve Bank officials in DRC), education support, and public sector reform processes have been embarked on across the continent. Although still minor, trade is also another factor contributing to South African development aid in Africa. South Africa is the biggest trader to most African countries especially in the SADC region.

Despite the challenges of weak aid delivery capacity, structures and impact, South Africa is making efforts to be a better development aid partner. It must also be highlighted that more needs to be done to cement these efforts and potentials for genuine SSDC. The proposed establishment of an aid agency and the active role the country is playing in the OECD Aid Effectiveness platforms are positive initiatives that the country is taking to ensure that its aid performs better and aligns with the Paris

Declaration principles of harmonization, ownership, alignment, and managing for results.

At the moment, because of the previously and largely uncoordinated structure of South African aid, a clearer picture of the proper functioning and impact of the aid is missing. For example, the exact total figures and specific types of projects, loan interests and repayments are missing. The various government departments seem to have had discretion to target and fund projects with little coordination with the rest of government on making progress, reporting and impact assessment. The ruling party agreed in 2007 to increase development assistance to range from 0.2 to 0.5% of the gross domestic product (GDP). (SAIIA 2008) Better impact is likely to be achieved especially with the establishment of the proposed aid agency as delivery and managing the aid will be more coordinated. However,

whether or not South Africa attaches any other conditionalities to its aid other than the technical assistance is not yet clear at the present. Given that South Africa is under pressure to develop its own human resources and further its strategic interests it is highly likely that its aid may still retain conditionalities.

### Taking after other South-South partners?

At a broader level, development aid by other SSDC proponents such as China, India and Brazil is bigger and more contested than South African aid. For example the motivations for Chinese aid have not come too disguised in the partnership and SSDC language. As noted by Davies and Jansson in their article “Are African governments ready for China,” the need for raw materials and the search for new markets are China’s major rationales for engaging with Africa. China’s trade with Africa has risen – for example it grew to a record US\$106.84 billion in 2008 up 45.1% from 2007 (China Daily) – as a result of the unleashing of the China-Africa policy and the Africa-China Summit in 2007 in which nearly all African heads of states embraced China as a welcome relief from traditional Western donors.

China’s aggressive foreign policy emphasizes commercial ties and securing access to the commodities it requires to fuel its economic growth. Its engagement with Africans is uncompromisingly through the “three vectors of trade flows, foreign direct investment and technology transfers and aid.” (Davies and Jansson 2008) The China-Africa discourse remains a contested terrain with the African elite having embraced the “Look East Policy” as a counter force to traditional Western aid. Civil society, on the other hand, view this relationship as corrupt and exploitative benefiting only the

African elite through shoddy deals. The African elite have also chosen to interpret and welcome Chinese aid as aid without conditionalities as it chooses to ignore internal affairs and violation of human rights much to the relief of those in power.

While this also directly relates to the Bandung principles of respect for national sovereignty and non-interference in internal affairs, South Africa has in recent years come under heavy criticism for embracing the same principle and adopting a Quiet Diplomacy approach on the issue of Zimbabwe. Civil society in Southern Africa contend that the Zimbabwean crisis is unnecessarily prolonged – causing the suffering, deaths and violation of human rights of millions of Zimbabweans – because South Africa, the chief mediator, has chosen to not interfere in critical internal affairs in its quest to find a “sustainable solution” for Zimbabwe, undermining the true spirit of partnership and good neighborliness. A good neighbor and partner, however, cannot sit and watch its neighbor suffer and die without offering a hand just because it cannot be involved in internal affairs. The principle of non-interference undermines the African spirit of community, togetherness and Ubuntu, and by extension the spirit of SSDC and Bandung. South Africa has also been criticized in its approach on Angola, where its hunger for Angolan oil has led South Africa to ignore human rights violations in the country as it seeks, “oil first, human rights later” (Mail&Guardian 21-27 August 2009), which is evidence that it is adopting a similar approach to that of China.

On the other hand, India’s foreign policy and engagement with Africa is also clearly stated as motivated by the following seven key variables: “India’s quest for strategic autonomy, its aspiration to status transformation, its desire

to play a role in shaping the global system, its need to access technology denial regimes, its hunger for energy, its regional imperatives, its search for a continental role and its Diaspora policy.” (Sahni 2007) Clearly, amongst those championing for SSDC, India and China are on the same page and have the same ambitions while South Africa’s stance seems unfocused – on one hand taking the Chinese inclination, but on the other hand also endeavoring to engage its fellow Africans on an equal partnership basis. This is a dilemma that is due to the different levels of development evident across the SADC region and the rest of Africa.

The terrain for the SSDC platform is also uneven and unfavorable to South Africa and Africa which is not as economically and politically strong to stand on an equal footing with SSDC partners such as India, China and Brazil. Thus although it has potential for better collaboration, the current SSDC platform is flawed and needs to be strengthened to ensure that the partners can foster the SSDC agenda in an equitable manner and to avoid further undermining the weaker members and therefore the formation of a new Southern hegemony disguised under a pseudo-SSDC partnership agenda.

Still, the SSDC partners have a lot to learn from each other – for example, from Brazil’s inclusive social development agenda with its mix of “delicate social policies and progressive economics that has in time matured into a model of developmental success.” (Mail & Guardian 21-27 August 2009) This model has potentially a lot to teach and transfer to Africa and especially South Africa being top-ranking on the global inequality index. President Lula da Silva’s Zero Hunger policy is successfully combating

hunger and malnutrition with the end-view of empowering the needy and ultimately integrating them into the formal economy. It is an approach South Africa urgently and desperately needs to adopt. Brazil’s sustained economic growth has brought confidence in the market which has been resilient amidst the global crunch. In Brazil, the number of people living under US\$1 a day dropped by 21% from 15.4 million to 11.3 million between 2003 and 2008. (M&G, 2009) Clearly, this case presents many lessons for South Africa and Africa to embrace in the spirit of Bandung. The challenge is for the SSDC partners to learn and implement the lessons from each other for a better South.

A simple definition of “collaborate” is “to work jointly on an activity or project,” which assumes a common vision and agenda for the involved parties and an inherent willingness and capacity to work/input towards the successful achievement of that goal. The term also assumes that the parties have equal capacity to contribute to the activity without one dominating the other.

Yet in a world where capital rules, where the terrain remains unequal, and where competition and pressure get in the way, the spirit of Bandung is often challenged as each one champions their own priorities and strategic interests making the Bandung vision all the more elusive.

The African concept of ubuntu would seem the most ideal approach to achieve the vision that Bandung originally set out. Ubuntu is premised on the notion of sharing and equality amongst all and the collective responsibility of the society. The challenge is to what extent the SSDC pioneers are or would be willing to embrace

the true spirit of collaboration embedded in the ubuntu concept. As it stands this is a challenge to achieve as it is an open secret that the ambitions of some of the so-called SSDC pioneers such as China and India – and driving their foreign policies – are the strong desire for strategic autonomy, to play key roles in shaping the global system, access to international and more specifically African resources. In Africa, South Africa seeks a dominant continental role.

In his book, “The Architects of poverty”, Moelesi Mbeki laments that the elite in Africa (South Africa being Africa’s key elite nation) are responsible for designing and maintaining the poverty and exploitation on the African continent. With the economic self-interest of South Africa, to what extent will it deliver its aid promises and foster closer ties with the rest of Africa along the Bandung principles?

## Conclusion

There is no doubt that an alternative framework of collaboration for the benefit of the poor is required to counter the existing exploitative nature of North-South engagement. SSDC is one such initiative. Bandung is undoubtedly a noble intention—one which can be used as a departure point for genuine SSDC for a better South—yet it needs to evolve into a more relevant present-day development agenda more than 50 years

since its conception. It needs to elaborate more on critical issues including environment and climate change, gender justice, human rights, aid effectiveness, and present more concrete and practical actions for members to adopt and implement. It also needs to address the issue of resource gaps to ensure that its efforts come to fruition. Most importantly, it must develop a clear framework of engaging its weaker partners to ensure that it does not become a Southern elite club. The South needs to participate in the global agenda as an equal partner to the North and must bestow upon itself the responsibility to develop such. On-going efforts towards this dream and vision are commended but a lot more needs to be done – for example building its human and administrative capacities and controlling its own resources, amongst others – before significant progress is made.

On its part in the African continent, South Africa could be well-positioned to take a lead role as an SSDC partner and donor, yet it clearly needs to first evolve from its current skewed economic development model, inherited from the apartheid era, and build its weak institutional capacity before it can unleash its role and presence across Africa. Its failure to make profound changes in structure does compromise its SSDC approach hence its generally being regarded by its fellow Africans as an arrogant big brother unleashing a new wave of imperialism in the continent.

**Moreblessings Chidauhe** has a keen interest in aid issues, she is the former Coordinator for the Reality of Aid Africa Project. She has worked for international aid organisations including the Danish Embassy/DANIDA, AFRODAD and Norwegian Church Aid. She holds a Masters Degree in International Development from the University of Bath. Moreblessings is currently working as a Program Advisor/Manager for Norwegian Church Aid, Southern Africa Office based in Pretoria, South Africa. She writes this article in her own capacity.

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# Assessing the growing role and developmental impact of China in Africa: An African perspective

African Forum and Network on Debt and Development (AFRODAD)

## Introduction

Economic cooperation arrangements, in particular for promoting intra-South trade, have been a long-standing feature of relations among the countries of the South. The resurgence of South-South trade in the last decade – after it took a lull in the early 1980s due to a sharp contraction of the global economy associated with oil price hikes and the ensuing debt crisis particularly in Latin America and Africa – has seen the emergence of economies such as China.

China-Africa relations have become the subject of much speculation and controversy in recent years. In January 2006, China announced its desire to increase cooperation with African countries by issuing *China's African Policy*, a paper intended to guide relations with the continent by continuing what it calls a “non-interventionist and non-ideological strategy.” It envisions stronger ties with Africa, including increased trade, more aid, and more debt relief. During the Forum on China-Africa Cooperation (FOCAC) in 2006, President Hu also pledged to build a conference centre for the African Union to “support African efforts to strengthen them through unity and support the process of African integration.”<sup>1</sup> The 50th anniversary in 2006 of the establishment of diplomatic ties between China and African countries did step up the focus on China's role in Africa, which has become the centre of serious analysis and debate as never before.

## China in Africa

China's rising profile as a donor in Africa has placed infrastructure firmly on the developmental agenda. This is particularly in war-ravaged countries such as Angola and Democratic Republic of Congo (DRC), which, while resource-rich, are underdeveloped and need such infrastructure to revitalise their economies.

More precisely, Chinese development assistance or barter trade with Africa has been in the areas of transportation, communication, water conservancy, electricity, technology, and management cooperation. These projects are usually undertaken by Chinese state-owned enterprises in line with the “go out” strategy — driven by the Chinese government to promote the internationalisation of Chinese companies.<sup>2</sup>

Through the structure of China Exim Bank's concessional loans, substantial funding has been allocated to refurbishing and constructing infrastructure networks in many African countries. As Lucy Corkin rightly observed, China's development assistance to Africa in the form of infrastructure boasts a long history, dating back to the TAZARA railway line, completed and handed over to the Zambian government in 1976.<sup>3</sup> China's current engagement in Africa, while more commercial in nature, has no less of a focus on infrastructure development and rehabilitation.

In 2000, a new China-Africa cooperation forum agreed on a joint economic and social program, one that is grounded on the developmentally defined doctrine “the five principles of peaceful co-existence” namely: ‘win-win’, ‘non-interference’, ‘respect for diversity’, ‘economic development’, and ‘sovereignty’. At the Sino-Africa Conference in December 2003, China cancelled US\$10 billion of debt owed by African countries, long before the G8 started debating the famous multilateral debt relief initiative (MDRI) of 2005.

As noted by Xinhua (2007), during the annual meeting of the African Development Bank (AFDB) held in May 2007, in Shanghai, the Chinese State Council approved the creation of a US\$5 billion China-Africa Development Fund, to be administered by the China Development Bank targeted at providing capital for Chinese enterprises engaged in development, investment, economic and trade activities in Africa. The fund also provides support for African countries’ agricultural, manufacturing and energy sectors, as well as support for urban infrastructure and the extractive industries.

### China’s benefits

The current Sino-Africa partnership that is marked by China’s rising power in geopolitical and economic spheres has been described by some as a new case of colonialism where African countries supply their raw materials to China while the latter sends its manufactured goods to Africa under the paradigm of free trade. The alarm bells that are ringing in various policy circles, the academic community and activist groups emanate from what appears to be China’s duplication of the same social and environmentally destructive economic model already being followed by the West. The lack of benchmarks in Chinese investments and

development financing is indeed worrisome. But many are also questioning whether the concern being raised is genuinely about Africa and the welfare of the African people or is it actually about protecting Western interests in the region.

The race for Africa is certainly due in large part to the same causes of Europe’s 19<sup>th</sup> century scramble for Africa. China is transforming itself into one of the top economic and commercial powers of the world. It is out-bidding most Western contractors on major infrastructure projects, providing soft loans and other incentives to bolster its competitive advantage. The World Economic Forum of 2006 which had a panel on Chinese trade with Africa, acknowledged that China is about to become the third largest trading partner of Africa.<sup>4</sup>

China’s sharply accelerating domestic energy demand, combined with declining domestic petroleum production and insufficient coal output, has spurred Beijing to pursue stable overseas sources of hydrocarbon fuels. Chinese oil consumption is expected to increase by 10% per year while China’s oil and gas imports are forecast to increase from the present 33% of China’s total oil and gas demand to 60% by 2020.<sup>5</sup> The China National Petroleum Corporation has invested billions of dollars to take control of Sudan’s oil production, estimated at 15,000 barrels per day and growing. In January 2006, another Chinese company agreed to pay US\$2.3 billion for a major stake in a Nigerian oil field. South Africa and Zimbabwe remain Beijing’s major sources for platinum and iron ore.<sup>6</sup> Beijing is investing in many parts of Africa from an oil refinery in Sudan to ferrochrome joint project in South Africa

Meanwhile, for China, engaging Africa is a way of dealing with employment challenges at home. *Granta* journalist Lindsey Hilsum made a poignant conclusion in her article, “We Love

China”, written after a visit to West Africa. She concluded, “It seems Africa looks to China and sees success. The Chinese have lifted 400 million of their own people out of poverty in the past two decades.” All the while, no one forced the Chinese government to have elections or allow its opponents to start newspapers.

“Many African leaders would love to do to their oppositions what the Chinese did to theirs in Tiananmen Square, but if they want western aid money, they must abide by the Western conditions.”<sup>7</sup> In Angola, the construction of a major highway has brought in more than 700 Chinese workers, and in Zambia the Chinese population grew from 300 in 1991 to 3,000 in 2006 as the number of Chinese projects increased.”<sup>8</sup>

For most Chinese investors the main reason for building up their activities in Africa is to circumvent the competition in their home market and bring down production costs to levels that are even lower than in China. In Zambia, Chinese and Indian mines are employing people on short-term contracts and, in some cases, Zambian workers are forced to sign forms before going underground to declare that they are working at their own risk so that there would be no compensation in case of an accident.<sup>9</sup>

Africa is increasingly an important market for Chinese exports and a good incubator for Chinese state-owned transnational corporations (TNCs). In fact according to Chinese trade data, most African economies already import more from China than they export to it. In the construction sector, Angola is a particularly favourable market for Chinese TNCs. Angola needs significant outside investment and there is relatively little competition. As a result Chinese firms have found profitable deals.

The whole Sino-Africa idea by China seems to be driven by: the need for new markets and

investment opportunities; resource security; the need for symbolic diplomacy, development assistance and cooperation; and forging strategic partnerships. It is not a secret that China is the fastest growing economy in the world with a huge appetite for cheap natural resources and raw materials and in search of markets for its growing industry and enterprises. China’s broad energy, trade, political, diplomatic, and even military interests in Africa threaten to undermine American and European efforts to promote ‘peaceful, pluralistic, and prosperous’ societies in the region.

### Africa’s benefits?

Ironically, it appears that China’s appetite for natural resources has come as a blessing for Africa. After all, China’s demand for raw materials has contributed significantly to Africa’s exports. Between 1996 and 2006, the region’s exports soared from US\$86.3 billion to US\$172.4 billion – a 99.7% increase. The export of raw materials to China accounted for 21.2% or US\$18.2 billion of the mentioned total exports value. In the period from 1996 to 2005, China purchased African crude materials for an accumulated value of US\$40 billion.<sup>10</sup>

China is also gaining importance as a source of foreign direct investments (FDI). Flows of Chinese capital to excavation projects are anything but excessive compared to the massive investments of the leading global firms, but nevertheless African governments are well aware that the China is prepared to offer a lot for uncertain or small returns.

China’s demand for resources has resulted in gross domestic product (GDP) gains in many Africa countries. Sub-Saharan Africa’s real GDP increased by an average of 4.4% in 2001-2004, compared with 2.6% in the

previous three years. Africa's economy grew by 5.5% in 2005 and did even better between 2006 and 2009.<sup>11</sup> Chinese firms are building roads, rehabilitating infrastructure, and bringing in wireless communication systems where landlines have not worked especially in the rural areas. China has educated thousands of African university students and it sends hundreds of its professionals to Africa.

As a result of intensified trade links with China, Africa has enjoyed better terms of trade, increased export volumes, and higher public revenues.<sup>12</sup> Observers suggest that China has encroached into the traditional domain of influence and control of the African economies by the international financial institutions (IFIs) through less stringent lending terms. An important goal of the Chinese debt-relief programmes is to restore African credit-worthiness, thus encourage new investments and boost economic potential. Flexible Chinese lending terms undermine the traditional control of domestic policy and affairs of the debtor nations by the West.

There has rarely been as rapid and intense investment in African infrastructure as is going on today with the Chinese. China engages mostly in infrastructure for resource extraction, telecommunications and transport. As business is often operated on a barter basis, financial transparency is difficult to establish.<sup>13</sup> Take the *Angola Mode* – where funds are not directly lent to the recipient country – in which the Chinese government would mandate a Chinese construction company, which usually receives support credit from China Exim Bank, to undertake the construction work after the approval of the recipient country. Then, in exchange for the infrastructure provision, the borrowing government will give to a Chinese

company operating in the field of natural resources (mostly oil or minerals) the right to mine natural resources through acquisition of equity stakes in the national oil company or through acquiring licenses from host state for production. This was the case in Gabon, where Sinopec gave a new lease of life to a couple of dried-up oil wells that had been abandoned by Total and Agip.

In 2006, China provided US\$2 billion to refurbish the run-down Kaduna oil refinery in Nigeria. The decision of Minmetals to start up iron ore excavation in Gabon's remote Belinga region came after the local government had already been trying for years to attract other investors. The same goes for Zambia where the Chambishi copper mine was closed in 1988 due to declining production. Apart from the direct gains, African countries also profit indirectly. China's economic growth has facilitated a better price for African of raw materials since China does not restrict itself to pay for this as per the World Trade Organization's (WTO) agreed rules.<sup>14</sup>

In regard to 'debt sustainability' issues, China has become, by a large margin, the largest creditor in the group of 'new' donors active in Africa. 'Old' donors are accusing China of "free riding" on the development efforts deployed by the international community and impairing debt sustainability in low-income countries (notwithstanding the fact that China has also granted debt relief). For this reason its competitors in the West have argued that corruption is enhanced, democracy impaired, and debt tolerance weakened by China's financing practices yet empirical research has demonstrated that China has had a positive impact on debt tolerance through stimulating exports, infrastructure, investment and GNP.<sup>15</sup>

## China on governance and democracy

For most African countries that seem to be more concerned with getting rid of Western interference in their domestic issues and preserving national sovereignty, China seems to be an alternative to the Western economic prescriptions that are marred by aid conditionalities and the unnecessary foreign interference that seem to continuously disrupt their national sovereignty. China's non-interference policy in the governance and human rights issues of these countries seems to be one of the more attracting factors than anything else.<sup>16</sup>

China generally has an appalling human rights record. Over time, differences between China and full-fledged Western democracies over respect for human rights and basic political and civil rights will sharpen. For example, in September 2004, the United Nations (UN) Security Council passed Resolution 1564 which condemned the mass killing of civilians in the Darfur region but stopped short of imposing oil sanctions if Khartoum did not act to stop the killing. China abstained from the vote and threatened to veto any further move to impose sanctions.<sup>17</sup> The Chinese government has actively advocated a Chinese-style economic development model to African countries based on a restricted market system constrained by the overarching priority of maintaining a single-party, totalitarian government. Many authoritarian African regimes, desperate to invigorate their fraying economies while maintaining a strong grip on political power, seem to find the Chinese economic development and reform model preferable to the free-market and representative-government policies promoted by the United States (US) and the European Union (EU).<sup>18</sup>

In most parts of Africa where resentment of the West prevails, China is perceived by governments

as the new "economic messiah", a new investor and new friend in a world where there is growing uneasiness over what African governments perceive to be patronizing attitudes of the West. China is actually taking great advantage of this growing resentment of the North and is presenting itself as an alternative.<sup>19</sup> China has offered aid without insisting on onerous conditions as Western donors do. This is sweet music to African nations, who have for so long protested the hypocritical insistence by Western countries that African nations must open their markets while Western nations heavily subsidize their own agriculture sectors and maintain prohibitively high tariff barriers.

It is also true that China's interest in Africa has given African nations more options to negotiate better trade deals with Western competitors. Western corporations and governments now face competition. This can give African states more room for manoeuvre, and an alternative to accepting the dictates of the IFIs. In the past African countries had to accept the poor deals Western countries forced on them. In terms of global politics, many Africans now see China as a potential ally in a world where African interests are either ignored or dismissed by the big powers.

One area of concern expressed by African civil society and social movements in regard to Sino-Africa relations is their fear of the resurgence of the debt problem that has for years torn down schools, clinics and hospitals. China is still not transparent enough on the size and pace of commercial and preferential lending to Africa to allow tracing the China-caused debt build-up. Transparency is not in China's interest as it invites 'happy bashing'.<sup>20</sup> Although China checks on viability of the projects and insists on production of a credible repayment plan by recipient countries before any loan

advancements, these are done without need to consult civic organizations. For China, business is done on a government-to-government basis regardless of the impact it can have on ordinary citizens now or in the future.<sup>21</sup> This definitely does not distinguish China from the Bretton Woods institutions' 'sin' of conspiring with African governments to assault their citizens with hardships associated with structural adjustment programs and irresponsible lending.

China's ideological support of African despots somewhat lends them international legitimacy and influence in the UN and other international arenas. This helps to blunt pressure from the Western democracies on issues such as human rights, economic openness, and political freedoms. At the same time, when it serves Chinese interests, Beijing succours would-be junta leaders and illiberal rebels who want power and would roll back political reforms in immature democracies. For example, China provides for Mugabe's military needs without interfering in his 'internal affairs' and praises Mugabe as "a man of great achievements, devoted to world peace and a good friend of the Chinese people."<sup>22</sup> In 2004, despite the US and EU arms embargo against Zimbabwe, China sold Zimbabwe fighter aircraft and military vehicles worth US\$200 million.<sup>23</sup> In addition, China provided a military-strength radio-jamming device which the Harare government used to block broadcasts of anti-government reports from independent media outlets during the 2005 parliamentary election campaign.

### Convergences and divergences between the international development agenda and Chinese engagement

While the expansion of China into Africa has been welcomed by a number of African countries as a less intrusive source of finance, traditional

donors and civil society groups argue that it could frustrate efforts to develop international consensus on reform, accountability and transparency, and regulate export credit agency projects that may slide Africa into a new debt trap and environmental degradation.

Chinese assistance under the framework of South-South cooperation goes beyond the concept of aid or official development assistance (ODA) as defined by traditional donors. It includes various types of economic and political cooperation, such as aid, loans, export credits, trade and investments – some of it are equivalent to the ODA concept while others are not.

China is also using debt relief as part of its aid packages to Africa. Since 2000, it has taken significant steps to cancel the bilateral debt owed by 31 African countries. In 2000, it wrote off US\$1.27 billion in debt and forgave another US\$750 million in 2003.<sup>24</sup> Debt relief, alongside low-interest loans and large-scale infrastructure projects, is one of the main types of aid to the countries cited in the studies and, therefore, an incentive to develop and nurture close ties with them. China's debt relief in Africa has been mostly the cancellation of interest free loans, and to a lesser extent, the write-off of concessional loans. By relieving these governments of the principal (and interest) payments of preferential loans, these are effectively converted into grant aid. During his visit to Mozambique in early 2007, Chinese President Hu Jintao announced the cancellation of all of Mozambique's debt to China worth a total of US\$20 million.<sup>25</sup>

In contrast to Western countries' aid, Chinese aid is used in concert with debt relief, trade agreements, FDI and other instruments in a package deal specifically designed to further Chinese strategic objectives in each African country engaged.<sup>26</sup> Chinese foreign aid is thus

so closely tied to the facilitation of state-directed commercial interests, particularly where Africa's mineral and energy resources are concerned, that it is often difficult to separate aid from investment in China's portfolio in Africa. Such distinctions remain difficult to establish, particularly as there is a lack of consensus among the Chinese government departments involved. Consequently, exact figures for Chinese aid to Africa remain difficult to establish.<sup>27</sup>

It must be remembered, however, that African countries deal with China not from a single purpose or perspective. In cases where the government of a particular African country is democratic and developed such as with South Africa, the South-South rhetoric is often used to get genuine cooperation.<sup>28</sup> The other perspective that is certainly appealing to Africa's more repressive regimes is the idea that the Chinese model represents a refutation of the view that democracy is an essential precondition for development.<sup>29</sup> China's re-entry into the region, especially its "no questions asked" approach runs counter to the whole notion of participatory democracy and in particular to the letter and spirit of the New Partnership for Africa's Development (NEPAD), which seeks to promote transparency, accountability and good governance

Most African regimes threatened by internal dissent and external pressure to reform, or even slammed by sanctions from the West, normally find a safe refuge in China-Africa relations. For this reason, most human rights groups and advocates for good governance and democracy view with suspicion the role that China seems to be playing in supporting regimes that are regarded to be undemocratic. It reminds many of the days of the World Bank (WB) and International Monetary Fund (IMF) structural

adjustment programs where many citizens who tried to revolt against unpopular economic policy were hindered from doing so as the two institutions would back the African governments in suppressing local dissent. Money was used to pay the army or security agencies to manipulate or control them.

The case of Sani Abacha in his last days of power in Nigeria is a case in point. Of late, the Zimbabwean president Robert Mugabe who is currently reeling from Western sanctions has declared a look at East Policy: "We have set our back at the West where the sun sets and have now looked East where the sun rises."<sup>30</sup> The Sudanese government has had backing from China in the midst of human rights and economic justice groups calling for sanctions and UN Security Council action on the regime. Thus, China's rising profile in Africa as a development partner has been controversial, not only because of the speed with which China has emerged as a significant donor to Africa, but also because China's aid policies and priorities are not necessarily in line with those of the traditional aid organisations.<sup>31</sup>

## Recommended policy shifts

- African governments need to channel the windfall revenues from export commodities into developing local capacity to ensure that the opportunity for infrastructural and economic rejuvenation is seized. Policy frameworks to facilitate the emergence of a private sector that can stimulate economic diversification are required, rather than maintaining a state-led economy reliant on a single export commodity.
- China is a state actor driven by national interest, and it is important for African

states to harness growing commercial and political ties with China in order to leverage them for sustainable domestic growth.

- Another important issue that needs to be addressed by developing countries, in the context of efforts to improve South-South cooperation in trade and economic integration, is the emergence of new trade blocs that for the first time include countries from both the North and the South. The implications of these mega-trade blocs for sub-regional and regional cooperation among developing countries in particular, and for South-South cooperation in economic and trade matters in general, need to be carefully examined, as they are likely to be far-reaching and profound.<sup>32</sup>
- If the relationship between China and Africa is to enhance sustainable development and participatory democracy, the following key issues are worth considering:
  - i. Both the Chinese and African governments must be engaged on issues of human rights, environmental protection, and impacts on communities of joint development projects, among others. At the same time, China must be pushed to follow international conventions and universal standards.
  - ii. The international community needs to continue to engage China especially on its non-interventionist and “don’t ask questions” approach to Sino-Africa relations. China will be well-advised to share common loan criteria and to cooperate on recommendations for a potential *Debt Transparency Initiative* involving both official and private lenders.
  - iii. There is no citizens’ involvement in the whole scheme of Sino-African relations. As a crucial step for increasing public awareness of the threats and the opportunities presented by China’s engagement with Africa, there needs to be greater awareness amongst civil society organizations, media workers and others. Only when civil society organizations are able to engage in a dialogue with their own states will a wider public discussion be possible about the nature of the deals being made between African governments and China.
  - iv. There is a need to balance power relations. Africa is always depicted in problem-solving meetings as in a subordinate position. There is a need to reframe relations and give it a more people-centered emphasis.
  - v. There is a need for different levels of exchange programs and interaction between Chinese and African societies to build familiarity and harmonious relations. These could include: the promotion of sports, competition and cultural activities; university to university linkages; joint field missions to projects; side events to annual meetings; and Sino-African conventions. The exchanges and planning will identify possible arenas and strategies for intervention and influence from which to build future cooperative and solidarity endeavours between Chinese civil society and international groups.
  - vi. Civil society organizations (CSOs) from both sides need to deepen

knowledge, understanding and sharing of resources (this implies sharing examples, experiences and lessons with peers). There is a need for partnerships and programmes focusing on learning more about how CSOs influence policy processes, improving information and communication activities, etc.

- vii. Push African government to be more responsive to citizens' needs and uphold their interests. There is a need to avoid the exploitative problems that Africa experienced with many institutions of global governance like the WB and the IMF. There is therefore an urgent need to ensure that they are not repeated in Sino-African relations. At the same time, the historical relationship of China with Africa must be well-understood, owned and driven by citizens.
- viii. The African Union has a centre in Beijing, but there is no effective non-

government organization (NGO) liaison desk. In this regard the African Union must be encouraged to set up one.

In all these recommendations, one must hastily say there are some major challenges. These include: What can be done to change the relationship between the Chinese government and the NGOs in a positive manner? Will China change its foreign and trade policies and can the NGOs push them to do so?

China's engagement with Africa is driven by myriad factors including the need for new markets and investment opportunities. But the question of getting indebted to China in the long process raises serious questions on how accountable and transparent the cooperation is. There must be further research and critical evaluation of the role of both the West in general and China in particular, as well as the implications of their policies on resources, economies and societies in order to protect Africa from yet another scramble.

***The African Network and Forum on Debt and Development (AFRODAD) is a civil society organization born of a desire to secure lasting solutions to Africa's mounting debt problem which has impacted negatively on the continent's development process. AFRODAD aspires for an African and global society that is just (equal access to and fair distribution of resources), respects human rights and promotes popular participation as a fundamental right of citizens (Arusha Declaration of 1980). AFRODAD's mission is to secure policies that will redress the African debt based on a human rights system.***

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# Contradictions in Development Aid: The Case of Zimbabwe

Godfrey Chikowore

*Institute of Development Studies, University of Zimbabwe*

## Abstract

Contemplating the immensely reformative opportunities inherent in South-South as well as North-South initiatives, this report makes a critique of how these opportunities have not been maximized by Zimbabwe over the 1990-2000 decades and even since 1980 through development aid facility extended by the donor community since independence.

The continually declining socio-economic trends in Zimbabwe over these decades is the combined outcome of neocolonial manipulation of development aid, political intolerance by the government of Zimbabwe and ineffective global, continental and regional institutions. The paper stresses the need for Zimbabwe to develop a policy on the use of development aid and a broad-based national socio-economic development plan. Finally, it emphasizes the relevance of the 2009 Global Political Agreement (GPA) signed between political parties ZANU PF, MDC-T and MDC-M, and the Short Term Economic Recovery Program (STERP) that departs historically for an effective and transformative use of development aid in Zimbabwe and for its full acceptance in the international community.

## Introduction

Civil society has often expressed the criticism that aid is a neocolonial tool by developed countries as they impose prohibitive policy conditionalities on developing countries while donors tie their commercial, political and military interests to

the aid they provide. This is often viewed as one of the causes of poverty, hunger, disease, and backwardness in developing countries including Africa and Zimbabwe in particular.

In addition to this, however, and to a large extent, the abusive manner in which the states of the developing world such as Africa allow with impunity the donors' policy of non-interference in internal affairs has rendered aid ineffective and caused mounting poverty. Human rights abuses, corruption and inhuman acts against the poor and defenseless majority in the rural and urban communities and even threats to national sovereignty are outside the concerns of donors.

There is also the visible ineffectiveness of regional blocs (SADC and COMESA), continental blocs (African Union), and international institutions (United Nations) particularly in ensuring the effectiveness of development aid.

It is within this context that the principles of South-South cooperation remain theoretical for the majority of the populace. The discourse on development aid continues to show 'class clashes' as aid remains a neocolonial tool, states continue to be oppressive, and international institutions do not care.

A closer examination of macroeconomic indicators of Zimbabwe, including its debt situation and implementation of the Millennium Development Goals (MDGs), as well as the development plans and programs it has pursued would reveal the contradictions in development aid as summarized above. Debt level reached US\$365 per capita in 2000. Per capita gross

domestic product (GDP) deteriorated from US\$663 in 1996 to US\$568 in 2003. Moderate poverty based on the US\$2-a-day-threshold was at 88% of the population in 2007. All these are raising relevant questions on the effectiveness of so-called development aid.

Zimbabwe has remained a low-income country since 1980. An examination of the country's achievements of the MDGs as well as the impacts of the New Partnership for Africa's Development (NEPAD), Look East Policy, Homegrown Reserve Bank of Zimbabwe Turn Around programs, and the 2009 GPA shows the failure of development aid to translate to decent and sustainable living for the poor majority.

The tragic situation is exacerbated by neoliberal economic reforms such as liberalization, privatization and deregulation being imposed by the donor community which also breed corrupt and abusive states. On the other hand, the states evade accountability for the capital-starved economies and blame capitalist maneuvers. Neither the donors nor the states therefore can come to the salvation of the defenseless poor majority from the onslaught of neoliberal reforms. In fact, it appears that aid and neoliberalism go hand in hand in perpetuating unequal, neocolonial relations, oppressive regimes and inutile institutions.

### Dismal socio-economic indicators

The thesis of this report is that the undesirable outcome of development aid use in Zimbabwe over the 1990 -2000 decades is the combination of three major factors. Aid has apparently been used as a neocolonial tool that has driven Africa out of the path of emancipation. Secondly, aid has introduced the principles of non-interference by donors and governments even if oppression

is evident. Thirdly, regional, continental and international institutions are ineffective as evidenced by continuing miserable conditions.

Zimbabwe availed of aid from big economies such as Japan, Australia, Brazil, Taiwan, India and China, and even from fellow African countries such as Botswana, South Africa, Namibia and Swaziland over the 1990-2000 decades. Such development aid use hardly materialized positively as indicted by the mounting debt for the last decade of the colonial period (1970) to the present decade (2000) of the independence period. (See **Table 1**)

As of 2001, Zimbabwe's external debt was 19.4 times higher than it was during the colonial period in 1970 and still 5.7 times more than its 1980 level. This alarming increase in debt levels came mostly from the state's incompetence, a notably sterile administrative system, and a seemingly unending recycling of the same cadres since independence in 1980. The debt situation also contributed much to government's lack of innovation and adoption of new ideas. It has made impossible strategic investment of development aid for the Zimbabwe economy to be self-sustaining and for it to graduate from the highly-indebted poor country category to even just a low-income or lower middle-income economy bracket over the 30-year period (1980-2009).

Ironically, the dominating ruling party in government that has institutionalized corruption even defaulted on foreign debt payments. It reached the point that in order to clear the external debt, it would be competing for resources that could have been devoted to productive investment in health and social sectors. The steady deterioration of the economy since 1980 that got more and more pronounced from 1998 onwards led to widening budget deficits. (See **Table 2**)

The World Bank (WB) stopped lending to Zimbabwe in October 2000 due to the country's debt mismanagement and failure to service its debt obligations. Likewise in mid-September 2001, the International Monetary Fund (IMF), after, its annual Article IV consultation, called on Zimbabwe to clear the government's debts in arrears to various creditors before financial assistance could resume. In 2000, the United States (US) Senate adopted the Zimbabwe Democracy and Economic Recovery Act (ZDERA), which determined the foreign policy of US and the European Union (EU) towards Zimbabwe and nations in the South that were sympathetic to Zimbabwe. Zimbabwe was subjected to economic sanctions as a collective penalty on the incompetent ruling party for its poor human rights record and irreversible but controversial land reform program.

From 1980 to 2001, the debt per capita was US\$670 – each Zimbabwean citizen effectively owed the donor community US\$670. It is glaring that borrowed development aid could have led to the transformation of the Zimbabwe economy and improved welfare of the majority of the populace. But it only entrenched corruption and lack of proper government planning. Total external debt ratio to the gross national product (GNP) in 1970 was 12.5% but phenomenally increased to 56% in 2000. Had the Zimbabwean economy been managed well with domestic savings and domestic investments, the total external debt ratio to the GNP should not have exceeded 25 percent. At this time, development aid was coming from China, India, Japan, Indonesia, Iran, South Africa and even Botswana, but it could not ameliorate the heavily crippling debt burden that saw the nation moving steeply into poverty, hunger and disease.

The economic categorization of Zimbabwe as a low-income economy has not positively

changed. The GDP at constant prices remained quite depressed ranging between Z\$20,280 and Z\$23,640 million from 1994 to 2002. A decline was recorded in spite of the increasing volumes of development aid from the South and North.

Over the 1990-2003 period, GDP per capita declined from 5.5% to -14.1%, glaringly indicating a progressive disinvestment process. The Human Poverty Index (HPI) – which is an aggregation of the percentages of people not surviving beyond 40 years, adult literacy rate, underweight children under five years, population without access to safe water, and living standard deprivation – worsened from 23.9% in 1995 to 28.2% in 2001. (See **Table 3**) The rural areas were hardest hit, according to the Zimbabwe Human Development Report Series, from 21.12% to 31.1% from 1998 to 2003. But the HPI in the urban areas was even higher than both the national and rural HPI, at 12.4% in 1995 to 26.4% in 2001.

As for the Human Development Index (HDI) – which is an aggregation of indices for average years of schooling, education, and income – failure on the part of the ruling party to invest development aid saw national averages decline from 0.507 in 1995 to 0.444 in 2001. The least HDI was in the rural areas where it further declined by 0.505 points while the urban areas recorded a decrease of 0.086 points.

What the grossly low HPI and HDI effectively showed was that the ruling party government had great setbacks, incompetence in effective short and long term economic planning for rural and urban areas, which was compounded by the lack of culture for strategic investment and business management within the adopted programs of South-South and North-South cooperation.

Apart from debt and national income indicators, there were other critical variables that largely reflected gross incompetence in the mismanagement of development aid (loan, grant and technical assistance) by the ruling party. Aid should have been targeted to various sectors such as social infrastructure and services, economic infrastructure and production, multi-sector assistance, commodity aid and general program assistance, debt relief, emergency assistance, and administrative and similar costs. But obviously it was not infused in these basic sectors. For the 1990-2000 decades, Zimbabwe could have benefited from programs such as the MDGs; NEPAD; the Regional Indicative Strategic Development Plan (RISDP); and the Look East Policy (LEP). These coincided with the ZDERA, the economic sanction on Zimbabwe, which to date has not yet been repealed for Zimbabwe to fully exploit the opportunities in South-South cooperation.

Thus over the 1990-2000 decades and up to today, whatever aid Zimbabwe receives is cautiously advanced as a humanitarian facility and not one that fully in a reformative sense caters for the technical, loan and grant requirements of Zimbabwe. Put another way, Zimbabwe can enjoy maximum benefits from South-South cooperation and from its organic relationship with the North-South initiative only after the Zimbabwe human rights record has been greatly improved and when the electoral processes are as transparent as the standards of the region and the international community.

Thus on the basis of the argument highlighted above, it may be understood why although Zimbabwe is a subscriber to South-South cooperation, its socio-economic disposition has remained highly depressed with a lot of human sufferings and political controversies and uncertainties.

Since domestic financing was not subject to inflationary adjustments, even an increase would only translate to negative and declining real GDP (taking inflation into account) from -8.2% growth rate in 2000 to -13.9% in 2003 as well as a negative real GDP per capita growth at -9.5% in 2000. Major economic sectors were on the decline with foreign reserves declining from US\$595.5 million to US\$254 million over the 1994-2004 period and gold earnings actually nosediving from US\$139 million to US\$22.7 million over the same period.

Thus failure to productively invest development aid over the 1990-2000 decades also resulted in the further weakening of the national currency, with the exchange rates declining heavily from Z\$8.45: US\$1 (1995); Z\$5.069: US\$1 (2004) and Z\$500,000,000:US\$1 (2009).

Going back to a more detailed analysis of poverty therefore would reflect a generally poorly managed development aid facility. Out of 10 provinces over the 1995 and 2001 period, HPI declined considerably in five provinces while it only marginally improved in four provinces and remained static in one province. As for the HDI, it declined in four out of 10 provinces, minimally increased in four others and remained unchanged in one province. (See **Table 4**)

Despite the 'good intentions' that may have characterized the economic relations of Zimbabwe with China, India, Japan, South Africa, Indonesia, Malaysia, Australia, New Zealand, etc, an incompetent Zimbabwe ruling-party-led government wasted the opportunities of South-South cooperation. This resulted in a costly *de-synchronia* in the political, economic, social, cultural, historical, scientific and technological, and traditional spheres of life while, over and above that, the positive reputation earned by Zimbabwe since 1980 turned into loss of trust and sympathy by the international community.

## Seeking alternatives

The fundamental question that emerges now is how to reconcile the historical objective demand to make development aid more meaningful for the majority from independence in 1980 to the present in 2009 and the fact that the lives of the poor majority worsened. Certainly for now the departure point is the GPA signed among the three former viciously contesting political parties, namely ZANU PF, MDC-T and MDC-M, and other more progressive parties yet to emerge in the Zimbabwe political landscape.

With the GPA, the political contestants dedicated themselves to putting an end to the polarization, divisions, conflict, and intolerance that had characterized Zimbabwean politics and society in recent times. The historical GPA, signed on September 15, 2008, led to the creation of an 'inclusive government' and a subsequent development of a detailed and comprehensive socio-economic transformation document dubbed as the STERP, adopted in March 2009.

STERP was reviewed on July 16, 2009 in another document called the "2009 Mid Year Fiscal Policy Review Statement: STERP in Motion". These historic documents somehow assure the Zimbabwean poor majority that at least a more accommodating environment political is in place for more competent management of development aid and strategic economic planning. This is further expressed in the Integral Homegrown National Socio-Economic Development Plan (IHNSEDP).

The Honorable Tendai Biti M.P. Minister of Finance stated in the STERP review that, "our country (Zimbabwe) had sunk to unacceptably high levels of fragility that bordered on total

State failure... thus the work of the Inclusive Government involves rehabilitating and rebuilding this country (Zimbabwe)...put in simple terms, the Inclusive Government's fundamental function is to re-lay the foundation of a normal functional vibrant African Democracy..." The foundation stones laid out for STERP are:

- The stabilization of peace and stability in the country;
- Pursuit of a program of national healing;
- Constitution-making process and the democratization agenda;
- Provision of adequate and quality basic social services, social safety nets in urban and rural areas, and execution of a comprehensive social protection program;
- Macroeconomic stabilization; and
- Socio-economic transformation of Zimbabwe through capital and institutional development that places information communication technology at the centre.

What then are the workable alternatives on development aid use for Africa and Zimbabwe in particular within the South-South cooperation? The proposal developed in Figure 1, which in its practical application on a short, medium and long term, should reverse the grossly negative socio-economic trends reflected in Tables 1, 2, 3 and 4. The argument that runs through this paper is that over the past 30 years, a well-adhered policy of development aid use could have seen Zimbabwe solidly graduating from the low-income economy category to lower

middle-income, or even probably into a donor nation in the region. South Africa and Botswana at the moment comfortably enjoy an economic command in the region.

According to Figure 1, all development aid to Zimbabwe from any Level 1 source would, in the framework of an outward-inward oriented IHNSDP, be productively invested according to priorities in Level 2 units (2), managed well through multi-stakeholder institutional boards (3) within a prioritized investment orientation (4). The investment orientation would be rationalized in priority sectors and their sub-sectors (5), at various project levels (6), and these projects would have to be monitored and evaluated (7) by the multi stakeholder boards comprising locals and internationals. In targeted locations (8) to ensure an even development of the economy, the evaluation would have to be regularly effected so that alternative remedies are adopted over specific periods or terms (9), and minimum sector and sub-sector growth targets (10) have to be drawn up for purposes of determining progress with the requisite outcomes (11) registered at the end of declared terms.

For Zimbabwe in particular and Africa in general, Figure 1 shows that as a composite development program, inward and outward oriented IHNSDP constitutes both a solid ideological foundation for an effective and transformative development aid use with South-South cooperation as framework.

## Conclusion

Considering the short time taken by many sovereign nations across the continent to graduate from low-income economies to middle- and subsequently high-income economies within the framework of development cooperation since World War II, most of them, notably South Africa, Saudi Arabia, Botswana, Japan, Brazil, India, China, South Korea, Australia and New Zealand, have turned into donor nations.

At this point, Zimbabwe would certainly have to turn a new leaf especially on the nature of its policy in use of development aid. While development aid is disbursed subject to the ideological values of the donor community or nation, there are certainly opportunities that may be taken by the recipient nation for its own advantage. Recipient nations need to be open to the ongoing global trends guided by the notion of democratic and politically inclusive and tolerant institutions, retaining an honorable place in the global community.

Zimbabwe would not have experienced deplorable, socio-economic trends of poverty, hunger and disease had the requisites and opportunities been seized by a strong and upright government. Openness to developmental inputs as well as correct aid policy framework is an essential factor for a sound and sustainable development aid use, which would surely launch Zimbabwe as a developed and progressive nation.

**Dr. Godfrey Chikowore** holds a Ph.D. in Geography with specialisation in regional integration and cooperation. He is the current Director of the University of Zimbabwe's Institute of Development Studies. He is former Chairperson of the Department of International Relations and Social Development Studies in the same institution.

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Tables and Illustrations

**Table 1. Selected External Debt Indices for Zimbabwe, 1970 – 2000**

Variable	Unit	1970	1980	1990	1994	1996	1998	1999	2000	2001
Total external debt	US\$ bln	0.232	0.786	3.247	4.537	4.994	4.716	4.991	4.372	4.500
Debt per capita	US\$	97	112	333	421	438	403	377	364	670
Multilateral debt	US\$ bln	0.41	0.3	0.637	1.520	1.575	1.715	1.622	1.484	
Bilateral debt	US\$ bln	0.44	0.98	0.871	1.193	1.151	1.198	1.235	1.441	
Private debt	US\$ mln	145	595	957	695	583	419	364	322	
Total external debt : GNP	%	12.5	11.9	38.2	68.6	59.7	79.6	88.9	56.0	

Source: AFRODAD. 2003. Africa’s External Debt. An analysis of African Countries’ External Debt Crisis. Printset. Harare. p 101.

Table 2. Major trends in development aid driven socio-economic processes in Zimbabwe, 1990 -2004

Variable	Unit	1990	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
1	GDP factor cost@ constant 1990 prices	Z\$ mln	...	20,280	20,237	21,696	23,174	23,646	22,022	20,95	19,176	16,702	...
2	GDP per capita	US\$			663	...	...	...	505	...	1,891	568	...
3	GDP per capita growth	%	5.5	-1.3	...	...	...	...	-7.7	...	-14.7	-14.1	...
4	GDP	US\$ bln			7.89	...	...	...	6.40	...	22.0	6,678	...
5	GDP real change.	%			10.4	1.5	2.0	-6.9	-4.8	...	...	...	...
6	GDP real change per head	%			5.2	-1.8	-2.3	-7.0	-9.5	...	...	...	...
7	Real GDP growth	%	7.0	0.2	7.2	...	...	...	-8.2	...	-13.9	...	...
8	Inflation	%	15.5	22.6	...	...	...	...	55.9	...	133.2	525.8	...
9	Exchange rate	Z\$:US\$	8.45	8.66	9.92	11.89	23.68	38.17	43.29	55.1	54.95	727.88	5,069
10	Foreign financing	Z\$ mln		2,943	2,154	4,200	-2,918	-1,804	2,735	-602	-1,487	38	10
11	Domestic financing	Z\$ mln		8,613	5,920	13,575	8,274	8,806	68,232	44,88	39,175	12,044	1,638,964
12	Gvt Finances: Overall balance.	Z\$ mln		-11,55	-10,106	-18,128	-5,356	-18,93	-70,97	-45,42	-12,1	-1,639,972	-1,638,964
13	Foreign reserves: excl. gold.	US\$ mln		595.5	598.8	160.1	130.6	268.0	193.1	64.7	83.4	92.0	254.0
14	Foreign reserves: Gold.	US\$ mln		139.7	117.2	56.0	82.6	105.4	45.4	27.5	22.7	...	...
15	Total External Debt	US\$ bln	3,247	4,537	4,557	5,005	4,716	4,991	4,372	...	...	...	...
16	Trade: Imports	Z\$ mln/ US\$ bln		18,270.7	23,048.1	28,095.1	36,556.0	US\$bln	2.12	2.32	1.67	0.221	...
17	Trade: Exports.	Z\$ mln/ US\$ bln		13,419.0	16,023.4	21,016.2	25,632.0	US\$bln	2.20	2.0	1.98	2.43	0.102

Sources: SADC Review 1999, 2000, 2002, 2005 and 2006. Southern Africa Marketing Company. Gaborone.

**Table 3. Rural and Urban Human Development Index (HDI) and Human Poverty Index (HPI) Values in Zimbabwe, 1995 and 2001**

Index	Location	1995	2001	Variation
1. Human Development Index (HDI)				
	1.1 Zimbabwe	0.507	0.444	0.063 (-)
	1.2 Rural	0.505	0.388	0.117 (-)
	1.3 Urban	0.590	0.504	0.086 (-)
2. Human Poverty Index (HPI)				
	2.1 Zimbabwe	23.9	28.2	4.3 (+)
	2.2 Rural	21.12	31.1	9.98 (+)
	2.3 Urban	12.35	26.4	14.05 (+)

Sources: Zimbabwe Human Development Report Series 1995, 2000 and 2003.

**Table 4. Development aid driven/determined Human Poverty Index (HPI) and Human Development Index (HDI) rankings by provinces in Zimbabwe between 1995 and 2001**

Province	Year / Index / Rank	Year / Index / Rank	Variation	Year / Index / Rank	Year / Index / Rank	Variation
	1995 HPI rank	2001 HPI rank		1995 HDI rank	2001 HDI rank	
Bulawayo	1	2	- 1	2	1	1
Harare	3	4	-1	1	2	-1
Matebeleland South	7	3	4	4	3	1
Matebeleland North	6	10	-4	5	4	1
Midlands	4	5	-1	3	5	-2
Mashonaland East	8	6	2	6	6	0
Mashonaland West	9	9	0	7	7	0
Manicaland	5	7	-2	10	8	2
Masvingo	2	1	1	8	9	-1
Mashonaland Central	10	8	2	9	10	1
<b>Total</b>			<b>-2</b>			<b>0.2</b>

Sources: Zimbabwe Human Development Series. 1995; 2000 and 2003. Harare.

Fig 1. Targeted Development Aid Use Combined Millennium Framework: Development Program and Inward-Outward Oriented Homegrown socio-economic development plan

Level 1 (1)	Level 2 (2)	Institutional combination/ Accountability (3)	Priority Targeted Investment Orientation (4)	Priority Sector Identity (5)	Priority Projects (6)	Project Evaluation Phases (7)	Targeted Locations (8)	Program Term (9)	Targeted Minimum Growth Rates % (10)	Targeted Outcome (11)
Global	National	Political	Rehabilitation	Infrastructure: Economic and Social	Commercial, Large scale	Quarterly	Rural (districts)	Long (9 yrs)	3.5	Empowerment + employment of locals- majority poor disadvantaged.
Continental	Province	Economic	Renovation	Industry Manufacturing	Medium scale		Urban (districts)			Welfare rise : rural + urban areas
		Social	Newly	Agriculture	Small scale	Bi-monthly	Resettlements	Medium (4 yrs)	5	PPPs by sectors
		Cultural	Reorientation	Mining	Microscale		Farms			Foreign + national PPPs
Regional	District	With local and foreign membership	Liquidation	Tourism Transport Energy Housing Water and sanitation Banking	Expansion	Monthly	Peri-urban	Short (1 yr)	8	Industrialization: rural
			Commercial large scale				Growth Point			Deepening Economic + Social Integration
National	Sub-district		Medium scale	Research and Development			Economic region	Combinations.		Twinning Development of foreign and National and National Provinces
			Small scale	S+T			Economic sub-region			Twinning Foreign + National Provincial capitals
	Village		Micro scale	ICT						Twinning Foreign + National Rural Areas + Growths Points
	Ward		Expansion	Education Health, etc.			Economic Free Zone			Deepening Peace-Stability and Security. (11)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)

Sources: Chikwore G . 2009. (Author's Origination). University of Zimbabwe. Institute of Development Studies. Harare. 14.00 hrs.

# South-South Development Cooperation: A Challenge to Traditional Aid Relations?

Edward Ssenyange  
*Uganda Debt Network*

## Overview of China-Africa Development Cooperation and the Case of Uganda

China, a developing country that has until recently been a recipient of large official development assistance (ODA) disbursements, had throughout the 1990s to 2007 grown in terms of its gross domestic product (GDP) by about 10% per annum. Its current GDP of over US\$7.8 trillion positioned it as the 2<sup>nd</sup> largest economy in the world. China is increasingly gaining importance as a major driver of the global economy and recorded as the first country to emerge from the global financial and economic crisis with 7.9% growth by the second quarter of 2009. Although the Chinese economy is experiencing a transition to a knowledge economy, the main driver of growth is still the manufacturing sector which has made China a global production platform. Due to China's strategic economic development model, growth in GDP is reflected in a positive social transformation that has seen poverty fall from 53% in 1981 to 2.3% in 2005 while the human development index (HDI) improved from 0.53 in 1975 to 0.78 by 2005. Per capita income is currently estimated to be above US\$3,180 but still tainted by some inequalities across social sectors.<sup>1</sup> (China Haley and Naidu, 2009; En.wikipedia.org; www.chinaview.com)

On the other hand, Africa and more specifically Sub-Saharan Africa (SSA), has economies that have registered growth rates from 2.5% in 1990 to 5.2% in 2007 but unaccompanied by social transformation. Production is predominantly of raw materials including oil and minerals which

form the basis of exports. A worse scenario is that these raw material exports are not well diversified. Imports, on the other hand, are dominated by higher priced manufactures causing acute and persistent trade imbalances. SSA's key development challenges are securing fast and sustained pro-poor growth; structural and social transformation; appropriate technological advancement; scaling up export-led growth by taking advantage of feasible market access arrangements provided by preferential trade arrangements; and elimination of supply constraints through organizing the production sector into a feasible economic entity, increased investment in infrastructure and human development. These challenges place Africa (of which Uganda is part) in a nearly desperate situation that lure it into the arms of aid and development partners.<sup>2</sup> (International Monetary Fund (IMF), 2009; UNCTAD, 2005, 2003, 2001)

China and Africa cooperate on various fronts but meet to review progress and develop strategies under the Forum on China and Africa Cooperation (FOCAC). At such a forum in 2006, China made the following commitments: to double Aid to Africa by 2009; to provide US\$3 billion in preferential loans and US\$2 billion in preferential buyers credit in the three years from 2006 to 2009; to set up China-Africa development fund of US\$5 billion to encourage Chinese companies to invest in Africa; to cancel debt arising from all interest-free government loans maturing at the end of 2005 owed by heavily-indebted poor countries (HIPC) and

the least developed countries (LDCs) in Africa holding diplomatic ties with China; to further open up the Chinese market to Africa's products by offering a zero-tariff facility to LDCs sharing diplomatic ties with China; to construct a conference center for the African Union in support of African integration; to train 15,000 professionals; to send 100 senior agricultural experts to Africa; to set up 10 agricultural technology demonstration centers in Africa; to build 30 hospitals; to provide a Yuan300 million grant for Artemisinin and for the construction of 30 malaria prevention and treatment centers to consolidate malaria eradication efforts in Africa; to dispatch 300 youth volunteers to Africa; to build 100 schools across the continent; and to increase the number of Chinese Government scholarships to African students from 2,000 to 4,000 annually.<sup>3</sup> (Brautigam, D., 2008 and Broadman, H., 2007)

In the face of claims by critics that a Chinese Aid Policy is nonexistent and that the Chinese have no clear definition of aid, the key official objective of Chinese Aid to Africa is to help create an environment for self-sustainability and social development, and in order to foster these objectives, a form of cooperation and ODA has been designed – 'cooperation' refers to foreign direct investment (FDI) and contracts with Chinese companies while ODA refers to concessional loans and trade concessions, debt relief and grants.<sup>4</sup>

Overall, Chinese aid has a market-centered approach with the officially stated drivers outlined as: promotion of historical alignment; fostering market traction; strengthening the 'One China' policy<sup>5</sup>; creating equality amongst all; and engendering ownership and self reliance. (Government of Uganda; Haley and Naidu, 2009)

China's aid to Africa including Uganda constitutes monetary and non-monetary aid. The monetary component comprises grants and concessional loans while the non-monetary provision includes debt relief<sup>6</sup>; free and low cost technical assistance; access to scholarships and training programmes; tariff exemptions; and gifts of buildings, equipment and various capital goods. Loans from China are based on requests from recipient governments that involve discussions with the Chinese government and are normally aligned with the recipient countries' national development priorities.<sup>7</sup> (Haley and Naidu, 2009)

China's aid is a challenge to the *status quo*, China being a non-DAC donor (Development Assistance Committee of the OECD or Organization for Economic Cooperation and Development) and coming in at a time when the G8's commitment of doubling aid to Africa to US\$25 billion by 2010 and *make poverty history campaign* appears to be failing. African countries find Chinese aid attractive because: it is considered as an opportunity to understand the Chinese development model which has to a large extent addressed poverty and accomplished national development plans; it is not preoccupied with setting high governance benchmarks that could undermine the delivery of aid, prolong the implementation of projects and weaken development; procedures for aid acquisition are not complicated; and aid is structured to provide concessions and infrastructure reconstruction. Although all these look good, African countries need to take note that this aid is in some way provided on the principle of aid for resource security. In addition to this, the Chinese aid approach undermines important governance and democratic reform initiatives by offering a *no strings attached* approach. (Haley and Naidu, 2009)

China admits that through aid projects in Africa, it has received more business opportunities in terms of Chinese companies getting involved in contractual construction and trade projects with bilateral trade growing from US\$6.5 billion in 1999 to US\$73 billion in 2007. This however ironically supports the assertion of sharp international criticisms that Chinese 'assistance' to Africa is part of the broader 21<sup>st</sup> century scramble for Africa's resources. It is also claimed by critics that this is the reason why China makes heavy investments in infrastructure in Africa. A recent World Bank (WB) study assessing China's infrastructure investments in Africa reveals that investment grew sharply from just US\$1 billion in 2001-2003 to US\$1.5 billion in 2004-2005 and to US\$7 billion in 2006. Skeptics strongly relate China's oil loans to Angola during 2004 and the US\$9 billion mineral loan to the Democratic Republic of Congo (DRC) during the same period to their assertion.<sup>8</sup> (Wang, J.E, 2007; Foster, Butterfield, Chen, and Pushak, N., 2008)

Cooperation between Uganda and China has existed since 1962. Some landmark events include: Uganda's support to China in 1971 at the 26<sup>th</sup> General Assembly of the United Nations (UN) for China's restoration at the UN; Uganda supported China's stance at the UN Human Rights Commission in 1996 and 1999; and Uganda's support for China's bill seeking to maintain and observe the Anti-Ballistic Missile Treaty in the UN in the year 2000.<sup>9</sup> (Government of Uganda, 2008, 2007, 2006; ug2@mofcom.gov.cn)

China-Uganda development cooperation is premised on common political history, revolutionary leadership, political exchanges, bilateral consultations, common positions in international fora, and a shared vision of peace,

cooperation, development and friendship for mutual benefit. It has in past years comprised: infrastructure support under which a government complex worth US\$20 million has been constructed; enhancement in the potential for Uganda to produce cement from 350,000 to 830,000 tons a year via a giant Chinese cement company called Lafarge, which awarded the US\$105 million turn-key contract to China's CBMI Construction and the construction of Mandela National Stadium; debt cancellation for Uganda to the tune of US\$17 million; information technology and communications technical assistance and equipment to Uganda through Xinhua News Agency, a Chinese government media company to cover CHOGM in 2007; military science expertise to the Uganda National Army; agricultural sector support in the establishment of large-scale rice plantations, i.e. Tilda and Doho Rice Scheme; food industry support through provision of methane-generating pits at the Kampala Ice plant; and provision of equipment at the Porcelain Research Center. (Uganda Government; ug2@mofcom.gov.cn)

In the area of FDI, China is ranked among the top 10 countries that have invested in Uganda since 1991.<sup>10</sup> The Chinese government as a matter of policy supports Chinese enterprises to invest in the business sector of Uganda and provides preferential loans and buyer credits to Chinese entrepreneurs interested in investing in Uganda. On the other hand, the Chinese government has in principle encouraged Ugandan entrepreneurs to invest in China as a way of closing trade gaps and is in the process of establishing an agreement on Bilateral Facilitation and Protection of Investment and the Agreement on Avoidance of Double Taxation with African Countries.<sup>11</sup> (Uganda Investment Authority (UIA), 2007)

The Chinese government has a deliberate policy to build the competitive strengths of Uganda by facilitating information sharing and cooperation with Uganda in resources areas. Chinese cooperation agreements provide for identification and support to Chinese enterprises willing and able to help develop and exploit Uganda's resources, with a view of translating advantages in resources to competitive strength and promoting realization of sustainable growth and development. (Government of Uganda, 2008, 2007, 2006; ug2@mofcom.gov.cn)

In the area of commerce and trade, Chinese companies have over the years directly participated in the traditional business sector. Imports from China have grown from US\$70 million in 2003 to over US\$150 million in 2008 while exports have grown from US\$0.8 million in 2003 to over US\$7 million in 2008. China's main exports to Uganda were recorded as mechanical and electrical equipment, textiles, garments, pharmaceuticals, porcelain, enamel products, and footwear while imports from Uganda comprised of coffee and plastics. Under the Sino-Africa Cooperation Forum, China has provided market access instruments like the exemption of tariffs on 25 products including coffee<sup>12</sup> imported from underdeveloped African countries.<sup>13</sup> (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

From an overall African perspective, trade with China ushered in a small trade surplus averaging about US\$2 billion per annum since 2004. Africa's terms of trade in relation to China improved by over 70% due to rising world prices for oil and minerals exported to China in the face of stagnant or falling prices of manufactured goods imported from China. Total merchandise exports to China increased

about six-fold from US\$4.5 billion in 2000 to over US\$28.8 billion in 2008. China is now Africa's 3<sup>rd</sup> largest export market, after the US and the European Union (EU), accounting for 16% of Africa's total exports. Meanwhile, imports from China remained small at 4% of total imports. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

The share of China's import trade across SSA varies from less than 1% for Cameroon, Uganda, Mauritius, Kenya and Ghana to over 10% for Zambia and Ethiopia, and over 30% in the case of Angola, Congo and Sudan. Africa's aggregate imports from China increased four-fold from US\$6.5 billion in 2000 to over US\$26.7 billion in 2008. Africa's imports from China are dominated by manufactured products, such that machinery and transport equipment comprise 97.9% of Chinese imports in Ethiopia; 20% in Mauritius; 24.9% in Ghana; 29.3% in Sudan; 39.2% in Madagascar; 59% in Gambia; 21.8% in Tanzania; 30.6% in Nigeria; and 35.5% in Cameroon. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; Wang, 2007; www.chinaview.com)

There is strong indication that Chinese-Africa development cooperation is bound to continue for some time to come. The most recent commitments were made in November 2009 when Chinese Premier Wen Jiabao at the Maritim Sharm el Sheikh International Congress Centre in Egypt announced his government's eight-measure programme aimed at pushing forward China-Africa cooperation. He was attending the fourth ministerial meeting of the Forum on China-Africa Cooperation (FOCAC) whose main agenda was to review the implementation of the follow-up activities of the FOCAC Beijing

Summit and the 3<sup>rd</sup> ministerial conference and explore new initiatives and measures on the way toward Sino-African cooperation in areas of priority. (Foster, Butterfield, Chen and Pushak, 2008; Engineering News, 2008; www.statehouse.go.ug; Wang, 2007; www.chinaview.com)

The measures include: Establishment of a China-Africa partnership in addressing climate change; Enhancing cooperation with Africa in science and technology; Building financing capacities through provision of US\$10 billion dollars in concessionary loans to African countries; Supporting Chinese financial institutions in setting up a special loan scheme of US\$1 billion for small-and medium-sized African businesses; Market access for African exports through a zero-tariff regime for 95% of the products from the least developed African countries and having diplomatic relations with China commencing with 60% of products during 2010; Promoting advancements in agriculture; Improvement of health care; Human resources development; and Enhancing cultural exchanges.<sup>14</sup> (Foster, Butterfield, Chen and Pushak, 2008; www.statehouse.go.ug; Government of Uganda; Engineering News, 2008; Wang, 2007; www.chinaview.com)

In more specific terms for Uganda, the Chinese government pledged to: Build a toll road from Entebbe International Airport to the capital city Kampala; Provide concessionary loans from Exim Bank; and Encourage Chinese investments in Uganda's energy sector, infrastructure development, agro-processing, and oil refinery. (Foster, Butterfield, Chen and Pushak, 2008; www.statehouse.go.ug; Government of Uganda; Engineering News, 2008; Wang, 2007; www.chinaview.com)

## Challenges of China-Africa Development Cooperation

China's key focus is on resource-rich African countries particularly those that have oil, timber, cotton and other high value minerals for instance Angola, Cameroon, Ethiopia, Ghana, South Africa, Tanzania, Zambia, Zimbabwe, Chad, Congo, Nigeria, Sudan, Cameroon, Chad, Cote d'Ivoire, and Mali. Resource-rich African countries maintain favorable bilateral trade balances with China while the others suffer bilateral trade deficits. (Haley and Naidu, 2009)

In light of the above, it is prudent for the resource-rich African countries to plan for the post-resource period after development partners have departed.

Africa's trade gains with China are stressed by lower priced imports from China, which have stifled local production and had implications on growth of local industry, employment and GDP. This has affected South Africa, Zimbabwe, Lesotho, Kenya, Madagascar, Swaziland, Ghana, Cameroon, Mauritius and Nigeria more adversely. These circumstances can lead to de-industrialization.

Trade deficit with China can be addressed by establishing special trade and economic cooperation zones and well-negotiated joint ventures between Africa and Chinese enterprises to help enhance competitiveness of African enterprises.

Opportunities for resource-poor African countries are less conspicuous but could lie in China's economic transition from a labor-intensive and manufacturing economy to a

knowledge-based economy. This implies that poor countries with local cheap labor can develop strategies to attract Chinese manufacturers seeking to take advantage of a lower wage and competent labor force outside China.

It would then be of strategic importance for poor countries to negotiate appropriate partnerships between Chinese and local entrepreneurs to develop and support local entrepreneurs capable of partnering with the Chinese on mutually beneficial terms.

A challenge to small-sized economies is the inability to host minimum-sized modern industries. This can be addressed by a production sharing network approach on a regional basis.

FDIs from China have on the overall reduced gaps in: savings and investment; and technology, knowledge and management. But FDI losses have included limited creation of linkages in local economies; evacuation of raw materials without local value addition; exploitation of local workers for maximum gain; and production of poor quality of products.

Chinese aid does not promote strategic pro-poor development nor does it propose adherence to the African Peer Review Mechanism or participatory governance, accountability and transparency. China has ignored the development of civil society organizations (CSOs) in Uganda which can be instrumental in shaping Uganda's much desired social transformation, and rather emphasizes only building and strengthening economic relations in Uganda. Human rights and funding of CSO activities are not yet on the agenda. Even though the Chinese government has strong and active labor unions, it does

not offer support to Uganda in this regard. In Uganda, the labor laws are specifically spelled out but weakly enforced and labor is grossly exploited and oppressed.

China's aid to Uganda lacks harmonization with other development assistance from other donors and development partners, including those that are locally present in the country. This would have helped not only in streamlining activities for optimum use of resources but also in providing an important avenue for the development effectiveness of aid.

## Challenges of North to South Development Cooperation

North-South development cooperation is indeed advanced in the articulation of the underlying factors determining the rate of development for poor countries. These include human rights, democracy, and a stable macroeconomic framework, to mention but a few. However despite decades of development cooperation, Africa is still heavily donor dependent and without a feasible aid exit strategy in sight. Meanwhile, there is currently international consensus that African countries will not achieve most of the MDGs mainly due to failure of developed countries to honour commitments made at various international conferences.<sup>15</sup>

Further to the above, there exists a gap between donor commitments and actual delivery. For instance, according to an Oxfam International report of 2006 and 2007, European Development Fund (EDF) has since 1975 never disbursed more than 43% of aid promised to ACP countries and in recent years, say from 2000 to 2007, the remittances have fallen to as low as 28%.<sup>16</sup> (Oxfam, 2007)

At this rate, it contradicts comprehension to realise that the promise of G8 leaders to double aid to Africa by 2010 is not likely to be fulfilled when it is common knowledge that in the wake of the international financial and economic crisis, developed countries mobilised over US\$4 trillion in a matter of a few weeks to rescue their economies. (Haley and Naidu, 2009)

Analyzing ODA flows to Africa they comprise emergency relief<sup>17</sup>, humanitarian assistance<sup>18</sup> and debt relief.<sup>19</sup> It should be noted that the real development assistance flowing to Africa is a much smaller component of the ODA flows and that much of the aid over the years has been tied to the purchase of donor country goods and services characterised by ills like procurement of over priced goods and services; obsolete equipment; and inappropriate technology.

Conditioned aid cannot play a key role in stimulating an economy and is instead a burden. Considering the costs of conditionalities like trade liberalisation, privatisation, fiscal austerity and state retrenchment it has been established that costs have by far exceeded any external assistance recorded to have ever flowed into Africa from development partners. Estimates show that conditioned aid costs Africa about US\$1.6 Billion per annum. In a report published by Action Aid in 2005, it was revealed that only 1/3 of the aid promised by OECD countries was real aid while 2/3 returned to donor countries.<sup>20</sup>

A new challenge in more recent years<sup>21</sup> is manifesting itself in an Aid for Trade agenda whose strategy is to transform ODA into an instrument for Trade Liberalisation. The EU, US and multilateral institutions currently rally behind the contention that the solution for Africa is more trade-oriented policies

through free trade agreements in compliance with World Trade Organization (WTO) rules and the implementation of export-led growth strategies. Trade-related policies are becoming a leading factor in determining the direction of aid allocations.

Recollection ought to be made regarding the modus operandi of key trade liberalisation advocates part of whom are OECD countries and who constitute Africa's main donors. These provide subsidies to their food producing sectors six times the magnitude of Aid to poor countries.<sup>22</sup> (UNDP, 2003) It should also be recalled that the flooding of Africa's Markets with cheap subsidised food and other products destroys domestic production and increases dependence on imports which are paid for with new aid from these same countries/institutions.

It should be noted that an outright liberalisation/free trade policy will continue to inflict heavy costs on African countries because they are still net exporters of raw and semi-processed materials which face deteriorating terms of trade on the international market and as such cannot be subjected to free trade.

According to a Christian Aid report (2005)<sup>23</sup>, trade liberalisation is responsible for huge terms of trade losses incurred by African countries and has caused increased dependence on external financing. Trade liberalisation has been proven costly to Africa and is estimated to have cost African countries a staggering US\$272 Billion over a period of 20 years.<sup>24</sup> According to an UNCTAD Study (2003)<sup>25</sup>, the purchasing power of African Country exports to manufactured goods declined by 37% between 1980 and 1990 while real commodity prices excluding oil fell by more than 45% during the same period and by 25% between 1997 and 2001. With trade

liberalisation, Africa's share of exports and imports continue to decline dangerously towards extinction meaning that it would be prudent for African countries to advance in value-added manufacturing before embracing free trade Economic Partnership Agreements (EPAs).

### Drivers of Development in Africa

Current drivers of development in Africa are in developing: quality socioeconomic infrastructures; appropriate governance infrastructure; viable regional and international trade cooperation; and reliable value addition agricultural production systems at community level.

### Conclusion and Recommendations

On the overall, China-Africa development cooperation is a challenge to traditional aid relations and has setup landmarks in Africa's physical and economic infrastructure but does not necessarily exhibit a new form of behavior. The new actors mimic the behavior of traditional donors – in applying similar methods of privileging their own corporates when it comes to projects; in tying export credits to the use of services and goods from donor countries; and in bringing in large teams of consultants to advise recipients on programs.

It would be a mistake on the part of African countries to expect China to cease existence as a sovereign state with national interests. In the light of this factor, Africa has to develop its own set of 'aid conditions' to help promote a South-South partnership that will achieve the much

desired sustainable growth and positive social transformation.

The shortcomings of South-South development cooperation (SSDC) and North-South Development Cooperation (NSDC) manifest as weaknesses which originate from the failure of development partners to get an in-depth understanding of the key socioeconomic development drivers. These drivers would otherwise be able to achieve real social transformation – i.e. substantial improvements in the living standards of the common people – hence questioning the core objective of the forms of development cooperation.

Furthermore, while human rights, democracy, and gender and community empowerment, are priority agenda items for NSDC they are not priority items for SSDC – even as neither promise to deliver real development.

African countries should play a leading role in asserting themselves as equal partners in development using their welfare as standards. Development cooperation should have substantial net gains for Africa including positively transforming the livelihoods and standards of the people. It is important for Africa to take the initiative and learn from economic models like that of China which has to a large extent transformed lives of communities in China. Africa has to be alert when negotiating trade agreements so that the frameworks adopted are feasible for Africa. On the priority agenda items, the need for appropriate technology transfer cannot be downplayed since errors in technology transfer are very costly to the recipient country.

**Edward Ssenyange** is a policy analyst and socioeconomic researcher at Uganda Debt Network, a pro-poor NGO in Uganda, and has a long experience in reviewing government economic policies and empowering communities for social accountability in Uganda.

## Endnotes

- <sup>1</sup> Haley Herman and Naidu Sanusha (2009); *Africa's New Development Partners: China and India – Challenging the Status Quo*; published by Pambazuka press; En.wikipedia.org/wiki/economy\_of\_China.
- <sup>2</sup> IMF (2009), *World Economic and Financial Surveys, Regional Economic Outlook: Sub-Saharan Africa*. Washington DC; UNCTAD (2005) *Economic Development in Africa: Doubling Aid: Make the 'Big Push' Work*, New York and Geneva, United Nations; UNCTAD (2003) *Trade and Development Report 2003*, New York and Geneva, United Nations; UNCTAD (2001) *Economic Development in Africa: Performance, Prospects and Policy Issues*, New York and Geneva, United Nations.
- <sup>3</sup> Brautigam, D. (2008) 'China's African aid: transatlantic challenges', German Marshall Fund (GMF) of the United States, Washington DC; Broadman, H. (2007) *Africa's Silk Road: China and India's New Economic Frontier*.
- <sup>4</sup> China encourages Chinese companies to further the *Go Global* Strategy under which 5 special economic zones (SEZ) were announced at the 2006 FOCAC summit. To support this initiative, a fund of US\$5 billion was launched by the Chinese government under the China Africa Development Fund (CADF) administered by the China Development Bank (CDB). The fund will be used to specifically provide lines of credit to Chinese companies to invest in Africa.
- <sup>5</sup> This policy is non-negotiable and as a policy is a requirement to receiving development assistance
- <sup>6</sup> In 2000 to 2003, China cancelled the debts of 31 African countries worth US\$1.4 billion and announced another round of cancellations during 2006 to 2009 to the tune of US\$1.3 billion.
- <sup>7</sup> Haley Herman and Naidu Sanusha, (2009); *Africa's New Development Partners: China and India – Challenging the Status Quo*; published by Pambazuka press.
- <sup>8</sup> Wang, J.E, 2007; 'What drives China's growing role in Africa?', IMF Working Paper WP/07/211, August, Washington DC, IMF; Foster, V., Butterfield, W., Chen, C. and Pushak, N. 2008; *Building Bridges: China's growing role as infrastructure financier for Sub-Saharan Africa*'.
- <sup>9</sup> Government of Uganda 2008, 2007, 2006, *Development Cooperation, 2005/06 Report*, Ministry of Finance Planning and Economic Development, Kampala Uganda.
- <sup>10</sup> Chinese FDI in Uganda is rated at 26% of total FDI.
- <sup>11</sup> Uganda Investment Authority, (UIA), *Annual Summary of Totals of Licensed Chinese investments, 1991 to June 2007*.
- <sup>12</sup> Coffee is one of Uganda's key exports to China.
- <sup>13</sup> Engineering News (2008) 'China Leads new financiers in Africa – World Bank', Reuters, 11<sup>th</sup> July.
- <sup>14</sup> Government of Uganda unpublished reports and State House Website.
- <sup>15</sup> The most recent being the Monterrey (Mexico) Consensus of 2002, Paris Declaration of 2005 and Accra Agenda of Action (Ghana) of 2008.
- <sup>16</sup> Oxfam International (2007) 'The World is still Waiting'. *Broken G8 Promises are Costing Millions of Lives*, Oxfam Briefing Paper, London, May.
- <sup>17</sup> In the case of natural disasters like floods and droughts
- <sup>18</sup> In the case of refugees and displaced persons.
- <sup>19</sup> Within the Highly Indebted Poor Countries (HIPC) Initiative and Multilateral Donor Relief Initiative (MDRI).
- <sup>20</sup> Action Aid (2005) *Real Aid: An Agenda for Making Aid Work*, London, Action Aid

## The Reality of Aid

- <sup>21</sup> Which is a feature of both North to South Development Cooperation (NSDC) and South to South Development Cooperation (SSDC)
- <sup>22</sup> UNDP (2003) Making Global Trade Work for the Poor, London, EarthScan Publications.
- <sup>23</sup> Christian Aid (2005) The Economics of Failure: The Real Costs of “Free Trade” for Poor Countries, London, Christian Aid.
- <sup>24</sup> 20 years from the beginning of the 1980s to the end of the 1990s
- <sup>25</sup> UNCTAD (2003) Trade and Development Report 2003, New York and Geneva, United Nations.

# India: Transiting to a Global Donor

C. R. Bijoy

*Campaign for Survival and Dignity*

India is home to about a third of the world's poor and has nearly a sixth of the world's population. Averaging 7% growth, it has marched ahead to become the world's fourth largest economy after the United States (US), China and Japan. It has become a net exporter of capital. Its information and communication technology industry is a globally recognized leader. Although about 250 million still live on less than a dollar a day, overall poverty has officially declined from 40 to 25 percent, average life expectancy has increased to 63 years, and India hopes to halve the proportion of its population living in extreme poverty by 2015 in line with the United Nations (UN) Millennium Development Goals (MDGs).

Between 1951 and 1992, India received US\$55 billion in foreign aid, becoming the world's largest recipient (although when translated into per capita terms it appears much less reliant on aid). From being one of the world's largest recipient of foreign aid in the mid-1980s, India has become a net donor. Foreign aid constitutes less than 0.3% of its gross domestic product (GDP). Multilateral aid is around US\$0.6 million per year while net flows to India dipped to just US\$21 million in 2004. It became a net creditor in the International Monetary Fund (IMF). In 2008 it allocated about US\$547 million to aid-related activities while approving US\$2.96 billion in Lines of Credits (LoCs) mostly to Sub-Saharan Africa (SSA).

## The Rise of India

India emerged as a big economy with the phenomenon of the newly industrializing countries

of Asia. In 2007-2008, its real GDP (GDP taking inflation into account) registered a robust growth of 9%, with manufacturing and the services sectors boosting overall growth. However, the Indian economy is estimated to have slowed down in 2009 due to the global economic crisis. At any rate, GDP per capita in 2007-2008 is high at US\$1,064.10 while inflation rate remains in check at 4.7 percent. (See **Table 1**)

India's macroeconomic outlook remains robust despite the global recession. Trade remains buoyant and, according to the Ministry of Commerce and Industry, the country is expected to achieve a target of US\$175 billion in exports in 2009 even in the face of slowing global trade. The Government of India is positive that the currency will appreciate modestly, inflation will be subdued, and economic growth will be stronger than in most other countries.

India has since independence supported nationalist struggles in Africa and Asia, playing a key role in the Non-Aligned Movement (NAM), and promoted South-South solidarity and self-determination. The end of the Cold War, India's post-1991 economic growth and its nuclear tests in 1998 have seen India assert itself to become a key nation amongst G77 nations in the various institutions of global governance such as the UN, especially in its Security Council, the World Trade Organisation (WTO) and the IMF.

While aspiring to be a regional power in competition with China, India is an aspirant to membership in the UN Security Council. It has been a keen participant in multilateral groupings

**Table 1. India Economic Indicators, 2003-04 to 2008-09**

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
GDP (at current prices, US\$ bn)	599.4	700.9	808.7	916.4	1170.5	1,217.1
GDP Growth (at constant prices, %)	8.5	7.5	9.5	9.7	9.0	7.1
Inflation rate (WPI, avg. %)	5.5	6.5	4.4	5.4	4.7	3.36 (Feb 14)
Gross Fiscal Deficit (% of GDP)	4.5	4.0	4.1	3.5	2.7	6.0
Exchange Rate (Rs/US\$, avg.)	46.0	44.9	44.3	45.3	40.2	50.41 (Feb 26)
Exchange Rate (Rs/Euro, avg.)	54.0	56.5	53.9	58.1	57.0	64.03 (Feb 26)
Exports (US\$ bn)	63.8	83.5	103.1	126.3	162.9	132.0 (Apr-Dec)
<i>% change</i>	<i>21.1</i>	<i>30.9</i>	<i>23.4</i>	<i>22.5</i>	<i>29.0</i>	<i>17.1</i>
Imports (US\$ bn)	78.1	111.5	149.2	185.6	251.4	225.8 (Apr-Dec)
<i>% change</i>	<i>27.3</i>	<i>42.7</i>	<i>33.8</i>	<i>24.4</i>	<i>35.5</i>	<i>31.5</i>
Trade Balance (US \$ bn)	-14.3	-28.0	-46.1	-59.3	-88.5	-93.8 (Apr-Dec)
Current Account Balance (US\$ bn)	14.1	-2.5	-9.9	-9.6	-17.0	-22.3 (Apr-Sep)
<i>% of GDP</i>	<i>2.3</i>	<i>-0.4</i>	<i>-1.2</i>	<i>-1.1</i>	<i>-1.5</i>	<i>-</i>
Forex Reserves (US\$ bn)	113.0	141.5	151.6	199.2	309.7	249.7 (Feb 13,'09)
External Debt (US\$ bn)	111.6	133.0	138.1	171.4	224.8	222.6 (Apr-Sep)
External Debt to GDP Ratio (%)	17.8	18.6	17.2	18.0	19.1	-
Short Term Debt / Total Debt (%)	4.0	13.3	14.1	15.6	20.9	22.5 (Apr-Sep)
Foreign Investment Inflows (US\$ bn)	15.7	15.4	21.5	29.8	63.8	13.4 (Apr-Dec)

such as the Commonwealth, G-77, G-20, NAM, and numerous other developing country blocs and development aid consortiums.

It has been a vocal votary of strengthening the UN. It has played a major role in WTO negotiations. It is already among the largest contributors to the new UN Democracy Fund. It has also lobbied to join the Association of South East Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), and the Shanghai Cooperation Council. It has played an active role in the formation of the India-Brazil-South Africa (IBSA) Dialogue Forum and the related IBSA Fund for Alleviation of Poverty and Hunger managed by the UN Development Programme (UNDP). The IBSA Fund is intended to bring together experience, expertise, and resources to deal with development challenges. India is also working towards a South Asian Regional Forum. All these are part of its assertion and growing importance internationally and leverage for a greater strategic role.

India is also emerging as a leader in South-South cooperation. India co-founded the Global Network of Exim Banks and Development Finance Institutions (G-NEXID) in 2006. It promoted the setting up of the Development Cooperation Forum (DCF) under the aegis of the UN Economic and Social Council (ECOSOC) in 2007. In 2008 its voting share in the IMF increased slightly. It is one of the largest contributors to the Commonwealth Fund for Technical Co-operation (CFTC) that provides developmental assistance in the form of workshops and technical advisors for short and long term assignments. It offers capacity building to member states by providing relevant technical advice through the provision of manuals, model legislation and codes of best practices. India is also a major contributor to the

SAARC Development Fund to promote actions on social, economic and infrastructure.

In 2003, India became a net creditor to the IMF and the World Food Program after having been a borrower from these organizations for years. It provided 205 million in special drawing rights (SDRs, equivalent to some US\$308 million) to the IMF's Financial Transactions Plan followed by an additional SDR 235 million in February 2005 besides contributing to the IMF's Emergency Assistance Fund which supports recovery from natural disasters and armed conflicts.

India laid out its new policy in June 2003. It would not accept any tied aid in the future. Bilateral aid would be accepted only from five countries, namely the United Kingdom (UK), the US, Russia, Germany and Japan in addition to the European Union (EU). Three of them were members of the UN Security Council with the other three potential future permanent members. But later in September 2004, donors such as Canada, France, Italy and the Scandinavian countries were reinstated. The bilateral cooperation with other donors would not be renewed after completion of then ongoing programmes though they may channel their assistance through non-government organizations (NGOs) and multilateral agencies.

In 2003 India decided to repay some of its bilateral debt to all but Japan, Germany, the US and France. The Ministry of Finance announced that it would repay bilateral credit owed to 15 countries, namely the Netherlands, Canada, Russian Federation, Italy, Sweden, Belgium, Denmark, Kuwait, Austria, Switzerland, Spain, Australia, Saudi Arabia and the Czech and Slovak Republics involving US\$1.6 billion. This followed the pre-payment of US\$2.8 billion of

more expensive debt owed to the World Bank (WB) and Asian Development Bank (ADB) earlier in 2002-2003. Its remaining bilateral debt owed to Germany, Japan, the US and France was US\$12.7 billion. Its burgeoning foreign reserves standing at US\$118 billion in July 2004 enabled the bilateral debt pre-payment.

Another 22 bilateral donors were asked to channel assistance funds through NGOs, UN agencies or other multilateral institutions. India cancelled US\$24 million worth of debt of seven Heavily Indebted Poor Countries (HIPC)s: Ghana, Mozambique, Tanzania, Uganda, Zambia, Guyana and Nicaragua. India increased its contribution to the UN from Rs185.9 million in 2002 to Rs279.9 million in 2004.

Besides dispensing with assistance from many bilateral donors, the government decided to establish its own overseas development aid ties under the India Development Initiative (IDI). Established under the Ministry of Finance, the IDI was also to leverage and promote strategic economic interests abroad. This was announced in the 2003-04 budget speech of the Finance Minister of the right-wing government. Under this, India was to borrow in the international capital markets and then on-lend on concessional terms to less credit-worthy countries in Sub-Saharan Africa and elsewhere. At least 85% of the value of such loans was to be tied to Indian procurement.

### Official Development Assistance

India's overseas development assistance (ODA) is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government. Details are not easily available since India does

not report its aid flows to the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC), the donors' club established within the OECD. India along with China, Saudi Arabia, the United Arab Emirates, Venezuela, Korea, Kuwait and Brazil do not belong to the OECD. At any rate, India's development assistance stretches far and wide from Central Asia to the Pacific islands to Southeast Asia. The countries receiving substantial amounts of aid include Senegal, Tajikistan, Ethiopia, Vietnam, and Kampuchea.

In 2004, India lent more than US\$400 million to Brazil, Indonesia and Burundi under the IMF Financial Transaction Plan. In 2007-2008, Indian development assistance under the MEA's jurisdiction reached US\$420 million, 20% higher than the previous year's figure.

Budget allocation to aid-related activities as grants, contributions to international organisations and international financial institutions (IFIs), direct loans, and subsidies for preferential bilateral loans increased in 2008 to approximately US\$547 million (Rs26.7 billion). (See **Table 2**) The approved LoCs through the Exim Bank of US\$704 million in 2007-08, brought the total outstanding commitments to US\$2.96 billion by March 2008.

Infrastructure, health, and education are the focuses of Indian development assistance in South Asia whereas it is mostly technical training of civil servants and managers working in state-owned enterprises and government-run institutions such as hospitals, railways, and universities in Africa. While regional leadership and strategic goals are clearly the aim of India's assistance to South Asian nations, a complementary set of commercial and political interests are clearly evident in its assistance to Africa.

**Table 2. Budgetary Allocations for Aid-related Finance (in INR millions)**

	1998-09	2008-09
Foreign Grants	5,604	192,643
Foreign Loans	2,730	1,386
Total grants and loans	8,334	2,064,950
of which MEA budget for ITEC		650
Africa	110	800
Afghanistan		4,450
Bhutan	4,500	8,184
Nepal	700	1,400
Myanmar	510	560
Contributions to IOs <sup>7</sup>	1,621	3,531
Allocations to IFIs		171
of which, AfDB		144
Exim Bank interest equalization subsidy		2,320
Total estimated foreign aid	9,955	266,712
Exim Bank loans and guarantees	21,013	350,039

## Prioritizing Neighbors

India's ODA has been focused primarily on its immediate neighbourhood, namely Bhutan, Nepal and Afghanistan. The aid to Bhutan and Nepal has been mainly in infrastructure, education, and health, with infrastructure such as hydroelectric projects holding the top position. Economic and political concerns, rather than direct humanitarian assistance, have been the prime motive, with the assistance categorized as economic cooperation rather than aid. (See **Table 3**)

The non-plan grant includes humanitarian along with technical and economic assistance.

India chooses which projects in the Bhutanese government's five-year plans to fund with the consideration of course of the direct benefits such projects shall bring to India. For instance, the power from hydroelectric projects as the Tala and the Punatsangchu will be sold to India.

Meanwhile, India's assistance to Nepal is considered a part of a deeper and mutually beneficial bilateral relationship, both economically and politically, as both countries have historic connections. For instance, there are over a hundred thousand ex-Indian army Gurkhas residing in the Terai region of southern Nepal which is historically and geographically connected to the adjoining Indian state of Bihar. Many Indian-funded projects such as roads are located in this region.

Meanwhile, India also provides ODA to Myanmar, which goes to supporting trade with the military junta despite both internal and global criticisms. This has been perceived as India's growing interest in Southeast Asia, with Myanmar as the land link for access to the market as well as to natural gas in Myanmar particularly the Shwe Gas Project.

India and Afghanistan also have historic links. Many Indian state-owned companies, for instance, had worked in Afghanistan in the 1970s and 1980s. ODA to Afghanistan was revived after the fall of Taliban and Afghanistan was the second largest recipient of Indian ODA during the 1998-1999, and is poised now to move to the top slot.

India has been one of Afghanistan's top five donors with commitments of over US\$1 billion since 2002. India donated 1 million metric tons of wheat in 2002, which was not only the single

**Table 3. Non-plan grants and loans from the Ministry of External Affairs (Rs million)**

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Bangladesh	310	110	300	850	1,140	900	400	50
Bhutan	1,650	2,000	1,900	2,000	2,100	2,310	2,420	2,450
Nepal	750	700	650	650	1,090	1,070	920	590
Africa	100	110	110	70	50	50	90	1,050
Maldives	130	80	100	100	90	90	80	80
Myanmar	200	510	350	235	210	180	90	100
Sri Lanka	60	80	90	145	160	180	200	150
Other developing countries	450	500	600	550	560	1,170	1,710	2,490
<b>Total (incl. Others)</b>	<b>3,650</b>	<b>4,090</b>	<b>4,100</b>	<b>4,620</b>	<b>5,430</b>	<b>6,010</b>	<b>6,000</b>	<b>5,750</b>

Source: Ministry of Finance

Note: A portion of the 'other developing countries' category relates to grants and loans to Afghanistan.

largest pledge in the history of the UN World Food Programme (WFP)<sup>1</sup>, but also propelled India to the rank of a donor.

India and Sri Lanka signed a free trade agreement (FTA) on December 28, 1998, which became operational from 2003, covering 5,112 items for duty free or preferential treatment. Consequently, the value of India's exports to Sri Lanka increased from US\$640 million in 2000-2001 to US\$3.3 billion in 2008. Indian investment in Sri Lanka also increased to over US\$8.5 million during the period.

India also extended assistance to Sri Lanka for long-term reconstruction following disasters such as floods in 2003, besides emergency equipment for rescue operations. India is believed to have provided logistics and intelligence support, besides patrolling of the seas, in the Sri Lankan battle against LTTE. The humanitarian assistance as of November 2009 consists of

bilateral assistance of US\$104,167 and US\$2.77 million to UNHCR for provision of non-food relief items to the internally displaced persons (IDPs) and returnees.

Finally, India assisted Association of Southeast Asian Nations (ASEAN) countries during the 1980s, such as Vietnam to whom a large amount of aid was given. Presently it agrees to assist the setting up of centres for English Language Training (ELT) in Cambodia, Laos, Myanmar and Vietnam. There are agricultural projects through IBSA in Laos. Joint agricultural research in the fields of processed food safety, quality standard, post-harvest technologies is being assisted in cooperation with Mekong countries. An Advanced Resource Centre in information technology was set up in Hanoi with India's contribution in 2005. An India-Mekong Biotechnology Cooperation Network with Indian support has been set up for implementing digital solidarity mechanism.

## Assistance to Africa

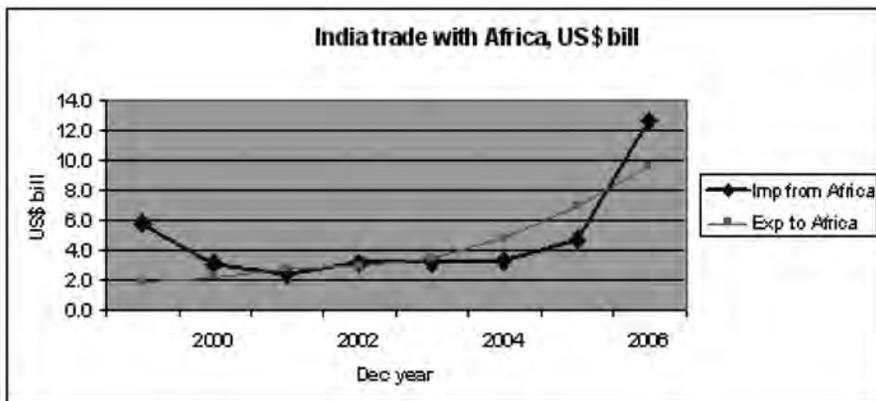
India cooperates with others primarily through South-South initiatives such as the NAM and the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC). Its cooperation with Seychelles, Madagascar, South Africa, Tanzania, Kenya and Mozambique has further increased in recent years, developing linkages with Southern African Development Community (SADC) and the Common Market of Eastern and Southern Africa (Comesa).

India established its first listening post on foreign soil in northern Madagascar in July 2007. There is increasing defence cooperation including combined air exercise, combined naval drills, training, and supply of arms with South Africa, Tanzania, Mozambique, Seychelles, and Madagascar. Blocking of Pakistan's membership in the IOR-ARC and China's access to IBSA is part of India's increasing political, economic and security interests in the region. While Kenya and Tanzania are among the more important trade and investment partners, South Africa dominated the non-oil exports.

The government of India is keen to emphasize the benefits that accrue to India with its external assistance. The boosting of India's business is showcased as a result of such assistance. Companies such as Tata Motors (US\$19 million World Bank tender to provide 500 buses to Senbus, a transport company in Senegal) the state-owned RITES (sales of locomotives to Sudan Railways and other involvements in Tanzania, Ethiopia and Uganda), and oil companies such as ONGC Videsh (oil assets in Sudan costing US\$750 million) and Indian Oil Corporation Ltd. (IOC) are cited.

India's trade with Africa, excluding oil, surged from US\$967 million in 1991 to more than US\$10 billion in 2007. (See **Chart 1**) During the period April 2006-January 2007, its trade with the continent was estimated at US\$19.3 billion. Its exports to Africa however were only 7% of its total exports in 2006 worth US\$103 billion. Exports to Africa consist mainly of manufactured items, chemical products, and machinery and transport equipment. Major markets are South Africa with exports totaling US\$2 billion in 2006, followed by Kenya with US\$1.3 billion, Nigeria at US\$936

**Chart 1. India Trade with Africa, 1999-2006 (US\$ Billion)**



Source: World Trade Atlas

million, Egypt at US\$739 million, and Mauritius with US\$539 million. The largest imports in 2006 were from Nigeria totalling US\$5.6 billion followed by South Africa with US\$2.5 billion, Egypt at US\$1.4 billion, Algeria with US\$532 million and Morocco at US\$517 million. Indian imports are mainly primary goods (extractive goods) viz. oil, gold, phosphate chemicals, nuts, and copper ores. Still, this trade is negligible when compared to China's US\$55 billion trade.

Economic and political foreign policy is obvious and openly acknowledged in present-day Indian-East Africa relations. Seventy percent of the oil in Africa is extracted from West Africa's Gulf of Guinea, traditionally not a close strategic or economic regional partner of India. Eight resource-rich (especially oil) Francophone countries, namely Burkina Faso, Equatorial Guinea, Chad, Guinea-Bissau, Ghana, Mali, Ivory Coast, and Senegal together with India formed the Techno-Economic Approach for Africa-India Movement (TEAM-9). India extended US\$500 million credit facility from Exim Bank in 2004 to this initiative to improve relations considering their oil and mineral wealth. TEAM-9 targets agricultural activities, infrastructural improvements, and purchase of Indian manufactured equipment. India extended another US\$200 million LoC to the New Partnership for Africa's Development (NEPAD) under the India-Africa Fund designed to promote African economic integration.

India's US\$2 billion worth of grants and LoCs to African countries over the past five years have been for projects as varied as IT training centre (Lesotho), rural electrification (Mozambique, Ethiopia), construction of the National Assembly complex (Ghana), railways (Senegal, Mali), military barracks (Sierra Leone); and cement factory (Congo). It supports the Afro-Asian Rural Development Organisation (AARDO) formed by China, Egypt, India, Japan, Republic of Korea, Malaysia, Nigeria, and the Philippines. It offered US\$600,000 during 2009-2011 for capacity building of AARDO member countries through training in the institutions of excellence in India and exposure visits to successful and innovative models of rural development and poverty alleviation.

Private investments by Indian companies have also progressed alongside these. Between 1995 and 2005, ONGC increased its holdings from two to 14 with investments in Sudan, Nigeria, Ivory Coast, Libya, Egypt, and Gabon. In 2005 OVL entered into a joint venture with Mittal Steel to form ONGC Mittal Energy (OMEL), which entered into a US\$6 billion infrastructure deal with Nigeria in exchange for two offshore acreages. ONGC/OVL has invested in Nigeria, Sudan, Egypt, Libya, Ivory Coast, Côte d'Ivoire, and Gabon. The Essar Group is interested in oil and gas exploration in Madagascar. The IOC began to operate in Kenya, Tanzania and Mozambique in 2007. India's largest public-sector oil company, ONGC invested US\$10 million to build a railroad in Nigeria.

Following is the current Indian aid to Africa:

<b>Recipient</b>	<b>Sizeable Indian aid activities in Africa</b>
Angola	US\$40 million credit line for railway reconstruction (tied) and US\$5 million Exim credit for purchase of agricultural equipment in India
Benin	Donation of 60 tractors
Burkina Faso	US\$31 million TEAM-9 credit for agricultural equipment
Cameroon	Donation of 60 tractors
Djibouti	US\$1 million for food relief
Gambia	US\$7 million Exim credit for purchase of tractors and assistance to set up a tractor assembly unit in Gambia
Ghana	US\$15 million Exim credit; US\$27 million Exim concessional loan for rural electrification and support to non-traditional exports; and US\$2 million for technical assistance to ICT centre
Ivory Coast	US\$27 million TEAM-9 credit for 400 Tata buses
Lesotho	US\$5 million. Exim credit for agriculturally related activities
Mauritius	US\$100 million. Exim credit for ICT development; US\$7.5 million donation for ICT; and US\$10 million Exim credit for sewerage
Niger	US\$17 million TEAM-9 credit for purchase of transport equipment in India
Senegal	US\$48 million TEAM-9 credit for irrigation system, ICT development and a steel manufacturing site; US\$18 million Exim credit for 350 Tata buses; and US\$15 million Exim credit for agricultural equipment
Sierra Leone	US\$800,000 donation for construction of 400 barracks (tied)
Tanzania	Establishment of two cashew nut processing companies, and US\$20 million bilateral debt forgiveness
Togo	US\$10 million Exim credit to finance imports from India
Uganda	US\$1.7 million humanitarian aid; and US\$5 million bilateral debt forgiveness
Zambia	US\$100,000 donation for ARV medicine; US\$10 million Exim credit for ARV medicine; and US\$5 million bilateral debt forgiveness

*Source: Compiled by Peter Kragelund from Indian embassies in Africa to the Ministry of External Affairs (MEA, 2007).*

## Some Trends in Indian Aid

- India's aid is conceived as an important foreign-policy instrument largely for self interest.
- India's development assistance lacks a strict well-defined set of clear objectives, and approach with clear definitions, accounting and monitoring.
- There is the shift from the rather simple imports-exports to a more organized diverse interactions consisting of government support, joint ventures, official lines of credit, and export guarantees. There is an increased emphasis on providing budget support to recipient governments, especially in the form of debt relief. Grants are increasingly being advocated because of growing concern with the debt problems of poor countries and the recognition that many types of aid (particularly in the social sectors) yield returns only in the long term.
- India attaches far less conditionality to its grants and also gives beneficiaries a greater voice in the process. India's assistance is focused on promoting goodwill, long term economic development and promoting influence rather than exporting skilled manpower and repatriating profits. It focused mostly on promoting local capacity. However, there are indications that India is moving from exerting soft to hard power. The goodwill generated could very well get diluted with India emerging as a major donor.
- Assistance given for political or economic purposes can be a highly effective means to improve relations. However, it can become counter-productive if the assistance is wrong.
- The debt cancellation helps many African governments to be able to borrow money on international financial markets.
- A large part of India's development assistance to Africa is more an export subsidy scheme for its surplus goods. The trend is towards catalyzing trade, access to extractive resources and political influence rather than facilitating economic and social development. A large share of the loans provided is not on concessional terms and is tied to the procurement of goods and services in the donor country. While India refuses to accept tied bilateral aid from others, ironically a large proportion of its own loan programmes are tied. This accumulates negative feeling towards the donors.
- Development assistance linked to trade and investment is criticized as new mercantilism. The recipient countries consider this as positive as it offers considerable freedom for economic and commercial partnership. The emerging donors are also becoming 'development partners'.
- India's Africa assistance seems to correlate with African countries with significant Indian diaspora such as Tanzania and Kenya.
- While the DAC donors are moving towards untied financial aid, the majority of the non-DAC aid is becoming tied reducing the overall efficiency of aid. India is also not eager to adopt DAC standards in aid.
- The share of technical cooperation has risen. Technical cooperation per se does not achieve greater self-reliance in the recipient countries. It is a form of assistance largely controlled by the donors. It tends to generate considerable economic benefits for the consulting industry in the donor

country. Most technical cooperation is provided in kind. It takes the form of personnel or administrative costs accruing to donor-appointed agents. The personnel receiving highly technical skills form a

small elite group, often receiving better pay and work conditions that demoralizes local service. Personnel expenditure forms the bulk of the expenditure as high as 40 percent.

**C. R. Bijoy** is an activist-researcher involved with Campaign for Survival and Dignity (a platform of struggle-based mass organisations of Adivasis/Indigenous Peoples and forest dwellers). He lives in Coimbatore, Tamilnadu, India.

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## Endnotes

- <sup>1</sup> WFP provides nutritional support to India for 2.7 million young children, expectant women and nursing mothers, and extra food rations for 815,000 people in low-income tribal areas to bolster their food security.
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# Cuban Health Cooperation in Timor Leste and the South West Pacific

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Tim Anderson  
*Aid Watch-Australia*

## Abstract

Cuban doctors and their large-scale medical training program came to Timor Leste in 2004, then to Kiribati, Nauru, Vanuatu, Tuvalu and the Solomon Islands over 2006-2008. By its size and focus, this 'South-South' program, more than any other, is transforming the health systems of those island nations. Cuba's 'solidarity aid' in health and education is famous in Africa and Latin America, but only more recently spread to the Southwest Pacific. By 2008 there were around 350 Cuban health workers in the region, with 870 East Timorese and more than 100 young Melanesians and Micronesians engaged in medical training.

We may identify several particular benefits in this program. First, the health training is at a well recognised international standard of technical excellence. Second, the program is oriented to the needs of developing countries, focusing on rural, primary and preventive elements, and making more use of human resources than expensive technology. Third, the program is systematic, aiming to build public health systems, and not simply provide project aid or individual training. Fourth, the ethos of training prepares students as public spirited community health workers rather than medical entrepreneurs; this in turn helps reduce the impact of the chronic 'brain drain' or the loss of trained professionals through migration.

Challenges are also posed by this program, for both the developing recipient-country and

aid agencies. In the first instance, there must be a flexible incorporation of and investment in the newly trained doctors, investment in infrastructure, a commitment to ongoing training and to coordination of other health projects and programs. In the second case, aid agencies should note the Cuban commitment to language training and systemic programs, and look for opportunities to articulate with the island nations' newly developed human capacity.

## Main Text

Cuba, a socialist developing country, recently brought a substantial health aid program to the Southwest Pacific. Cuban doctors and a large-scale medical training program came to Timor Leste in 2004, then to Kiribati, Nauru, Vanuatu, Tuvalu and the Solomon Islands, over 2006-2008. By late 2009, more than a thousand young students from Timor Leste and the Southwest Pacific Island nations were studying medicine with Cuban professionals, most of them in Cuba. This 'South-South' program will transform the health systems of the participating island nations. South-South cooperation, an important theme of developing countries in the non-aligned movement (NAM) since the 1960s, means that developing countries can assist each other in capacity building, rather than rely on dependent and asymmetrical relations with the big powers. This report will review the Cuban approach to South-South cooperation and its health aid programs and discuss some wider lessons and challenges.

## Cuban South-South cooperation

The ideas behind Cuban 'aid' - with its emphases on social and international solidarity and on the development of rural health systems - began during the revolution of the late 1950s. The Argentine-Cuban doctor Ernesto 'Che' Guevara, for example, had been influenced by Latin American ideas of 'social medicine' (e.g. Allende 1939) but also by his own experiences throughout the continent. Observing the malnutrition of rural children, he wondered, "What would have occurred if two or three hundred peasants had emerged, let us say by magic, from the university halls? .. [they] would have run to help their brothers" (Guevara 1960). These were ideas he and other Cuban leaders acted on.

Revolutionary Cuba sent doctors to Algeria in 1963, at a time when Cuba itself had a health worker shortage. Cuba's initial aims were to help African independence struggles and assist with 'self-help strategies'. This fraternal approach was valued by many African countries:

"[the] special relationship with Cuba could not be duplicated by any type of cooperation offered by the European powers, China, the Soviet Union or the United States."  
(Grabendorff 1980: 6)

Cuba's solidarity aid was thus linked closely to support for independence and self-determination.

The consolidation of Cuba's own health system eventually led to large numbers of trained health workers as well as health indicators that were at the top of the developing world.<sup>1</sup> Thousands of Cuban doctors were sent to African and Latin American countries, and the country's practical health cooperation became the lead element of its foreign relations.

Analysts have differed over the extent to which Cuban medical aid is an assertion of 'soft power', with some saying it creates a 'symbolic capital' which can be drawn on for material or political benefit (Feinsilver 2006). The author sides with those who suggest that the Cuban medical aid is more deep-rooted and complex. Cuban medical internationalism appears at its root a principled humanitarian project which, at different times, may have diplomatic, trade or political benefits but is not formulated simply to that end (see Kirk and Erisman 2009: 170-183). It is also important to note that the recent wave of health programs has been linked to Cuba's 'battle of ideas' (see Kapcia 2005), a broad program of 'revolutionary morality', designed to build support for decent social programs.

At the South Summit in Havana in the year 2000, Cuba submitted more than half the 120 South-South cooperation projects presented to the Summit. The small island state's capacity to share its modest resources was praised by African leaders and by the United Nations (UN) Secretary-General, Kofi Annan (Gonzales 2000). However, the United States (US), intent on overthrowing the little socialist nation on its doorstep, has consistently opposed all Cuban health programs.<sup>2</sup>

The idea of South-South cooperation expanded in the Latin American and Caribbean region, when in 2004 Cuba and Venezuela created ALBA, the Bolivarian Alternative for the Americas. Literally thousands of Cuban health workers helped build Venezuela's 'Barrio Adentro' (a local clinic-based health system) as an example of what could be achieved through a South-South cooperation "in which the principles of solidarity and complementarity were predominant" (Muntaner et al 2008: 307). The nine-member ALBA is said to be

an “unequivocal path” towards South-South integration (Ronda Varona 2006: 321).

Within developing countries, there has been some hesitance over having some relations with Cuba. The Cuban educational aid in Jamaica and Namibia has been observed to have a common theme of ‘ambivalence’ about accepting Cuban aid because of local professional jealousies and fear of jeopardising relationships with the US. However, Cuban training clearly helps develop self-sufficient education and health capacity and is usually an offer “too good to refuse”. It also has some specific post-colonial advantages. These South-South programs: “arguably demonstrate one approach to the ‘radically new relations’ that are necessary to the decolonization process of building independent capacity and quality in education and other fields ... [they] successfully tackled some of the deepest problems of the colonial aftermath” (Hickling-Hudson 2004: 305-9)

Reciprocal benefits have been noted, in particular, the Cuban teachers gained from the experience of teaching in different cultures and languages. (Hickling-Hudson 2004: 308)

By late 2009, “more than 172,000 Cuban doctors and other professionals” had worked in the country’s international programs. Between 1999 and 2009, Cuba’s medical brigades opened 160 hospitals and 750 health centres and were said to have saved more than two million lives. Further by late 2009, more than 21,000 students were being trained in medicine by the Cubans (*Escambray* 2009). The scale of this program is unparalleled in the world. Dr. Margaret Chan, the director general of the World Health Organization (WHO) said that Cuba’s medical colleges are “a commitment and a contribution to a better training of the health professionals

that the world needs today” (*Escambray* 2009).

Cuba assumes a global shortage of health workers in a world of commodification and privatisation. It also recognises a global shortage of health services in rural areas and a serious ‘brain drain’ (emigration of skilled professionals) affecting developing countries. Some emigration to wealthier countries is inevitable. Cuban doctors themselves, for example, leave the country at a rate of about 2% of total number of practitioners. (Jiménez 2007). In most developing countries the figure is much higher. For example, from the 1980s to the end of the 20<sup>th</sup> century, Ghana lost 60% of its doctors while post-independence Zambia lost over 90% of its locally trained doctors (Kirk and Erisman 2009: 114). The story in the Pacific is only a little better. One study found there were “almost as many” Fijian born doctors in Australia and New Zealand as in Fiji while Australia and New Zealand also had more nurses and midwives from Samoa, Tonga, Fiji and Niue than those working in those island states (Negin 2008).

This emigration might be reduced by the nature and ethos of training. Former Timor Leste Health Minister Dr Rui Araujo observes that Cuban medical training maintains an ethos distinct from that of other much ‘elite’ notions in medical schools. It appeals to the students’ community spirit, and formally briefs students that they are being trained “to serve the public and not trade the services” (Araujo 2008). Such an ethos may help reduce Timor Leste’s ‘medical brain drain’.

## Cuban health programs

Cuba therefore emphasises investment in people, and in developing a public service ethos in its health workers. It is also flexible about how this

is financed. For example, in poorer countries like Timor Leste, the Cuban government pays the salaries of the Cuban doctors. But in wealthier countries like South Africa and Venezuela there is a host government contribution (MEDICC 2008). Cuba itself maintains high levels of education, which for Cubans is free for life. As one Cuban analyst observes: “In the Cuban strategy of creating ... the health system, building human resources has been the most important factor. Human capital development today, in all spheres of the country, is notable; but it is most notable in the health sector” (Rojas Ochoa 2003).

In developing health aid programs, Cuba is able to draw on an experience that closely resembles those of many other developing countries. In the early 1960s, most private doctors had left the country. In the 1990s, with the collapse of its main trading partners, the country suffered serious economic depression. With the US economic blockade since the early 1960s, shortages and higher prices for many imports remain a problem. In other words, Cuba is a country that has had to ‘make do’ with fewer resources, relying on its dedicated professionals, its ‘human capital’. This experience adds to the Cuban understanding of the needs of other developing countries.

In its health aid programs, Cuba follows a common pattern, with some adaptations. First, there is a bilateral agreement between governments, including agreement on the number of Cuban doctors to be deployed and the number of medical scholarships to be offered. This embeds a long-term plan with the aim of replacing the Cuban doctors with graduate students from the host country within 10 years. The individual Cuban doctors work on two-year contracts and are flown home for a holiday in the middle of the contract period. Generally

the host country provides accommodation, food, workplace and a monthly allowance (of perhaps US\$200) while the Cuban government maintains the doctors’ regular salaries (Jiménez 2006; MEDICC 2008). There are other benefits for Cuban doctors, including bonuses when they return home.

In the case of wealthier countries, such as Argentina and South Africa, there is a contribution from the governments to the doctors’ salaries (MEDICC 2008). In the case of Venezuela, there is a commercial agreement between the Venezuelan and Cuban governments for exchange of various goods and services, including health services. In the case of Timor Leste, some aid money was at first used to contribute to the costs of the doctors, but as of 2006 “the Cuban government pays the wages of all its doctors and charges our medical students nothing” (PMC 2006).

Cuban doctors in a host country work under the local department of health effectively as public servants. This is different from ‘project aid’ through companies or non-government organisations (NGOs), which typically operates outside the public sector. While the Cuban Health Department’s preference is for their doctors to go to the rural areas, this depends on the local government’s policy. The Solomon Islands Government, for example, requested and received an initial three specialist doctors and a surgeon for the capital’s hospital (Mamu 2008). In Timor Leste, the 300 Cuban health workers (mostly doctors) were more widely distributed (Klaak 2008). In Timor Leste, as in many parts of Latin America, the approach has been to send doctors to areas where primary care services have been absent, and to have them focus on preventive health, supplemented by clinical medicine (MEDICC 2008).

In the case of countries without strong medical colleges, the local government transports its students to Cuba's colleges, and brings them home for holidays, if they can afford it. In the case of the Solomon Islands students, in a friendly 'South-South' gesture, Iran paid for their transport to Cuba in 2008 and again in 2009 (Solomon Star 2009). In some cases (including in Timor Leste), the Cuban doctors will help create or build the capacity of local medical colleges. All medical students in Cuba are on full scholarships, which include tuition, board, food, other services and a small allowance of US\$4 to US\$5 a month. Some governments (e.g. Timor Leste) pay their students an additional allowance, while others (e.g. Kiribati) do not. Non-Spanish speaking students study Spanish and science in their first year in a 'pre-medical' course. In some countries, including Timor Leste, the in-country health program is supplemented by a literacy program in the local language.

In the 2000s Cuba expanded its medical training network, making use of Venezuelan facilities and helping develop the training capacity of medical colleges in several other countries. This approach made use of small-group learning and computers. Much of the academic side of Cuba's medical course has been digitised. Dr Yiliam Jimenez, Vice-Minister of Health and Director of Cuba's health cooperation programs says: "We are returning to the tutorial method, supplemented by information technologies and other teaching aids, so that students from low-income families can go be educated in classrooms and clinics in their own communities, where their services are so sorely needed" (Reed 2008). From the third year onwards, students attend hospitals or clinics as well as classrooms every day. Such teaching methods are not unique, but the systematic nature and ethos of the training is distinctive.

The key elements of Cuban health programs may be summed up this way. First, there is no doubt about the technical excellence of the training. Cuba's own health outcomes, commendations by the WHO and the US recognition of Cuban medical training testify to this.<sup>3</sup> Second, the programs are developing-country oriented, more labour intensive than capital intensive and with a focus on rural and preventive health. Third, they are systematic programs, aimed at building sustainable health systems – not just projects which deliver some services. Cuban doctors deliver health services at very little cost while local students are being trained. Cuban trainers provide assistance and further training when the new generation of doctors return to their countries to begin practice. Fourth, the public service ethos and large-scale training tend to create socially conscious and dedicated professionals, which may in turn mitigate 'brain drain'.

### Programs in Timor Leste and the South West Pacific

The Cuban program in Timor Leste grew from a meeting between Cuban and East Timorese leaders at the Non-Aligned Summit in Kuala Lumpur in 2003. Some students were sent to Cuba for training at the end of that year and a small group of Cuban doctors arrived in Timor in April 2004 (Medina 2006). Throughout 2005, the numbers of doctors and students increased. After a visit to Havana by Prime Minister Mari Alkatiri, Cuban President Fidel Castro made an offer of one thousand scholarships to Timor Leste, along with a brigade of 300 health workers. President Castro's rationale for the increased offer was to generate a doctor to population ratio of 1:1,000 (Araujo 2007 & 2008). This revised program gave Timor Leste the largest health aid program outside Latin America.

A group of Cuban doctors was attached to the National Hospital of Timor Leste, but the majority of them were sent to the districts and to small clinics at sub-district level, thus starting the core of a rural doctor-centred health service including the practice of house visits (Rigñak 2007). Here they have provided most of the personnel for immunisations, tuberculosis treatment, general treatment, and skilled assistance at childbirth. Between April 2003 and mid-2008, the Cuban Medical Brigade carried out more than 2.7 million consultations. It is estimated that they have saved more than 11,400 lives (CMB 2008; Anderson 2008).

East Timorese students departed for Cuba in waves from 2003 to 2006. In December 2005 a Faculty of Medicine was inaugurated at the National University so that training could take place in Timor (CMB 2008). This university at first operated through groups of students attached to the small groups of doctors posted at each of the hospitals and district health centres (Rigñak 2007). In 2007-2008 they gained access to three classrooms within the National University, with computer facilities. In early 2008 there were almost 700 students studying in Cuba, and another 150 in Timor (Rigñak 2008).

The students in their first two years struggled with the Spanish language, but the teachers were highly regarded (Guimaraes 2007; Marques Sarmiento 2007). Promotion rates were near 100% and reports from the medical trainers were all good (Betancourt Gonzalez 2007; Infante Sanchez 2007; PMC 2006). In September 2009 the first 18 East Timorese students returned home after six years in Cuba to complete their

final year of studies while practising as interns in the country's regional hospitals. It is expected they will graduate from their own Faculty of Medicine in 2010 (Rigñak 2008).

Following Timor Leste, Cuban health programs grew within the region. Twenty students from Kiribati were studying alongside the Timorese students when the author visited them in 2007 and 2008. They were joined by another 11 in 2009 (Granma 2009). In 2008, 50 Solomon Islands students began their studies and were joined by another 25 in 2009 (Mamu 2008). Other smaller island states followed. The Papua New Guinea government received an offer of a health cooperation program in 2006 (Jiménez 2006; Balaguer 2006) but at the time of writing this program had not yet begun.

A summit in Havana with South Pacific nations in September 2008 emphasised the Cuban commitment to the Pacific. Former Cuban Foreign Minister Felipe Pérez Roque said Cuba and the South Pacific nations “confront common challenges in their efforts for development, building human resources, the risks of climate change and increases in the price of fuel and food” (CubaMinrex 2008). Vice President Esteban Lazo, meeting with the President of Kiribati, the Prime Minister of Tuvalu and several foreign ministers and ambassadors, said the encounter would “lay the foundations for our relations” (ACN 2008).

In late 2009 additional groups of students arrived in Cuba from the Pacific Islands so that the total numbers from Timor Leste and the SW Pacific rose to more than a thousand (See **Table 1**).

**Table 1: Medical students studying with Cuban trainers, as of December 2009**

	in Cuba	at home
Timor Leste	680 (1,000 places offered)	190
Solomon Islands	75	
Kiribati	32	
Vanuatu	25	
Nauru	18	
Tuvalu	20	
Tonga	3 (6 places offered)	

Sources: CMB 2008; Granma 2009; and personal communications with the students, at December 2009

## Lessons and Challenges

The principal lesson from the Cuban health programs seems to be the potential of large-scale, systematic programs with a strong, mass training component, and a public service ethos. Coordination and integration of health services is also a key feature. There are of course a number of challenges posed by these programs, both for the recipient country and for the broader 'aid' community.

For Timor Leste and the Pacific Islands countries, the challenges seem to be in organisation and retention. Health departments must plan for the incorporation of more health professionals and, as in the case of Timor Leste, a huge number. Hopefully, the service ethos of Cuban medical education will be important in reducing the 'brain drain' and in encouraging the new doctors to keep working at village level, but this has to be underwritten by local political will. There is a need, therefore, to continue investing in infrastructure and human resources as well as preparing for a flexible incorporation of incoming graduates and interns. In the case of Timor Leste, there is a need to support and develop the Cuban-created Faculty of Medicine within the National University. East Timorese authorities might also consider opening up their college to the other Cuban trained graduates from the Pacific Islands.

For other development cooperation partners, the challenge is to measure their own programs alongside the Cuban program, especially as regards the commitment to training and the ethos of training, and to look for complementarities. Some reflection on the nature of 'capacity building' seems called for, particularly in view of the common over-reliance on highly paid consultants at the expense of large-scale training (see AusAID 2008: 33-34). In addition, the Cuban practice of linking language instruction to medical training deserves attention. There is often an expectation that students from the islands will be proficient in the language of tuition without assistance. Another important challenge is coordinating with health departments and the incoming graduates from the Cuban programs.

The international community is often ignorant or sceptical of Cuban health programs. Fear of offending the US, or fear from local professionals that their work conditions will be undermined, has led to negative reactions in many countries (BBC 2006; MEDICC 2007; MEDICC 2008). Nevertheless, within a few years, the great majority of health workers in Timor Leste and much of the South West Pacific will be Cuban trained and Spanish speaking. That is a great gift to those island countries, and a reality the international community must accept and work with.

**Tim Anderson** is a Senior Lecturer in Political Economy at the University of Sydney, and a board member of AID Watch-Australia. He researches on land, health systems and rights in development.

### Endnotes

- <sup>1</sup> By 2004 Cuba surpassed the USA in infant mortality rates (UNDP 2006)
- <sup>2</sup> The US has imposed a commercial, legal and diplomatic blockade on Cuba since 1961. The UN overwhelmingly condemns this blockade every year. Nevertheless, the US penalises commercial relations with Cuba by any company having 10% or more US ownership. Special US Treasury licenses are required by US citizens who wish to visit Cuba.
- <sup>3</sup> The US Educational Commission for Foreign Medical Graduates (ECFMG) recognises medical certificates from the 14 Cuban colleges listed in the International Medical Education Directory (IMED).

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## The Reality of Aid

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# Chinese foreign aid goes offtrack in the Philippines

Roel Landingin

*Philippine Center for Investigative Journalism (PCIJ)*

Over a 32-kilometer stretch north of Manila where a Chinese state company is building a US\$503 million railway to boost transport links to the Philippine capital, the impact of Chinese aid money on development in the poor South-east Asian country is easy to miss. There is hardly any.

Six years after China approved a US\$400 million loan for the railway in 2004, there are neither trains, stations nor even a single kilometer of track. Many segments of the line are still occupied by illegal structures, including multi-storey office buildings and factories. But even on most segments cleared of illegal dwellers, there is no construction activity.

Only in a handful of sites can one see heavy equipment and laborers working to drive or bore huge concrete piles to lay the foundation of the giant posts for the elevated segments of the railway.

Indeed, the project contractor, China National Machinery and Equipment Group (CNMEG, which recently changed its acronym to Sinomach), has only completed 15% of the work, according to Elmer Ramoneda, vice president of the North Luzon Railways Corp. (NLRC), the Philippine government firm that is implementing the project. He adds that CNMEG may take until 2012 to complete the project, two years after the revised target of 2010.

The North Luzon railway project (Northrail, which also refers to the management assigned to it), which aims to ferry over 150,000 passengers daily to and from Manila, is the recipient of the

biggest Chinese state loan in the Philippines. It includes a second section, costing about US\$673 million, that will extend the line by another 48 kilometers and connect Manila to the former United States (US) air force base in Central Luzon that is now an international airport and a special economic zone.

The second section is to be funded by a fresh US\$500 million loan from the Export-Import Bank (Eximbank) of China, bringing total Chinese funding to US\$900 million and making the entire Northrail project one of the biggest Chinese funded projects in Southeast Asia.

When Philippine and Chinese officials broke ground for the project in April 2004, the US\$400 million China Eximbank loan approved just two months before was hailed by both Chinese and Philippine officials for setting a few milestones in terms of size and cost.

Minister Xiao Qian of the Chinese Embassy called it the “largest Chinese project in Southeast Asia,” and the first 20-year concessionary loan ever extended by China to any government at 3% interest including a five-year grace period.

Jose de Venecia Jr., then the Speaker of the House of Representatives, said the extraordinary lending concessions from China Eximbank came about because the project won support at the highest levels of Chinese state organs. He claimed credit for “convincing two Chinese presidents, two Chinese Prime Ministers, two Speakers of Parliament, and three Chinese Ambassadors to the Philippines for China to undertake the project.”

Headed: "This will be a lasting legacy of President Arroyo to the Filipino nation. The railways will open up communities to greater trade and economic opportunities and will unite our people."

Almost six years later, not only is Northrail terribly delayed but it risks getting off-track.

Even President Gloria Macapagal-Arroyo herself is hesitating to firm up a deal for the second tranche, amounting to US\$500 million, of the China Eximbank loan that will finance the second section of the Northrail project. The loan agreement has been negotiated but Arroyo is said to be reluctant to activate the loan. "Forget about the Chinese loan," she reportedly told officials managing the project during a meeting last year, according to a person present.

Northrail officials are still pressing her to activate the loan but are also exploring the possibility of inviting a private sector partner to raise funding for building most of the stations and to purchase rolling stock.

The financing uncertainty adds to the judicial and political risks surrounding the project. The presidential candidate leading in opinion polls to replace Arroyo in June 2010, Benigno "Noynoy" Aquino III, is surrounded by advisers who filed a suit challenging the legality of the Northrail contracts. It is not that farfetched to think that a hostile president would scuttle the project. In 2005, Arroyo revoked the contract for a new international airport terminal even though it was already 95% complete.

A local court continues to hear a legal suit alleging the supply deal between CNMEG and Northrail is unlawful because it did not go through a public bidding as required by Philippine law on government procurement. In May 2009, the Supreme Court turned down CNMEG's petition to stop the judicial proceedings. The

lower court has initially issued a finding that the supply deal does not qualify as an executive agreement between the governments of China and the Philippines, which would have exempted it from the procurement law, bolstering the case of those who want to void the contract.

### Getting Off-track

In turning from a milestone of development lending into an embarrassing millstone around the necks of both China and the Philippines, the Northrail project could offer important lessons not only for the two countries but also other potential borrowers, particularly in the rest of Southeast Asia where Chinese official development assistance is also soaring.

Amid the paucity of information on Chinese-funded projects in the rest of Southeast Asia where public access to information is severely constrained, a closer look at how the Northrail project took shape and was implemented could yield helpful insights into the dynamics of Chinese foreign aid and investments in the region.

At heart, the Northrail project is a tragic tale of what happens when cheap Chinese aid money hooks up with weak governance in a borrowing country.

From talks with current and former Philippine planning and Northrail officials, it is clear that a major driver for the project was the extreme concessionality of Chinese financing: an unprecedented 3% annual interest rate, five-year grace period, and 20-year maturity.

Amid early criticism that the project may be overpriced because the supply contract was not subjected to bidding, former Economic Planning Secretary Romulo Neri said in early 2004 that even if it's somewhat overpriced, the loan is so

cheap that the project will yield more benefits than if other lenders or suppliers were involved.

Critics of the project such as lawyer Harry Roque, who filed the legal suit against the project, believe that corruption was also a key factor in getting Northrail approved. “The Chinese zeroed in on what local politicians wanted, which is why in the contract there was a 30% up-front payment in the financing. You have to wonder, why this up-front payment? Who was this to benefit?” said Roque, who was quoted in Joshua Kurlantzick’s book (*Charm Offensive: How China’s Soft Power is Transforming the World.*)

Because of top-level pushing from de Venecia and other Central Luzon politicians keen to see their territories linked via rail to Manila soonest, the Philippines began talks on a supply contract with CNMEG even though Northrail was not yet ready. It lacked experienced rail engineers and did not even have a proper office. The feasibility study used to win approval for the project from the National Economic and Development Authority (NEDA), which clears all major infrastructure projects, was done by CNMEG itself for free.

As a result, Northrail officials agreed on a supply agreement with CNMEG that lacked detailed technical specifications and a bill of quantities that should have listed the exact type and quality of the various components of the railway project or defined the performance criteria to be applied.

Observers noted that while the agreement’s technical annex listed broad parameters for civil and track works, none was specified for rolling stock i.e. rail cars, capacity, speed, performance, air-conditioning, auxiliary equipment, and others. Worse, the agreement seemed to have handed to CNMEG the power to say what the parameters

are because “technical specifications” was defined in the contract as “documents prepared by the contractor, which shall contain detailed technical requirements for the contractor to execute the contract property, including scope of works, contractor’s establishment, specifications for materials, plant, construction equipment, workmanship, testing, measurement, etc.”

The late Northrail president Jose Cortes, interviewed in 2005, was aware of the potential problems of the supply contract but expected it could be set right when Northrail hires a project management support team that will review the detailed engineering designs and technical specifications to be submitted by CNMEG.

However, from 2004 to 2006, Northrail was unable to hire project management consultants because it lacked money. It was only in 2007 that Northrail finally hired a project management support team – a French rail engineering consulting firm called Systra.

The entry of Systra triggered conflicts with CNMEG in part because Northrail, still lacking technical personnel, pretty much left the two parties to resolve problems on their own rather than exercise its judgment and prerogatives as ultimate owner of the project. “Systra was no longer just a consultant but was taking on some of the functions that Northrail failed to do,” said a Northrail insider.

Less than a year after Systra was hired, CNMEG suspended work on the project unilaterally in February 2008 because of unresolved disputes with Systra and NLRC. It also demanded additional compensation of US\$299 million on top of its original price of US\$421 million.

Outraged by CNMEG’s demands, Northrail considered terminating the contract or asking the Chinese firm to assign the project to another

engineering firm. However, top leaders of both countries interceded and helped Northrail and CNMEG to come up with a revised agreement that amended the design and scope of the project and raised the cost by US\$99 million towards the end of 2008.

That same year, Arroyo appointed a close political adviser, Edgardo Pamintuan, as president of Northrail. The company finally beefed up its engineering staff to 70 from less than 10 with money from a US\$90 million loan from Barclays, which was closed earlier that year.

Personal and cultural factors fuelled the conflicts. CNMEG's country manager did not speak English, hampering communication with executives of Northrail and Systra who did not know Chinese. "We used a lot of interpreters but we are not sure if they were translating correctly," said a Northrail official. "Filipino translators did not last long in the job because they seemed uncomfortable with the CNMEG executives who cussed a lot."

To Roderick Planta, chief of NEDA's project monitoring staff, the root of the problems could be traced mainly to the vagueness of the supply agreement, making it subject to varying interpretation by the two parties. With few engineers, Northrail even had to ask the help of the Department of Public Works and Highways to resolve disputes in the approval of CNMEG's proposed engineering drawings.

Still, relations between Northrail and Systra on one hand, and CNMEG on the other, seem to have improved recently after the French firm assigned an ethnic Chinese who is also a French national to head its team in the Philippines. Northrail also sought to improve communication by moving its offices from Fort Bonifacio in Manila to Bulacan where it shares the same building with Systra and the

commercial unit of CNMEG. "Now, we can get together and drink *motai* every now and then," said a Northrail engineer.

It remains to be seen if better communication and relations between Northrail, Systra and CNMEG may finally get the stalled project going again. But not just money but also political support is running out for the project, especially with the upcoming May 2010 polls that could see the rise of a new Philippine president hostile to the project.

## Rise in Chinese Aid

China Eximbank funding for the Northrail project, which began in 2004 and followed by a second credit in 2007, catapulted China into one of the Philippines' biggest sources of official development assistance (ODA).

From a miniscule US\$60 million in 2003, Chinese concessional lending to the Philippines surged to US\$460 million by 2004 and has more than doubled to US\$1.1 billion as of 2007, making China the fourth biggest development lender after Japan, the Asian Development Bank (ADB), and the World Bank (WB).

Chinese loans for the Philippines were poised to triple to almost US\$3 billion if a kickbacks scandal over Chinese telecommunication firm ZTE's contract to supply the National Broadband Network (NBN) project did not prompt Arroyo to scuttle talks for several Chinese loans, including US\$1 billion for the Laiban dam, another ambitious project to increase drinking water supply in Metro Manila, the capital, by half.

Her economics planning secretary revealed that the elections chief, who has been helping ZTE win the supply contract, offered him a Pphp200

million bribe to approve the NBN project. Arroyo herself was dragged into the controversy after photographs surfaced of her playing golf with the election chief and ZTE executives in China. Worse, a ZTE rival accused her husband of trying to bully him into withdrawing a bid for the project.

The rise in Chinese aid money for the Philippines seemed to follow the same pattern of rising Chinese ODA and government-supported investments in Southeast Asia and the developing world.

According to the New York University (NYU) Wagner Graduate School of Public Service, which conducted a study that carefully monitored press accounts of Chinese foreign economic assistance between 2002 and 2007, the amount of Chinese aid money for Southeast Asia rose from only US\$36 million in 2002 to US\$6.7 billion by 2007. Globally, Chinese aid surged from only US\$51 million in 2002 to US\$25.1 billion five years later.

The NYU-Wagner study found that the Philippines was among three Southeast Asian countries with large reported China aid and investment projects. The total amount of Chinese money going to the Philippines reached US\$5.4 billion between 2002 and 2007 compared to US\$3.4 billion for Vietnam and US\$3.1 billion for Burma. The major types of projects in the Philippines were infrastructure, particularly railway, mining, and military training. The projects were mostly in power, shipyards and mining in Vietnam, and in hydropower and nickel ores in Burma.

The big aid and investment numbers may be impressive, but in the Philippines, many of the reported projects never get to see the light of day. Apart from China Eximbank loans worth

almost US\$2 billion that were scuttled because of the kickbacks scandal, none of the big Chinese investments in Philippine mining projects have pushed through because of disputes with local partners.

Even large Chinese state firms with deep pockets such as the Baosteel group and Jinchuan Nonferrous Metals Corp. had failed to make progress since signing agreements several years ago to rehabilitate a mothballed nickel refinery in southern Philippines. The rehabilitation of the nickel refinery, which was estimated to cost US\$950 million, was potentially the Philippines' biggest mining investment in decades and expected to boost Philippine mineral exports by US\$300 million a year, mostly to China, and to employ at least 3,000 people from 2010.

Despite rapid growth in recent years, Chinese aid and investments in Southeast Asia still pale in comparison with the US, Japan and Europe. According to the statistics compiled by the Association of Southeast Asian Nations (ASEAN) secretariat, foreign direct investment (FDI) from China to the region rose from US\$1 billion in 2006 to US\$1.4 billion in 2008, which was just about 2.4% of total FDI. The main sources of FDI are still the European Union, which invested US\$14.9 billion in 2008; Japan, US\$7.6 billion, and the US\$3.2 billion.

According to the NYU-Wagner study, China is considered a major source of economic assistance in Southeast Asia but this often refers to infrastructure projects and natural resource extraction ventures rather than ODA, as defined by the Organization of Economic Cooperation and Development (OECD). The NYU-Wagner study found that of the US\$12.6 billion in economic assistance pledged to Southeast Asian countries between 2002 and 2007, 59% was for infrastructure, 38% was for natural resources

development, and only 3% was intended for humanitarian assistance, military assistance, and cultural and sports facilities.

Still, Chinese foreign aid to members of the ASEAN is likely to increase even more after China announced plans last year to establish a US\$10 billion China-ASEAN investment cooperation fund for infrastructure, energy, resources, and information and communications projects in the region.

China also plans to offer credits of US\$15 billion to ASEAN countries over the next three to five years. The amount includes loans with preferential terms of US\$1.7 billion to fund so-called cooperation projects.

In addition, China said it would offer US\$39.7 million in special aid to Cambodia, Laos and Burma to meet urgent needs, contribute US\$5 million to the China-ASEAN Cooperation Fund, and donate almost US\$1 million to a common cooperation fund of the ASEAN, China, Japan and Korea. It also promised to provide 300,000 tons of rice for the emergency East Asia rice reserve to help boost security in the region. Chinese leaders also offered over 2,000 scholarships for public administration students in ASEAN member countries in the next five years.

The rapid increase in Chinese foreign aid and investments in Southeast Asia has given rise to international criticism of China similar to the flak it got after moving heavily into Africa several years ago.

Last December, Beijing came under fire for promising US\$1.2 billion in aid to Cambodia hours after Phnomh Penh deported 20 Uighurs to China. The members of the Muslim minority in China's far west had sought asylum after fleeing

ethnic violence but were sent back to China despite protests from the United States and the United Nations, which feared the deportees could be imprisoned or even executed.

Chinese Vice President Xi Jinping, who arrived on a previously scheduled visit just hours after the Uighurs left, pledged US\$1.2 billion to Cambodia and thanked the country for the deportations. The criticisms prompted a rare response from China's government, which said there were "no strings attached" to the aid package. Cambodia said it was expelling the Uighurs because they had illegally entered the country.

China is also accused of under-pricing gas purchases from Burma in exchange for protecting the military junta against international sanctions. PetroChina Company Ltd, the listed arm of China's biggest old producer that has been vying to secure access to large quantities of natural gas from the Shwe gas field, signed in early 2006 a memorandum of understanding with Burmese authorities to buy 180 million cubic meters of gas, at prices significantly below what rival India had bid. Analysts suggest that this preferential treatment of China – which could cost Burma US\$2.35 billion over the productive life of the field – was essentially the price of China's diplomatic protection over the military regime.

### Understanding Chinese Aid

Rather than a sign of Chinese exceptionalism, the mounting troubles surrounding Chinese foreign aid and investments – whether it is corruption in the Philippines, support for dictators in Burma or destruction of the environment in Laos – suggest, in fact, commonalities with Western ODA.

Writing about Chinese foreign aid in Africa, which has come under widespread criticism from the West, Firoze Manji, in a Monthly

Review piece in April 2008, said: “Just like other Western powers, China has used aid strategically to support its commercial and investment interventions in Africa. Aid has taken the form of financial investments in key infrastructural development projects, training programs, debt relief, technical assistance, and a program of tariff exemptions for selected products from Africa, not dissimilar to the agreements that Africa has had with Europe, the US, and other Western economies.”

But there are still important ways that China’s aid system is unlike the West’s, and these discrepancies often spell both problems as well as possibilities for borrowing countries.

One of the biggest differences is that China’s aid is usually part of a bigger package that includes trade deals and investments and even debt relief. A sizeable part of Chinese economic assistance comes in the form of materials as well as labor, making Chinese-built infrastructure cost relatively lower.

Benito Lim, a professor of Chinese studies at the Ateneo de Manila University who visited China last year to research on Chinese foreign aid, said China believes that that economic growth is possible only with higher levels of production and trade, and looks at aid as a way to support economic activities in the recipient country.

“The Chinese are interested in creating an economic base, not just projects,” he said.

China also lacks a centralized aid agency affiliated with its foreign affairs ministry. Instead, Chinese aid is primarily administered by the Ministry of Commerce through its Department of Aid to Foreign Countries and the China Eximbank and other lenders.

While major policy decisions on aid are made by the State Council, the highest government

organ in China that is made up of the premiere, vice premiers and ministers, and Chinese ambassadors also propose aid projects for their host countries which are vetted by country desk officers in the Ministry of Foreign Affairs.

Oddly for a country that is emerging as a top provider of economic assistance, China does not release official statistics on its foreign aid activities. Many analysts believe that China does not want to be considered as a major provider of international aid because it continues to receive foreign assistance itself. Also, Beijing is wary of possible objections by its own citizens why China is spending so much abroad when the money is still badly needed at home.

Many of the reforms that China is considering for its foreign aid mechanisms would align it much closer to the Western system, such as creating a dedicated aid agency, instituting evaluation and monitoring systems, and professionalizing staff in charge of managing foreign aid.

However, China also wants to project a uniquely Chinese brand on foreign aid, which draws on its experience with pervasive poverty and how to lift hundreds of millions of people from its claws.

“They clearly do not want to be identified as just one more member of the rich countries’ aid clubs,” wrote Carol Lancaster in a 2007 essay on the Chinese aid system for the Center for Global Development, a Washington D.C.-based think tank. “For political reasons they want to project their own distinctive image in Asia, Africa and Latin America—one of South-South cooperation, of a special understanding and sympathy that comes from sharing problems of poverty; one of having emerged rapidly (but not yet completely) from those problems; and one that will provide them with a separate and privileged relationship with the governments they are helping and cultivating.”

One of the features of Chinese aid is the willingness to fund projects in difficult or risky sectors such as railways or dams as that Western governments and multilateral lending organizations have avoided. Indeed, Japan and Korea have shied away from the Northrail project because of the potential controversy over the thousands of poor illegal dwellers that have to be moved from the rail tracks. Only the Chinese were willing to consider funding the project.

“China also lends money without imposing conditions on opening up markets or trade liberalization,” says Lim, making it an attractive alternative to loans from the WB, ADB and most Western lenders.

In the Philippines and elsewhere, Chinese aid and investments can be harnessed either as alternative or supplement to development financing coming from the West. And even as

China seeks to differentiate itself from other donors and lenders, Beijing is also beginning to reform its aid system to make it more accountable and meaningful to China and developing countries alike.

Some of these reforms are apparent in the Philippines. For example, China is now amenable to allowing limited competitive bidding among Chinese firms for projects it is funding. It used to insist on unilaterally nominating contractors for Chinese-funded projects. China has also begun to join dialogues with other donors and Philippine planning agencies on improving foreign aid in the country.

Too bad these developments could do little for the Northrail project – terribly late and over the budget – whose precarious fate is up to the next president to decide.

**Roel Landingin** is a free-lance Filipino journalist who has been covering Philippine business and the economy for more than 20 years. He is the Manila correspondent of the *Financial Times*, and also contributes frequently to *Newsbreak*, an online news site, and the *Philippine Center for Investigative Journalism*. He won the *Jaime V. Ongpin* journalism awards in 2008 and 2009 for his investigative reports on the mismanagement of foreign aid in the Philippines and how corruption doomed a major airport project. Formerly, he was executive director of *IBON Databank*, business editor of the *Manila Times*, and bureau chief of *Bloomberg News* in Manila.

# Bank of the South: Progress and Challenges

Isabel Ortiz and Oscar Ugarteche<sup>1</sup>

*Latin American Network on Debt, Development and Rights (LATINDADD)*

In South America there is an urgent need to improve growth rates, strengthen internal markets, and substantially improve the living standards of the population, in order to reverse migration patterns, achieve social justice, and reduce income inequality. Since 2006, several countries in Latin America began to consider the creation of a new alternative bank, “The Bank of the South”, that would utilize existing regional reserves to finance the development of its member countries. The *Banco del Sur* should strengthen regional integration; reduce asymmetries, poverty and social exclusion; promote employment; and activate a virtuous cycle of sustainable development, fundamental for the economic, social and political transformation of the region.

## **Box 1: Founding Charter of the Bank of the South (December 2007)**

The following is agreed:

- To create the Bank of the South with the objective to finance the social and economic development of the region; making use of regional savings to strengthen regional integration, to reduce asymmetries and to promote an equitable distribution of investments within Bank member countries.
- Headquarters: Caracas. Delegations in Buenos Aires and La Paz.
- A self-sustainable bank.
- Equal representation of member countries; a democratic system of operations.
- Bank's Articles of Agreement to be completed in 60 days.
- To invite all countries of the Union of South American Nations (UNASUR) to participate in the South Bank's creation process.

After a long process of international agreements, the Founding Charter of the Bank of the South was signed on December 9, 2007 in Buenos Aires by Presidents Néstor Carlos Kirchner (Argentina), Evo Morales Ayma (Bolivia), Luis Inácio Lula da Silva (Brazil), Rafael Correa Delgado (Ecuador), Nicanor Duarte Frutos (Paraguay), Tabaré Vázquez Rosas (Uruguay), and Hugo Rafael Chávez Frías (Republica Bolivariana de Venezuela). The Founding Charter can be found in the Annex of this document. (See **Box 1** and **Annex**)

In the Founding Charter of the Bank of the South, the presidents of the Bank's member countries agreed to define the Bank's Articles of Agreement, structure and operational guidelines in 60 days (See **Box 1**). However, in November 2008, more than 300 days had passed, and the Bank's Articles of Agreement remained unsigned.

## What happened?

The delay has been caused by: 1) an inadequate working method, and; 2) differences in opinion among member countries.

There are several versions of possible Articles of Agreement proposed for the Bank of the South. What is needed is a new consensus. One should keep in mind that finalizing the Articles of Agreement is only a first step in creating a Bank. What is really important is not the Articles of Agreement but actually putting the Bank's principles into action —hiring personnel, setting

up the organization and starting operations. At UNASUR meetings, the Banco del Sur is always mentioned, and is even colloquially referred to as BANSUR. Despite the lull in signing, countries in the region are still interested in the Bank. The big question is if member countries are going to agree on fundamental issues, or if there are seemingly insurmountable differences.

### The Importance of the Bank of the South

It is fundamental to overcome differences among member countries and expedite the working method to create the Bank of the South. What is at stake is not only the creation of a development bank, but also a new regional architecture that entails three interrelated elements:

1. A Monetary Union of the South;
2. A monetary stabilization fund, the Fund of the South; and
3. A Bank of the South that utilizes existing reserves for regional development

South America is not alone in this attempt to change the international financial architecture

from a regional perspective. The tough reality that all developing countries face is the current transfer of resources from the South to the North. Since 2000, instead of wealthy countries in the North transferring capital and development aid to the countries in the South, it is the reverse: unbelievably, poor countries finance rich countries, resulting in a negative flow of capital from South to North<sup>2</sup>. (See **Box 2**) It is necessary to stop this flow. It is essential that the savings generated in developing countries are not used to finance consumption in the North, but rather invested in the development of Southern countries.

Asia with its Chiang Mai Initiative, the Middle East with its Bahrain Initiative and most recently Africa, are all embarking on processes similar to Latin America's. It goes without saying that each region has its own limitations. In fact, an Asian currency is still not being used despite such being designed and ready to be operational since 2002. Until now, the Asian bond market has only served for public bonds and has not yet started to issue private bonds.

East is in an intermediate phase, with no hints as to when it may be put into practice.

**Box 2. The South Finances the North: Net Financial Transfers to Developing Countries, 1995-2007 (select years, in billion dollars)**

	1995	2000	2003	2006	2007*
<b>Africa</b>	5.7	-31.6	-22.6	-86.2	-59.2
<b>Latin America</b>	-0.6	-2.9	-61.6	-127.2	-99.8
<b>Asia</b>	21.3	-119.7	-169.9	-369.9	-468.1
<b>Transitional Economies</b>	-2.7	-58.0	-50.5	-135.6	-109.2
<b>Middle East</b>	23.0	-31.4	-43.8	-144.7	-132.7
<b>TOTAL</b>	<b>41.9</b>	<b>-243.7</b>	<b>-330.4</b>	<b>-863.7</b>	<b>-869.0</b>

\* Estimation  
 Source: United Nations, 2008: *World Economic Situation and Prospects 2008*. UN Department of Economic and Social Affairs, New York.

The Bank of the South will have a fund of collateralized guarantees for issuing bonds so that it can keep South American savings and international reserves circulating within the region. Thus, it is necessary for Latin America's development that the Bank of the South moves forward, both in terms of policy space as well as for the additional funds it will provide to invest in the region. The time for this is now, when the financial crisis in the United States (US) is turning into an international crisis.

### Problems with work methods

To date, the decision-making system of the Bank of the South consists of: 1) setting up Ministerial Summits; which are followed by 2) meetings of experts from the National Technical Commissions who implement the decisions taken by the Ministers of the member countries.

Given the tight agenda of the Ministers, particularly those from big countries, the first Ministerial Meeting after signing the Founding Charter on December 9, 2007 did not happen until 120 days later, on April 15, 2008, in Montevideo. Worse, only another Ministerial Summit followed after that, on June 27 in Buenos Aires, and it was called with such little notice that only four ministers could attend. As a result, the minutes from Montevideo have not been ratified by all countries.

The system of first having a Ministerial Meeting and later a meeting for the National Technical Commissions has proved to be slow and ineffective. It would be much more efficient and adequate to agree on some terms of reference, and to commission a technical team that would carry out the work without interruptions, to be approved and/or modified later by the member countries. This is a normal working method used by multilateral development banks

and regional organizations; it would speed up the process enormously.

### Agreements on the Bank of the South

While the most difficult part, i.e. reaching a political consensus to create a Bank of the South, has been achieved, the technical aspects still have to be defined: How to build an alternative multilateral development bank and how to operationalize the principles of its Founding Charter in the context of a new regional financial structure? Latin America already has several multilateral development banks, including the Andean Development Corporation (CAF in its Spanish acronym) and the Inter-American Development Bank (IDB), but these have not served to activate a new development pattern in the region. How should it build a different bank?

Some consider that there should not be a difference between the Bank of the South and the rest of international financial institutions (IFIs), not understanding that what has impeded regional development is not only lack of financing but also the neoliberal policies imposed by Washington-based IFIs. This is the reason why Latin American presidents have opted to create a different bank – to win autonomy and 'policy space' to implement different development policies, new policies supportive of the region's sovereignty and responsive to their citizens. The need for new policies is especially critical in light of the food crisis and imminent worldwide recession as a result of the North's economic policies.

Though there have been important agreements on the Bank of the South, differences prevail.

In terms of the agreements, the capital contributions to the Bank of the South were approved at the Ministerial Summit in

Montevideo on April 15, 2008. Authorized capital was set at US\$20 billion and subscribed capital at US\$7 billion. (See **Box 3**)

The contributions, conditions of initial contribution and letters of credit vary according to which group a country belongs. In general, there are two groups: the first includes the wealthier countries (Argentina, Brazil and Venezuela) and the second includes the smaller countries (Bolivia, Ecuador, Paraguay and Uruguay). Overall, this allows total loans up to US\$60 billion, theoretically giving the Bank of the South the same importance as Brazil's National Development Bank (BNDES in its Portuguese acronym), which is the largest bank in Latin America despite being a national bank and not a multilateral bank. It has loans equivalent to \$55 billion, which is greater than the World Bank loans in South America (US\$36 billion), the Inter-American Development Bank

(US\$46 billion), and seven times more than CAF (US\$8.1 billion)

The second and last Ministerial Summit in Buenos Aires focused on the areas of governance and administration. It was proposed that the Bank of the South be formed by a Council of Ministers (the Board of Governors in any other development bank), a Management Council (the Executive Board in the IFIs), the Council of Directors (which would carry out the day-to-day operations), and an Audit Council. Article V of the Founding Charter was ratified, accepting that the mechanism for decision-making in all bodies would be "one-country, one-vote", *in general*. (See **Box 4**)

The proposed exception regarding the "one-country, one-vote" rule is in the day-to-day operations. Member countries strongly disagree on this. According to some of the Bank of the

South management bodies, bigger countries believe that the Bank's greatest contributors should have more vote in the Council of Directors. Specifically, they have proposed having more voice in operations greater than US\$5 million, meaning practically all operations given that US\$5 million is a small amount for the Bank. This discussion greatly complicates things, since a new bank should have a simple institutional structure and swift procedures. The idea has always been to keep administration to a minimum, instead of having complicated, different procedures at different levels, which would only generate a convoluted bureaucratic system for the bank.

**Box 3. Bank of the South-Capital: Agreement from the Ministerial Meetings in Montevideo (April 2008) and Buenos Aires (June 2008)**

- **Authorized Capital:** US\$20 billion
- **Subscribed Capital:** US\$7 billion
- **Contributions:**
  - Argentina, Brazil and Venezuela: US\$2 billion
  - Ecuador and Uruguay: US\$400 million
  - Bolivia and Paraguay: US\$100 million
- **Initial contributions:**
  - Argentina, Brazil and Venezuela: 20%, the rest in four annual quotas
  - Bolivia, Ecuador, Paraguay and Uruguay: 10%, the rest in nine quotas
- **Letters of Credit:**
  - Argentina, Brazil and Venezuela: four times the capital
  - Bolivia, Ecuador, Paraguay and Uruguay: eight times the capital
- **Lending Headroom:** Three times the Bank's net assets (up to a maximum of four and a half times)
- **Borrowing Headroom:** Two and a half times the Bank's net assets

**Box 4. Governance and Administration: Proposal from Ministerial Meeting in Buenos Aires (June 2008)**

The Bank of the South management bodies:

1. Council of Ministers
2. Management Council
3. Council of Directors and Executive Committee
4. Audit Council

**Disagreements on Bank of the South**

There are various disagreements, some already pointed out. Clearly, the *realpolitik* is different for a country like Brazil, which already has a powerful development bank, the BNDES, with a much larger investment portfolio than the World Bank. A quite different situation is that of the smaller countries, which desperately need funds for development. In a nutshell, the Bank of the South is about the big countries versus the small countries.

Following are some of the contentious issues and disagreements that have not yet been formally discussed in Ministerial Summits:

1. **Governability: “One country, one vote” or “one dollar, one vote”?** Currently, the lack of agreement is based on the interpretation of the Fifth Article of the Founding Charter, in which a democratic working system of one-country-one-vote was established. This system would be similar to the United Nations (UN), where each country has voice and vote regardless of how small it is, and fundamentally different from the multilateral development banks (e.g. the World Bank) where wealthier countries have the right to more votes given they contribute more resources. Of the countries that contribute most to the Bank of the South (Argentina, Brazil and Venezuela), only Venezuela backs
2. **Privileges and exemptions:** Some suggest that all bank operations, from procurement to investments and staff salaries, should be exempt from all kinds of taxes and custom duties. Others believe that this measure, which is copied from the IFIs, is inappropriate and in conflict with important efforts to fight tax evasion in the region. But this is only the beginning. The most controversial issue – spending – has not even been discussed yet. What investment policies will the Bank of the South give priority to? Will there be concessional loans, like in other development banks, and, if so, what will be the criteria for eligibility? Who will benefit?
3. **Funding:** Though the capital contributions of each member country have been agreed on, there is still no decision on the use of reserves, the origin of special concessional funds, co-financing, and other funding details for the Bank.
4. **Investment Portfolio: Should infrastructure be a priority?** Some countries insist on associating the Bank of the South with investment in infrastructure. However, Chart 1 shows how infrastructure is already the area with the most multilateral investment in the region, while areas in need of investment are social and agricultural sectors.<sup>2</sup>

The countries of the Bank of the South must address the food crisis immediately. According to the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the recent 15% increase in food prices has led to a rise from 35% to 38% in the number of people living below the poverty line. In just a few months, all the efforts to reduce poverty from 2002 to 2007 were obliterated.<sup>3</sup> And poverty is not reduced with infrastructure. The Bank of the South's loan portfolio should not be centered on big infrastructure projects alone, but rather on poverty and regional projects that reduce asymmetries, with a focus on social development and environment.

This certainly does not eliminate the possibility of investing in oil refineries, but environmental issues should be carefully addressed. Going a step further, the idea of sovereignty in different areas generates a completely different investment portfolio from those of the World Bank, IDB, and CAF. For example:

*Food sovereignty:* greater investment within the region, including agricultural reforms and increased income for farmers

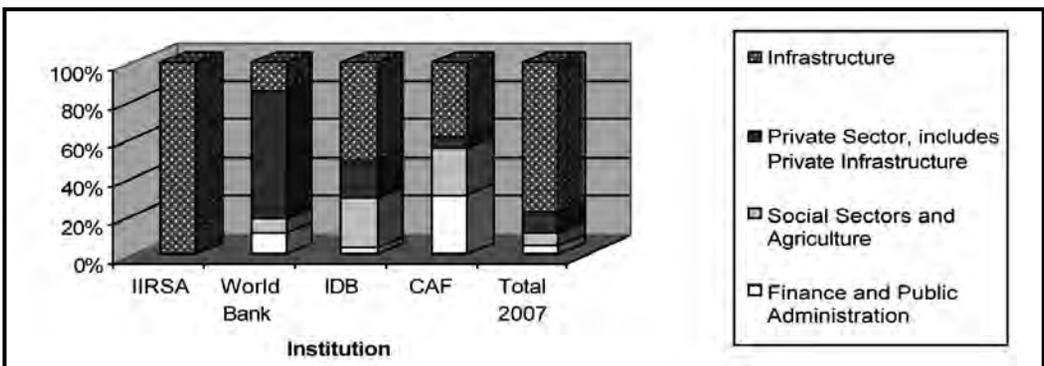
*Economic sovereignty:* activities that promote Latin America's productive capacity, generate decent work for all, and a tax base that may be used for community development

*Health sovereignty:* investment in cheap generic pharmaceuticals and universal access to medical services

*Sovereignty of natural resources:* in a way that profits/royalties may be used for public investment instead of as private earnings for big corporations.

5. **Eligibility by type of institution** – Should the Bank of the South finance large private companies? Though there is agreement that the Bank of the South will invest in financial intermediation for public national companies, small and medium-sized companies, cooperatives and social enterprises, some member countries object to financing large private companies. Others argue that it is necessary to distinguish between different types of large private business, some of which are important for Latin American society, such as companies that produce food, generic

Chart 1. Multilateral Investment by Sector in Latin America, 2007



pharmaceuticals, fertilizers, etc. Others also argue the importance of promoting regional companies in order to reactivate Latin America's economy.

The minutes from the Buenos Aires Ministerial Meeting hint at what is to come: "It was considered adequate that the Bank could provide loans to—in addition to the public, semi-public and mixed economy sectors—to cooperatives and the private sector, provided public sector's approval. Venezuela believed the Bank should not finance the private sector, with the exception of cooperatives, social enterprises and communities"

- 6. Distribution of investments among member countries and different terms of financing (concessionality):** Article I of the Founding Charter calls for a balanced investment among the Bank's member countries. However, not all countries have the same absorption capacity. Furthermore, will all investments be made under the same conditions? Multilateral development banks offer concessional loans (or loans at softer terms and lower interest rates) and grants (free of charge) to countries with lower gross domestic product (GDP). This again generates a division between the larger and smaller countries, where in principle, smaller countries deserve concessional terms.

There are two options to avoid this division between countries. One is to keep different financing terms according to sectors (i.e. investments in the social sector could be concessional regardless of country/region, like the Venezuelan National Development Bank or BANDES does). Another option is the European Union (EU) model. Europe faced the same problem as Latin America

of "big countries versus small countries" and resolved it by abandoning the idea of country, targeting concessionality to the poorest areas, regardless of what country they were in. In this way, it is not wealthier countries subsidizing the poorer countries (i.e. Brazil wouldn't be subsidizing Bolivia), rather the wealthier regions subsidizing the poorer ones (i.e. the poorer regions in Brazil would also benefit from concessional financing terms).

- 7. Procurement:** The Bank of the South's Founding Charter indicates a preference for goods and services from the region. However, since there are only 12 countries in the region, the reality is that in some cases purchasing goods or services locally may not be feasible. In such a case, the following possibilities may be considered: a) One option is to allow purchasing of goods and services from non-Bank member countries, as long as they are provided by contractors from member countries; b) Another option is preferential treatment from other Southern countries, at certain price thresholds; c) A different option is untied procurement, open to any country in the world that offers the most competitive price. Clearly, there are trade-offs between supporting the South and allowing untied procurement.
- 8. Participation and transparency:** Until now, civil society has defended tooth and nail the creation of an alternative Bank of the South, and it has been a positive force. However, there is no agreement on its possible inclusion in the Bank of the South. The level of civil society's participation is one of the disagreements among various member countries. There are several

institutional models, analyzed in other documents, which should be contemplated before taking a final decision.

**9. Social and environmental safeguards:**

How can it be assured that the principles in the Bank of the South's Founding Charter, with the objective to promote socio-environmental justice, are maintained? Multilateral development banks have developed a series of social and environmental safeguards, created to maximize positive impacts in employment, distributional impacts in gender, generations (youth, older persons), ethnic groups and persons with special needs, as well as in environment. However, many of these safeguard policies are currently being watered down, given the IFIs' move towards more conservative policies. For the Bank of the South, the challenge is how to incorporate these safeguards in a simple manner, without creating excess paperwork, delays and bureaucracy but ensuring the abandonment of the orthodox development model that brings about greater social exclusion and destruction of the environment.

In light of all these small disagreements, the Ecuadorian government asked the UN for assistance in the beginning of 2008. A non-binding Technical Workshop was held in Quito, on June 23 to 27, 2008. More than 60 people from different affiliations participated in this meeting: international experts in banking and finance, academics, members of Bank of the South National Technical Commissions, and civil society. The debate was intense; precisely, the intention was to analyze options, their

advantages and disadvantages, and reach a consensus on building an alternative multilateral bank.

The resulting document is not a new proposal, but rather a presentation of the pros and cons of different options in the areas of: (i) Governance and Administration, (ii) Funding Resources, (iii) Investment Policies and Lending Framework, (iv) Procurement, (v) Audits, (vi) Operational Cycle, (vii) Participation, and (viii) Social and Environmental Safeguards.

The document may be consulted in the attached link,<sup>4</sup> it is designed to assist in drafting the Articles of Agreement as well as the Bank's Operational Guidelines: this will require deciding among the different options in each area, which are presented in a neutral form to help generate consensus.

### The Bank of the South Must Move Forward

The Bank of the South advances so slowly that the delay is generating impatience. Another regional alternative development bank is forming: the Bank of the Bolivarian Alternative for the Americas, or ALBA Bank, to support regional integration between Bolivia, Cuba, Honduras, Nicaragua and Venezuela. The ALBA Bank has US\$2 billion in subscribed capital and already has offices in Caracas. This is another path and does not involve UNASUR members, except Bolivia. Given delays, last August 29, 2008, the presidents of Venezuela and Ecuador agreed on the creation of a development bank for Bolivia, Ecuador and Venezuela<sup>5</sup>, notwithstanding their support to promote the Bank of the South. This is undoubtedly a way to create pressure on the

bigger countries. In Buenos Aires, they assure that the Bank of the South will be operative before the end of 2008. In Brasilia, this is less clear given BNDES exists.

It is essential for the Bank of the South to begin operations even if in its smallest expression and thus be able to start issuing bonds in the South American monetary currency unit. Payments in national currency for intraregional trade have already been agreed upon and in the next UNASUR Ministerial Meeting, they will finish widening the use of national currencies. The next logical step is to start using the South American basket currency as a reference unit. The South American monetary unit was presented in a conference of central banks in Buenos Aires in August 2008, and later in Mexico in October 2008.<sup>6</sup>

The construction of the European monetary system took six years in its first efforts, however, reasons to speed up in Latin America are evident, in light of the South to North transfers and the global financial crisis. For this reason, the Bank of the South should be born as soon as possible, together with its sister institution, the South Stabilization Fund that seems to be taking form

with the recent agreement in Basle of Mexican, Brazilian, Argentine and Chilean central banks to jointly manage the international reserves.

Let's look at the counter-argument: What would happen if the Bank of the South was not consolidated due to petty differences between member countries and an inadequate working method? This would enormously benefit Northern countries, which would keep receiving Latin American savings. This would also greatly jeopardize Latin American people who would continue to live in economic instability, precarious employment, food insecurity, and limited social progress.

For these reasons, Latin American countries must urgently try to reach a consensus: it is better to have an imperfect bank than no bank at all. However, if it is a mere replica of the IFIs of the current multilateral development bank model, Latin America would lose a historic opportunity, important not only for the region but for many other Southern countries that are watching this experience with hope. The Bank of the South must go ahead.

**Dr. Isabel Ortiz** received her Ph.D. from the London School of Economics, and has over 15 years of experience working in 30 countries in various areas of economic and social development. From 1999-2003 she was Senior Economist (Poverty Reduction) in the Strategy and Policy Department of the Asian Development Bank (ADB). Ms. Ortiz has also been a lecturer and researcher, publishing in Europe, Asia and the US. Recently she has worked with Nobel Laureate Joseph Stiglitz's Initiative for Policy Dialogue.

**Dr. Oscar Ugarteche Galarza**, is Peruvian, with a Ph.D in History and Philosophy of the University of Bergen, Norway; M.Sc. of the School of Business of the University of London; and graduate of Finances in the School of Administration of the University of Fordham, New York. He is a member of the Institute of Economic Investigations (IIEC) of the Universidad Nacional Autónoma de Mexico (UNAM) and Coordinator of the Economic Observatory of Latin America ([www.obela.org](http://www.obela.org)). He is a member of the National System of Investigators of Mexico and an advisor of the Latin American Network on Debt, Development and Rights (LATINDADD).

## Endnotes

- <sup>1</sup> Isabel Ortiz is a former senior official of the Asian Development Bank and Oscar Ugarteche is a researcher at the Economic Research Institute of the National Autonomous University of Mexico. The opinions expressed in this article are the authors'.
- <sup>2</sup> Annual Reports from the Inter-American Development Bank (IDB), World Bank, Andean Development Corporation (CAF) and webpage of the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).
- <sup>3</sup> ECLAC. August 2008: *Economic Survey of Latin America and the Caribbean*. Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean
- <sup>4</sup> Outcome from the Technical Workshop Bank of the South, Government of Ecuador and United Nations. See: [http://mef.gov.ec/portal/page?\\_pageid=37,34898&\\_dad=portal&\\_schema=PORTAL](http://mef.gov.ec/portal/page?_pageid=37,34898&_dad=portal&_schema=PORTAL)
- <sup>5</sup> See: [http://www.elcomercio.com/noticiaEC.asp?id\\_noticia=218399&id\\_seccion=6](http://www.elcomercio.com/noticiaEC.asp?id_noticia=218399&id_seccion=6)
- <sup>6</sup> Ugarteche, O; Y. Kitazawa and P. Dembinski. *Beyond Bretton Woods Conference*. UNAM Mexico DF, 15-17 October 2008. See: <http://www.obela.org/conferencia>

## Annex

### **Bank of the South Incorporation Agreement Signed**

*Oscar Ugarteche (Translated by Suzanna Collerd)*

Finally, twenty months after the Bank of the South was founded in Buenos Aires, the South American presidents signed the incorporation agreement of BANCOSUR in Porlamar, Isla Margarita, Monday, September 28, 2009. Commissions from financial ministries negotiated the regulations of the incorporation agreement, clarifying capital contributions, the voting mechanism, personnel recruitment, jurisprudence, tax and legal considerations for officials and the bank's function. What it is for, exactly?

#### **The Initial Declaration**

The Bank of the South is full property of UNASUR's ten member countries. Venezuela and Argentina initiated negotiations for its constitution in 2006; later Ecuador and Brazil joined in May, 2007 and finally all members signed. As opposed to the Andean Development Corporation (CAF), with 18 member countries, some from Central America and others from other continents, BANCOSUR is South American in its essence. In this way, Chile's position as an observer, although consistent with its position on Latin American integration since it withdrew from the Andean Pact in 1977, is a disadvantage compared to its small-scale, \$21 million dollar participation in CAF. Even though this amount is minimal, it shows their presence. Currently, there is no such demonstration of presence with this bank. This is reminiscent of British foreign policy toward European Integration when it remained an observer during the decades of the European Economic Community's formation; even after Europe's integration, the British maintain an autonomous immigration policy and keep their tender. The English were not going to allow Continental Europe to dictate their monetary or immigration policies.

Colombia, for its part, has played an ambivalent role. Initially, it rejected the idea in 2006, but later expressed its agreement in the second half of 2007. Nevertheless the day before the signing Colombia withdrew; this produced confusion in the founding document because eight countries appear, but there are actually only seven signatures. Peru is the only South American country unreceptive to this idea, although perhaps the next government will decide to incorporate. It seems that this opposition is because of Venezuela's predominant role in the bank and the close friendship between president García of Peru and Venezuelan former president Carlos Andrés Pérez of the fallen Democratic Action Party. Therefore, Peru's absence shows a lack of formality in its foreign policy. Also, Peru is not an active participant in UNASUR as shown by the presidential absence in Margarita Island on the weekend of September 26th and earlier in Santiago, Chile.

Peru and Colombia play alongside Washington and commit themselves to the policy based on bilateral agreements championed by the former president of the United States. Both countries seem to lack an integrationist foreign policy and concur with Washington's policy of divide and conquer, based upon the understanding that the winner in regional integration is a country whose government is not of their liking. Thus in UNASUR and BANCOSUR they play the same role they did in the club of debtors at the peak of the debt crisis in 1984, whose constitution failed in May of that year because these two countries served as a conduit for Washington's opposition. This according to the renown work of Ambassador Alzamora Valdéz, then Executive Secretary of the Latin American and Caribbean Economic System (SELA).

### The Signing of the Incorporation Agreement

In the context of a meeting between presidents of South America and Africa, seven out of the eight attending South American presidents (Hugo Chávez of Venezuela, Luiz Ignacio Lula da Silva of Brazil, Rafael Correa of Ecuador, Fernando Lugo of Paraguay, Evo Morales of Bolivia, Cristina Fernández of Argentina and Tabaré Vázquez of Uruguay), signed the incorporation agreement of the Bank of the South, founded in Buenos Aires the day before the swearing in of Cristina Fernández in December 2007. It took 20 months to do what was then promised would take 60 days according to the sixth point of the foundation agreement. This process has been much faster than that of the multilateral fund of ASEAN that took 9 years to be constituted in May of 2009, or the European institutions that took decades. Now, as in 2007, Colombia did not sign in and Peru was not even in the picture.

Throughout these two years it was agreed that the bank will start with a total capital of \$7 billion dollars and that each country will have one vote in the board of directors as well as in the credit council for credits of up to \$70 million. For larger credits the voting will be proportional to capital contributions. The three big countries and the four smaller ones will pay these contributions in different proportions. The latter will pay \$400 million dollars each.

The initial outstanding capital is \$7 billion dollars, double that of CAF. The authorized capital of CAF is \$10 billion while Bank of the South's is \$20 billion as president Chávez announced. The outstanding capital of \$7 billion will be contributed to the bank in the following months to begin personnel recruitment. The idea of the Bank of the South is that it will not focus on infrastructure, like the CAF and the IDB, but on projects to close the poverty gap in the South American region.

# South-South Cooperation between Venezuela and Cuba

Carlos A. Romero (Translated by Suzanna Collerd)  
*Universidad Central de Venezuela*

## Abstract

The cooperation relationship between Venezuela and Cuba creates a double contradiction. On the one hand, there is a relationship between two peripheral countries. On the other hand, there is the political, social and cultural configuration between Caracas and a country that, in and by itself, represents more than just a diplomatic and commercial relationship.

Therefore, this is not, nor can it be a 'normal' relationship as carried out among many governments of the South. In particular, there is a relationship where oil and revolution are understood as independent variables to explain such rapprochement. Here, the author tries to analyze how Venezuela has prioritized cooperation with Cuba in the context of building a foreign policy independent from the United States (US).

## Introduction

In the context of South-South cooperation, the relationship between Venezuela and Cuba is a special case. The purpose here is to understand the extent and the intention of a relationship that amounts to 1% of Venezuela's gross domestic product (GDP), includes programs that add up to almost US\$1.5 billion in 2009, consists of 31 Cuban entities and institutions' intervention in more than 157 bilateral projects, and bilateral trade growth of 81% between 2008 and 2009. This is cooperation based on Venezuela's regional programs such as the Bank of the

ALBA, the Bank of the South, PetroAmerica, PetroCaribe, and the San Jose Oil Agreement; It is also based on bilateral programs channeled through state institutions and excluding or minimizing the participation of multilateral organizations, the private sector, cooperatives, and non-government organizations (NGO).

This case is part of the Venezuelan revenue dependency process, in the sense that president Chavez's administration controls oil revenues with the purpose of promoting its continental leadership and providing the basis for a global recognition that oscillates between solidarity and clientelism. In this way, state and non-state actors manipulate Venezuelan aid (a geopolitical revenue) in the form of favors, donations, transfers, third-party payments, direct aid, debt forgiveness, financing, and non-returnable investments. These actors capture the revenue, accessing it through the subsidized and deferred sale of oil, investment programs with substantial Venezuelan financing, and the payment for professional services, and no longer through the traditional commercial (exchange) or economic (value added) ways.<sup>1</sup>

## Economic, Commercial and Social Cooperation

The relationship between Venezuela and Cuba can be divided into two stages. The first, fundamentally bilateral, went from the arrival of Hugo Chávez to the presidency for the first time in 1999 until 2004. The second goes from 2004 until today, in the context of the Bolivarian Alliance for the Peoples of Our America, ALBA.

During the first stage, the Venezuelan interest in Cuba was the convergence and defense of two similar ideological and political projects as well as an economic and commercial rapprochement to create a common identity at the regional level. The purpose then was to circumvent the US economic embargo of Cuba, reactivate and grow the supply of Venezuelan oil in the island, help Castro's regime to overcome a severe economic crisis, reinvigorate the global leftist movement, and condemn American military actions in Afghanistan and Iraq as well as the American protection of anti-Castro terrorist Luis Posadas Carriles. Later, there were joint efforts to condemn the arrest of five Cuban citizens whom American prosecutors accused of being spies.

From the economic and commercial point of view, this relationship took a fundamental turn with the signing of the Integral Cooperation Agreement Between Cuba and Venezuela in October 2000. The purpose was to promote the exchange of goods and services in cooperative conditions, which led Venezuela to sell at a fixed, preferential price (US\$27 a barrel) 53,000 barrels of oil to Cuba since 2002. These barrels are paid in the following way: the half in 90 days after purchase and the rest over 25 years, with a 2-year grace period, including the cost of transportation and insurance.

In exchange, Cuba sent more than 13,000 Cuban workers to Venezuela, mostly workers in the health (doctors, nurses and paramedics) and sports sectors – first as a sort of barter, and then since 2003, in payments for professional services that reached roughly US\$4.4 billion in 2007. This led to growing cooperation in the energy sector, massive official Cuban participation in Venezuela's government social missions, and subsequent bilateral promotion in the Americas.

In late 2004, the creation of the Bolivarian Alternative for the Peoples of Our America ALBA, known since 2009 as Bolivarian Alliance for the Peoples of Our America – People's Trade Agreement (ALBA-TCP) gave a more regional flavor to the relationship between the two countries. In fact, a joint declaration on December 14, 2004, when the Integral Cooperation Agreement Between Cuba and Venezuela was modified and expanded, states that "a convergence of positions at a global scale is sought." A key reflection also emerges from this declaration: "Once consolidated the Bolivarian process after the decisive victory in the August 15, 2004 recall referendum and the October 31, 2004 regional elections, and given that Cuba is in a position to guarantee its own sustainable development, the cooperation between the Republic of Cuba and the Bolivarian Republic of Venezuela will be based starting today not only on the principles of solidarity, which will always be present, but also on the exchange of goods and services to the greatest degree possible."<sup>22</sup>

The expansion of this agreement consolidated a new phase of economic complementarities beyond energy cooperation and the exchange of human resources. In the Agreement for the Constitution of the presently called Bolivarian Alternative for the Peoples of Our America ALBA, signed by Cuba and Venezuela in 2004, Bolivia joined later that same year, Nicaragua in 2006, Dominica and Honduras in 2008, and Antigua and Barbuda, Saint Vincent and the Grenadines, and Ecuador in 2009.

This alliance allows trade of goods inside member countries with no tariffs, in addition to the Unified System for Regional Compensation (SUCRE) for foreign exchange operations between member countries, and considered the basis for a future common monetary system.

Also, the alliance promotes the creation of several ALBA 'grand-national' companies such as Constructora Alba, PDVSA-Cuba S.A., the Alba Steel Mill project, a Cuban stock share in TeleSUR, the Complementation in the Sugar Industry Project, the Cuban Housing Project (PetroCasas), the bi-national Cuba-Venezuelan project for the endogenous agricultural development of Cienfuegos, the project for a joint rail company, the project for joint companies in the technology sector, foreign exchange financing agreements through Banco Industrial de Venezuela and Banco de Comercio Exterior de Venezuela, agreements on tourism promotion and air and maritime services (including open skies status for Cuban state airlines over Venezuela), a US\$63.4 million project to lay a 1,630-kilometer long submarine cable between La Guaira (Venezuela) and Siboney (Cuba) currently in execution by the Telecomunicaciones Gran Caribe, S.A. Company (formed by Telecom Venezuela and Transit of Cuba), and the joint project to build an international airport in Saint Vincent and the Grenadines, for a total of more than 26 joint companies and 190 more in their final negotiation stages.

In addition, there are the Caracas Energy Cooperation Agreement; TeleSUR; the Latin American Parliamentary and People's Forum for the Defense of National Economies; PETROAlba; the Gran Nacional Energy Company; the ALBA Energy Council; Ports of ALBA, S.A, company created to modernize, refurbish and build ports in Venezuela and Cuba; the socialist joint venture 'Guardián del Alba S.A.', to make software to safeguard technological sovereignty; Transalba, a Cuban-Venezuelan logistics joint venture to supply hydrocarbons to the countries of the area and that contributes to the development of a joint

merchant fleet; Alba Cultural; the Bank of ALBA and the Bank of the South, both promoted by Venezuela to create a financial integration, autonomous management of foreign debt and a social solidarity fund (comprised of concessional loans, no-interest loans, donations, humanitarian aid and non-reimbursable technical assistance).

In this context, trade relations between Cuba and Venezuela grew from US\$388.2 million in 1998 to US\$464 million in 1999, US\$912 million in 2000, US\$2.5 billion in 2005, US\$3.2 billion in 2006, and to US\$7.1 billion in 2007, close to 45% of the island's total trade of goods and services. In 2007, trade totaled almost US\$2.7 billion in goods and US\$4.4 billion in services.

In 2008, trade of goods between Cuba and Venezuela totaled about US\$5.375 billion, US\$4.892 billion of which were Venezuelan exports to Cuba and US\$483 million were Venezuelan imports from Cuba. Adding the payment for professional services as part of the trade between the two countries, total trade amounted to US\$10.975 billion, a 35% increase since 2007.

Total aid to Havana from Caracas in 2008 was about US\$ 9.970 billion: US\$5.6 billion in payments for professional services; US\$2.5 billion in subsidies for oil sold at a fixed price of US\$27 and US\$1.87 billion in other bilateral cooperation projects. (Accumulated aid since 1999 is calculated to be about US\$18 billion)

Currently, Venezuela is Cuba's main trading partner. On December 12, 2009, in the closing act of the 10<sup>th</sup> Cuban-Venezuelan Intergovernmental Meeting, both countries declared that they had signed 285 new commercial, economic, oil and social cooperation projects that will cost more than US\$ 3.185 billion.

Venezuela exports oil and derived products, footwear, textiles, construction materials, plastic, and industrial inputs to Cuba. From Cuba, Venezuela imports knowledge-intensive services, especially health services, and to a lesser degree, educational and sport services, technical assistance, biotechnological and pharmaceutical products, radio and television programs, cement, iron, steel, machinery, and measurement equipment. Since 2005, the daily quota of Venezuelan oil exported to Cuba has grown to a total of 153,000 barrels, resulting from 98,000 barrels through the Integral Cooperation Agreement (of bilateral character) plus 55,000 barrels through PetroCaribe, amounting to 90% of Cuba's total consumption of about 170,000 barrels a day. Additionally, the Hermanos Díaz oil refinery, in the province of Santiago de Cuba, the Nico López refinery in the province of La Habana, and the Cienfuegos refinery were refurbished by the joint company PDV-Cupet, which processes and eventually re-exports part of the 153,000 barrels a day Cuba receives from Venezuela, which now ranks second in Cuban exports. Other energy agreements have been signed, including the creation of a new refinery in the province of Matanzas.

The accumulated Cuban oil-related debt with Venezuela was about US\$ 4.975 billion in July, 2009, equaling 24% of all oil cooperation receivable accounts of Petróleos de Venezuela (PDVSA).<sup>3</sup>

In terms of social cooperation, in late 2007, Cuban authorities said that there were 39,000 'collaborators' in Venezuela, 31,000 of which were health workers. This was about 75% of all international Cuban aid workers, a total of 52,000 for that year. It is important to mention that the wage paid to each worker in Venezuela represents only 18% of the payment made directly to the Cuban government for each

one. Social cooperation between Venezuela and Cuba is expected to continue in 2009 with 137 ongoing and 48 new projects, an investment of US\$2 billion.

The first flight that took Venezuelan patients to receive medical attention in Cuba was in 2000. Yet, the social cooperation program started in 2003 with the first 53-member Cuban health brigade, which was an initial phase of the free healthcare program "Barrio Adentro", which benefits mainly the poorest segments of the population. Since its beginning, Barrio Adentro has provided medical attention to more than 1 million Venezuelans and saved more than 124,000 lives in the health clinics and 612,000 in the diagnostic centers for a total of 736,000 lives saved. There were also 104,000 surgeries performed plus more than 580,000 on vision problems in Misión Milagro. Free optometric attention was provided to 5,778,248 Venezuelans. In 23 states, 643,948 households were visited by Misión José Gregorio Hernández, locating 337,317 people with disabilities who are now covered by this program.

Cuban cooperation also benefited 3,389,809 athletes with the Barrio Adentro Deportivo program. Out of 109 Venezuelan participants in the Beijing Olympics, 68 were trained by Cuban coaches. There are 6,000 Cuban coaches in all 355 Venezuelan municipalities.

Since 2003, 1,663,661 Venezuelans have learned to read with the Cuban literacy system as part of the Misión Robinson program. Cuban cooperation with Misión Robinson II also graduated 437,171 students from primary school, 81,000 of whom are indigenous. In five years, 1,412,167 people joined the Misión Ribas, 510,503 of them graduated from high school. The Misión Sucre program (at the college level) enrolled 442,229 students, including 206,230 in

the educators formation program and 21,506 in the community medicine program. The Misión Corazón Adentro program, created in 2008 to bring culture to communities, includes 538,000 Venezuelans. In eight months, this program performed 1,398 community workshops with 17,918 participants and more than 300 performances by artistic brigades. With Cuban assistance, 119 radio and television community stations were created. Additionally, 1,400 Cuban agricultural experts are working with Venezuelan agricultural producers. In Cuba, there are 3,800 Venezuelan students in the undergraduate and 71 in graduate programs. In Venezuela, 4,146 graduate students are part of the Cuba-Venezuela cooperation program. Barrio Adentro's goal is for 25,000 Venezuelans studying under Cuban professors to graduate as medical doctors in five years. There are already 20,441 students in their first three years of study.

The Cuban and Venezuelan governments as well as experts have evaluated the effectiveness of social cooperation agreements. Though both coincide in their political and humanitarian impact, some reservations are held about their cost efficiency. Caracas and Havana have declared the reorganization of these programs in 2009, giving the Cuban government more control in their implementation with the arrival of 1,100 new Cuban doctors whose superiors will be appointed directly by Cuba, bringing the number of Cuban collaborators in Venezuela to more than 42,000 by the end of 2009.<sup>4</sup>

## Strategy and Military in Cooperation Relationships

Cooperation between Venezuela and Cuba includes also the strategic military field. Since 1999, the connection between Cuba and Venezuela has been replacing the historical

relationship between Venezuela and the US. A military doctrine was adopted, taking in consideration an eventual American attack on Venezuela, dubbed as the "two-step attack" (first Venezuela and then Cuba) and the possibility of a fourth generation, asymmetrical war. The Cuban-Venezuelan strategy contemplates the need to propose a regional block different from TIAR, with the participation of Cuba and the exclusion of the US and helping revolutionary governments and movements in the region.

Since 1999, the Venezuelan Squadron has provided humanitarian assistance in Cuba related to natural disasters as well as regular visits to the island for official delegations and military study groups to perform professional exchanges and military training. Venezuela's military and defensive relationship with Cuba is widening: several Venezuelan troops undergo military training in Cuban academies on subjects from flying the Russian 'Sukhoi' fighters bought by Venezuela to coordinating and participating in intelligence operations.

The Venezuelan military attaché in Cuba was established in 2007. Until now, no reliable information can be given about a military treaty, arms trade, joint military exercises or the use by Cuba of a Venezuelan military base. Rumors exist about the possible presence of Cuban officials in key posts in the Venezuelan Bolivarian Armed Forces or the Venezuelan public institutions in charge of identifying citizens and registering their properties, as well as tripartite cooperation between Cuba, Venezuela and Russia or Iran in the case that joint military nuclear programs were to be developed. What can be proven is the adoption of a Cuban-inspired military iconography, such as the case with the new Venezuelan Army uniforms and the slogan adopted by the Armed Forces, "Homeland, Socialism or Death".<sup>5</sup>

In April, 2008, ALBA member countries signed an Agreement for the Implementation of Programs and Cooperation in Sovereignty and Food Security as well as the Agreement for Support and Solidarity with the People and Government of Bolivia. Taking into account that in May 2006 Venezuela signed a military Complementary Agreement to the Basic Agreement of Technical Cooperation between Bolivia and Venezuela, specialized Latin American circles commented that the realm of action of ALBA has been widened to include military matters. During ALBA's VII Heads of State Summit, member countries decided to study the possibility of creating a Security Council and a regional military school as mechanisms of military cooperation.<sup>6</sup>

But strategic and military action does not stop with the relationships among states. Cooperation among revolutionaries is also based on Cuba's support in matters such as strategic planning, intelligence, counter-intelligence, mobilization, and monitoring the military activities of the US. Also in the support of radical movements in Venezuela and the continent, such as Continental Bolivarian Coordination (since 2009 called Continental Bolivarian Movement), National Venezuelan-Cuban Solidarity and Friendship Movement, the presence of Venezuelan youth in political formation courses in Cuba, the "Esperanza" Plan, ALBA'S Tri-National Youth Brigade, the International Francisco de Miranda Front, the World Social Forum, the Sao Paulo Forum, the Porto Alegre Forum, the Bolivarian Amphictyonic Congress, and the People's Alternative Movement.<sup>7</sup>

## Conclusions

During the 1980s, due to the failure of the Chilean experience, the case of the Caribbean island of Grenada, the retreat of the Left in the continent and the Soviet policy of reducing their presence in the hemisphere, Cuba stopped being a strategic concern, then, criticism of its societal model began. This worsened during the 1990s due to the hardening of US policy toward Cuba, the US economic embargo of 1962, Cuba's regional isolation, and its internal economic crisis, known as the "Special Period", which ended with the fall of the Soviet Union.

Entering the 21<sup>st</sup> century, Cuba was able to relate its own experience with those of the newly emerging Left in Latin America and the Caribbean, which began to flourish first in Venezuela and later in Brazil, Bolivia, Ecuador and other diverse, interesting cases. The debate then reemerged about whether Cuba was a security problem or a model to be followed in the Americas. This has generated a debate in Latin America about revolution, the supposed interference of these countries in the internal affairs of other countries, and the possibility that the Venezuelan political model follows the steps of the Cuban model.

In reality, since 1999, Cuba has had a very important partner in Venezuela. The expression "Cuba and Venezuela, two flags, one revolution" denotes the rapprochement between the two countries, their joint participation in ALBA, the development of an important socio-economic exchange, the creation of a complex cooperation process, and the promotion of socialism.

With cooperation, trade and joint economic investments, bilateral relations have been strengthened to the point of economic complementarities between the two countries. Noteworthy aspects of this relationship are the great financial volume accompanying this experience and the asymmetric cooperation model where Venezuela provides significant support. In this context, three questions arise:

- To what point is this cooperation sustainable? Is it conditioned on Venezuelan oil revenues rather than the generation of Cuban income?
- How can the effectiveness and efficiency of these cooperation programs be measured? To what extent is there a space for rectification of the goals and instruments that, according to some analysts, have shown deficiencies?
- What kind of unintended consequences can this cooperation have for the balance of Venezuelan foreign aid as well as for Cuban society in terms of income distribution, the illegal diversion of resources, and the balance between those who have access to Venezuelan aid and those who do not?

In this context, the future of cooperation relations between Venezuela and Cuba can develop in various scenarios. First, where the relationship continues widening based on the main elements of this alliance: economic complementation, energy cooperation and political agreements based on a combination of *hard power\** (military assistance

and economic cooperation), *soft power\** (ideological promotion), and *social power\** (social aid).<sup>8</sup>

A second scenario would include an eventual political and economic opening in Cuba, both governments taking distance, and Cuba promoting a debate about the achievements of Venezuelan cooperation and its relation to the policy of subsidies and social rights that Havana wants to revise in the framework of its economic plans. Havana would then depend less on Caracas, curbing the ‘perverse’ consequences cooperation between the two countries is having. These consequences are caused by Venezuela’s intention to influence Cuban internal politics, Venezuelan revenue-dependency’s impact on the dislocation of Cuban society, the corruption generated in cooperation management, the accruing of Cuba’s financial debt to Venezuela, and the creation of social inequalities within Cuban society by the effect of Venezuelan assistance. (9) At the same time, Cuba would seek to strengthen energy, trade and financial relations with other countries such as Algeria, Angola, Brazil, Equatorial Guinea, Iran, Mexico, and Azerbaijan. Venezuela would also have to reduce subsidized oil sales to Cuba if the prices of Venezuelan oil or its production would drop considerably.

A third scenario would arise from internal changes in the orientation of the Venezuelan and Cuban processes, which would lead to a reconsideration of the basis and instruments of a strategic cooperation that has been based on the common commitments of building socialism and promoting an anti-imperialist foreign policy.

**Carlos Antonio Romero** is a Venezuelan political scientist and a university professor at the Universidad Central de Venezuela. He has a Doctorate in Political Science. For more than 30 years Dr. Romero has been studying Venezuelan, Cuban and Colombian foreign policy and has published more than ten books and several academic articles in those subjects. Carlos A. Romero lives in Caracas.

\* N.T. Original in English

Notes

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## ANNEX

# CSO Statement on South-South Cooperation

Presented during the UN conference on South-South Cooperation  
*Nairobi, Kenya, 1-3 December 2009*

**Your Excellency, Mr. President of the South-South Cooperation Conference,  
Heads of Delegations and representatives of Member States,  
Colleagues and Representatives of the Business Sector and of Parliaments,  
Dear Civil Society Colleagues**

### **Ladies and Gentlemen:**

We, the members of civil society organizations and networks from the Southern countries, would like to issue a statement in view of the current topical and timely discussions of the South-South Cooperation.

We are grateful for this opportunity to present a brief statement of our issues to you today. We urge you to listen and take full account of the voices and key recommendations of civil society in your discussions, conclusions and follow-up actions.

Today the world is consumed by urgent crises of finance and climate that not only threaten the realization of the Millennium Development Goals (MDGs) and the lives and livelihoods of hundreds of millions of people, in the South, but also the stability of the world's economies. The Northern governments and financial system are responsible for the current crises, but the costs and the impacts are paid for by the entire world, and by the poorest countries in particular.

Overcoming these crises requires decisive action and leadership from the global community. To date however, such leadership has been sorely lacking.

The swift and massive response of governments to bail out banks and private financial institutions with more than three trillion US dollars of public guarantees and funds, stands in stark contrast to their failure to respond decisively to the unabated crisis of poverty, and marginalization that has afflicted the majority of peoples in the world. South-South cooperation therefore must prove its capability by raising the sum necessary to tackle poverty,

We note that South-South Cooperation has catalyzed the debate around aid effectiveness reform as well as reforms in the governance structure of the IMF, and the World Bank. In the last 30 years, these institutions have pushed for increased capital flows and market liberalization, resulting in the erosion of national policy space, and the violation of national sovereignty. They are among the major institutions responsible for the current situation, have no legitimacy and no credibility to play such a role in the reform of the international financial system, let alone to start a self-reform process. It is with this in mind that we call for deepening and strengthening South-South cooperation.

Such cooperation however must meet basic requirements in promotion of human rights, solidarity and equity of the partners, environmental sustainability, and development ownership.

We demand that South-South Cooperation promote the development of global economic structures and policies that put peoples' rights first, that respect and promote human rights, gender equality, as well as social and environmental justice. We demand policies that ensure decent work based on employment opportunities, respect for labor rights, social protection, social dialogue, sustainable livelihoods, provision of essential services such as health, education, housing, water and clean energy, and that take account of the care economy, largely dependent on women. Southern people need to have greater control over resources and the decisions that affect their lives.

Mr President, distinguished delegates we are convinced that the South-South Cooperation conference is key to reaching enduring solutions to the multiple human crises we have outlined. We call on governments to agree to a strong South-South follow-up process that brings together all institutional stakeholders, not only the governmental and intergovernmental organisations, but also the International Labor Organization (ILO) and civil society

Mr President, distinguished delegates, the Civil Society would like to raise the following issues on South-South Cooperation:

### **People based South-South Cooperation**

The cooperation of the peoples of the south is key in supporting the activities and initiatives of the South-South cooperation. Unfortunately their participation is currently limited due to financial and other capacity problems. We call for an integrated approach to the South-South Cooperation with governments of the South committing resources for facilitating CSO processes. We believe that civil society can play an important role in furthering the objectives of the South-South cooperation. Governments should encourage and financially support civil society engagement, and recognize the key role they play in implementing and monitoring programs and policies. We urge for their structured inclusion in future deliberations and programs of the South-South Cooperation.

### **On aid**

On the question of aid we contend that South-South cooperation to further improve the quality of aid in its cooperation through strengthening of democratic ownership, with a greater focus on targeting gender justice, and ending tied policy conditions. Such conditions undermine ownership, increase poverty, and the goals of poverty eradication and increased aid effectiveness.

### **On Investment**

We are convinced of the need to institute a holistic approach to South-South investment that includes, among others, the social development aspects, sustainable technology transfer. South-South should follow environmentally and socially sustainable production systems, and align its operations with national and local economies.

Appropriate regulatory frameworks should be put in place to ensure corporate accountability, including the ILO Declaration on Multinational Enterprises and social policy. Bilateral investment and free trade agreements should be discussed with all relevant stakeholders, notably national parliaments, social partners and civil society ensuring democratic ownership.

## On Debt

We call for the total and unconditional cancellation of odious debts as well as decisive actions to stop the re-accumulation of such debt.

South-South cooperation governments should establish a new debt architecture that is inclusive, participatory and democratically accountable to the peoples it aims to serve. The United Nations should play a key role in its development, and the institutions and mechanisms should be subject to international human rights norms and treaties. Among other needs, the new binding institutional framework should revise the current debt sustainability framework so as to include domestic debt, human development and environmental and climate justice considerations. There is also an urgent need to establish fair and transparent debt work-out mechanisms that are independent from the international financial institutions.

In **Conclusion**, Mr President, distinguished delegates,

In the face of the multiple crises, we urge governments to take the side of women and men workers, farmers, youth and children of the South to promote environmental sustainability by taking an alternative economic path. We, civil society networks, representing millions of people from the South, therefore call for change in Nairobi that puts effective development, poverty eradication, human rights, gender equality, decent work, and environmental sustainability at the forefront of the discourse, the policies, and the search for enduring solutions.

We thank you.

## Endorsed by:

African Forum and Network on Debt and Development (AFRODAD)  
Reality of Aid Africa Network  
IBON International  
Reality of Aid Network  
International Association for Community Development  
Action Aid  
Social Watch Network  
Kenya Debt Relief Network (KENDREN)  
South Asian Network for Social and Agricultural Development (SANSAD), India  
South Asia Alliance for Poverty Eradication (SAAPE), Nepal  
Voices for Interactive Choice and Empowerment (VOICE) /Aid Accountability Group, Bangladesh  
Nepal Policy Institute (NPI)  
Forum of Women's NGOs of Kyrgyzstan  
Countryside Security and Sustainable Development Network (CSSD Network), Vietnam  
Center for Research and Assistance the Children (CENFORCHIL), Vietnam  
China Association for NGO Cooperation (CANGO), China  
International NGO Forum for Indonesian Development (INFID), Indonesia

## List of Members

### **ROA AFRICA**

#### **ANGOLA**

##### **Jubilee Angola**

PO Box 6095, Luanda, Angola

Tel: (244)2366729

Fax: (244)2335497

Email: Jubileu2000.ang@angonet.org

#### **BENIN**

##### **GRAIB-ONG**

BP 66 AZOVE Benin

Tel: (229) 027662; 91 62 22

Fax: (229) 46 30 48

##### **Groupe de Recherche et d'Action pour la Promotion de l'Agriculture et du Développement (GRAPAD)**

c/15061 Maison DJOMAKON Jean VONS Guindéhou VEDOKO, Benin

Tel: (229) 21 38 01 72 / 21 38 48 83

Fax: (229) 21 38 01 72

#### **BURUNDI**

##### **Forum pour le Renforcement de la Société Civile (FORSC)**

Contact Person: Pacifique Nininahazwe

Email: pnininahazwe@yahoo.fr

#### **CAMEROON**

##### **Centre for Promotion of Economic and Social Alternatives (CEPAES)**

P. O. Box 31091, Yaounde, Cameroon

Tel: (237) 231 4407

#### **CONGO (DRC)**

##### **Habitat of Peace - Congo - DRC**

Tel: (243) 99811818

#### **COTE'D'IVORE**

##### **Forum National sur la Dette et la Pauvreté (FNDP)**

BP 585 Abidjan cidex 03 Riviera, Abijan

Tel: (225) 05718222

#### **GHANA**

##### **Foundation for Grassroots Initiatives in Africa (GrassRootsAfrica)**

PMB MD 187

Madina- Accra, Ghana

Tel: (233) 21 50 23 24

Fax: (233) 21 50 23 24

Email: grassrootsafrica@grassrootsafrica.org.gh

www.grassrootsafrica.org.gh

#### **KENYA**

##### **Kenya Debt Relief Network (KENDREN)**

C/O EcoNews Africa, Mbaruk Road, Mucai Drive,

P.O. Box 76406, Nairobi, Kenya

Tel: (254) 020 2721076/99

Fax: (254) 020 2725171

Web: www.kendren.org

##### **Kenya Private Sector Alliance (KEPSA)**

2nd Floor, Shelter Afrique

Along Mamlaka Road, Next to Utumishi Co-op House

P.O. Box 3556-00100 GPO Nairobi, Kenya

Tel: (254) 20 2730371/2 and 2727883/936

Fax: (254) 2 2730374

Email: info@kepsa.or.ke

Web: www.kepsa.or.ke

##### **Social Development Network (SODNET)**

Methodist Ministry Center, 2nd Wing, 4th floor, Oloitoktok Road, Off Gitanga Road, Kilimani Nairobi 00619 Kenya

Tel: (254) 20 3860745/6

Fax: 254) 20 3860746

Web: www.sodnet.org

#### **MALAWI**

##### **Malawi Economic Justice Network (MEJN)**

Centre House Arcade,

City Centre,

PO Box 20135,

Lilongwe 2

Malawi

Tel: (265) 1 770 060

Fax: (265) 1 770 068

## List of Members

Email: mejn@mejn.mw  
Web: www.mejn.mw

### **NIGERIA**

#### **Africa Leadership Forum**

ALF Plaza, 1 Bells Drive, Benja Village, Km 9, Idiroko road, Ota, Ogun State, Nigeria  
Tel: (234) 803 4543925  
Email: info@africaleadership.org  
Web: www.africaleadership.org

#### **African Network for Environmental and Economic Justice (ANEJ)**

123, First East Circular Road Benin City Edo State Nigeria  
Tel: (234) 802 3448216, (234) 709 3077565  
Web: www.anej.org

#### **Centre for Peacebuilding and Socio-Economic Resources Development (CPSERD)**

Lagos, Nigeria

#### **Economic Community of West African States Network on Debt and Development (ECONDAD)**

123 1st East Circular Road, Benin City, Edo State, Nigeria  
Tel: (234)52 258748  
Web: www.econdad.org

### **THISDAY**

35 Creek Road , Apapa, Lagos  
Tel: (234) 8022924721-2, 8022924485  
Fax: (234) 1 4600276  
Email: thisday@nova.net.ng  
Web: www.thisdayonline.com

### **SENEGAL**

#### **Forum for African Alternatives**

Contact Person: Demba Moussa Dembele  
Email: dembuss@hotmail.com

### **SOUTH AFRICA**

#### **Economic Justice Network (EJN)**

Church House 1, Queen Victoria Street, Cape Town Republic of South Africa

Tel: (27) 21 424 9563  
Web: (27) 21 424 9564  
Email: ejnetwork@mweb.co.za; admin@ejn.org.za  
Web: www.ejn.org.za

#### **Institute for Security Studies/Institut D'Etudes de Securite**

PO Box 1787  
Brooklyn Square, Tshwane (Pretoria) 0075  
South Africa  
Tel: (27) 012 346 9500/2  
Fax: (27) 012 346 9570  
Email: iss@issafrica.org  
Web: www.iss.co.za

#### **Center for Economic Governance and Aids in Africa (CEGAA)**

Room 1009, Loop Street Studios, 4 Loop Street, Cape Town 8001/ P.O. Box 7004, Roggebaai, 8012 South Africa  
Tel: (27) 21 425 2852  
Fax: (27) 21 425 2852  
Web: www.cegaa.org

### **TANZANIA**

#### **Tanzania Coalition on Debt and Development (TCDD)**

Swahili / Ndovu Street,  
Kariakoo Area  
Block No. 126  
P.O Box 9193  
Dar es Salaam,  
Tanzania  
Tel: (255)22 2181211  
Fax: (255) 22 2124404  
Email: ttcdd@yahoo.com  
Web: http://ttcdd.org

#### **Tanzania Association of NGOs (TANGO)**

Off Shekilango Road, Sinza Afrika Sana  
Dar es Salaam  
P. O. Box 31147  
Tanzania  
Tel: (255) 22 277 4582  
Fax: (255) 22 277 4582  
Email: tango@bol.co.tz  
Web: www.tango.or.tz

## List of Members

### UGANDA

#### **Uganda Debt Network**

Plot 424 Mawanda Road, Kamwokya Kampala / P.O.  
Box 21509 Kampala, Uganda  
Tel: (256) 414 533840/543974  
Fax: (256) 414 534856  
Email: info@udn.or.ug  
Web: www.udn.or.ug

#### **Uganda NGO National Forum**

Plot 25, Muyenga Tank Hill Rd, Kabalagala,

PO Box 4636, Kampala, Uganda  
Tel: +256 312 260 373/ 414 510 272  
Email: info@ngoforum.or.ug  
Web: www.ngoforum.or.ug

### ZAMBIA

#### **Jubilee Zambia**

P.O. Box 37774, 10101, Lusaka, Zambia  
Tel: (260) 1 290410  
Fax: (260) 1 290759  
Email: debjtctr@zamnet.zm  
Web: www.jctr.org.zm

#### **Southern African Centre for the Constructive Resolution of Disputes (SACCORD)**

P.O. Box 37660, Lusaka, Zambia  
Tel: (260) 1 250017  
Fax: (260) 1 250027  
Email: saccord@zamtel.zm

### ZIMBABWE

#### **African Forum and Network on Debt and Development (AFRODAD)**

31 Atkinson Drive, Harare, Zimbabwe  
Tel: (263) 4 778531/6  
Fax: (263) 4 747878  
Email: afrodad@afrodad.co.zw  
Web: www.afrodad.org

#### **Institute of Development Studies (IDS) University of Zimbabwe**

P.O. Box MP167, Mt Pleasant, Harare, Zimbabwe  
Tel: (263) 4 333342/3  
Fax: (263) 4-333345

#### **Zimbabwe Coalition on Debt and Development (ZIMCODD)**

5 Orkney Road, Eastlea, Harare, Zimbabwe  
PO Box 8840, Harare, Zimbabwe  
Tel: (263) 4 776830/1  
Fax: (263) 4 776830/1  
Email: zimcodd@zimcodd.co.zw  
Web: www.zimcodd.org.zw

### MOZAMBIQUE

#### **Grupo Mocambicano da Divida (GMD) / Mozambican Debt Group**

R. de Coimbra,91 - Malhangalene - Maputo - Mozambique  
Tel: (258)21-419523  
Fax: (258)21-419524  
Email: divida@tvcabo.co.mz  
Web: www.divida.org

#### **Foundation for Community Development - Mozambique**

Tel: (258) 213555300

## ROA ASIA-PACIFIC

### AUSTRALIA

#### **Australian Council for International Development (ACFID)**

14 Napier Close Deakin Australian Capital Territory (Canberra) 2600, Australia  
Tel: (61) 2 6285 1816  
Fax: (61) 2 6285 1720  
Email: main@acfid.asn.au  
Web: www.acfid.asn.au

#### **Aid/Watch**

19 Eve St Erskineville NSW 2043, Australia  
Tel: (61) 2 9557 8944  
Fax: (61) 2 9557 9822  
Email: info@aidwatch.org.au  
Web: www.aidwatch.org.au

### BANGLADESH

#### **UBINIG (Policy Research for Development Alternative)**

22-13, Khilzee Road, Block # B,

## List of Members

Mohammadpur, Shaymoli,  
Dhaka 1207, Bangladesh  
Tel: (880) 2 81 11465; 2 81 16420  
Fax: (880) 2 81 13065

### **Voices for Interactive Choice and Empowerment (VOICE)**

House #67, 4th floor, Block-Ka, Pisciculture Housing Society, Shaymoli, Dhaka-1207, Bangladesh  
Tel: (880) 2-8158688  
Fax: (880) 2-8158688  
Email: info@voicebd.org  
Web: www.voicebd.org

### **LOKOJ Institute**

No. 706, Road No. 11, Adabor, Shamoli, Dhaka 1207, Bangladesh  
Tel: (880) 28150669  
Fax: (880) 29664408  
Email: lokoj@aitlbd.net  
Web: www.lokoj.org

### **Proshika**

I/1-Ga, Section-2, Mirpur, Dhaka-1216, Bangladesh  
Tel: (880) 8015812,(880) 8016015  
Fax: (880) 2-8015811  
Email: idrc@proshika.bdonline.com  
Web: www.proshika.org

### **COAST**

House# 9/4, Road# 2, Shyamoli, Dhaka 1207 Bangladesh  
Tel: (880) 2-8125181  
Fax: (880) 2-9129395  
Email: info@coastbd.org  
Web: www.coastbd.org

### **ANGIKAR Bangladesh Foundation**

Sunibir, 25 West Nakhhalpara, Tejgaon, Dhaka 1215 Bangladesh  
Email: angikarbd@yahoo.com

### **Advancing Public Interest Trust (APIT)**

107/ Ground Floor, Sher Sha Shuri Road, Mohammadpur, Dhaka 1216 Bangladesh  
Tel: (880) 2-9121396,(880) 2-9134406 Ext-103  
Email: info@apitbd.org  
Web: www.apitbd.org

### **INCIDIN Bangladesh**

9/11, Iqbal Road, Mohammadpur, Dhaka-1207 Bangladesh

Tel: (880) 2-8129733  
Web: www.incidinb.org

### **Wave Foundation**

3/11. Block-D, Lalmatia, Dhaka 1207, Bangladesh  
Tel: (880) 2-8113383  
Email: info@wavefoundation.org

## **CAMBODIA**

### **Cooperation Committee for Cambodia (CCC)**

House & Street Address: House #9-11, Street 476, Sangkat Toul Tom Pong I, Phnom Penh  
Postal Address: PO Box 885, Phnom Penh, Cambodia  
Tel: (855) 23 214 152  
Fax: (855) 23 216 009  
Web: www.ccc-cambodia.org

### **The NGO Forum on Cambodia**

#9-11 Street 476, Toul Tompong, P.O. Box 2295, Phnom Penh 3, Cambodia  
Tel: (855)23-214 429  
Fax: (855)23- 994 063  
Email: ngoforum@ngoforum.org.kh  
Web: www.ngoforum.org.kh

## **CHINA**

### **China Association for NGO Cooperation (CANGO)**

C-601, East Building, Yonghe Plaza, 28# Andingmen Dongdajie, Beijing, 100007, P.R.China  
Tel: (86) 10 64097888  
Fax: (86)10 64097607  
Email: info@cango.org  
Web: www.cango.org

## **FIJI**

### **Ecumenical Center for Research, Education and Advocacy (ECREA)**

189 Rt. Sukuna Rd.  
G.P.O 15473,  
Suva, Republic of Fiji Islands  
Tel: (679) 3307 588  
Fax: (679) 3311 248  
Web: www.ecrea.org.fj

### **Pacific Islands Association of Non Governmental Organisations (PIANGO)**

30 Ratu Sukuna Road, Nasese, Suva, Fiji Islands;  
Postal: P.O. Box 17780, Suva, Fiji  
Tel: (679) 330-2963 / 331-7048  
Fax: (679) 331-7046

## List of Members

Email: piango@connect.com.fj  
Web: www.piango.org

### **HONG KONG**

**Asia Pacific Mission for Migrants (APMM)**  
c/o Kowloon Union Church, No.2 Jordan Road,  
Kowloon Hong Kong SAR  
Tel: (852) 2723-7536  
Fax: (852) 2735-4559  
Email: apmm@hknet.com  
Web: www.apmigrants.org

### **INDIA**

#### **Centre for Organisation Research and Education (CORE)**

National Programme Office  
A-5 Vienna Residency  
Aldona Bardez 403 508, Goa, India  
Tel: (91) 832-228 9318  
Web: www.coremanipur.org

#### **Public Interest Research Centre**

142, Maitri Apartments, Plot No. 2, Patparganj,  
Delhi – 110 092  
Tel: (91) 222-4233; 243-2054; 222-1081  
Fax: (91) 11-222-4233

#### **South Asian Network for Social and Agricultural Development (SANSAD)**

N-13, Second Floor Green Park Extension  
New Delhi  
India - 110016  
Tel: (91) 11-4164 4845  
Fax: (91) 11-4175 8845  
Email: mail@sansad.org.in  
Web: www.sansad.org.in

#### **Tamil Nadu Women's Forum**

Kallaru, Perumuchi Village and Post Arakkonam 631  
002, Vellore District,  
Tamil Nadu, India  
Tel: (91) 041421 70702  
Email: tnwforum@gmail.com

#### **Vikas Andhyayan Kendra (VAK)**

D-1 Shivdham, 62 Link Road, Malad (West),  
Mumbai 400 064 India  
Tel: (91) 22-2882 2850 / 2889 8662  
Fax: (91) 22-2889 8941  
Email: vak@bom3.vsnl.net.in  
Web: www.vakindia.org

### **INDONESIA**

#### **Forum LSM Aceh (Aceh NGOs Forum)**

Jl. T. Iskandar No. 58 Lambhuk, Banda Aceh, Indonesia  
Tel: (62) 651 33619; 081514542457  
Fax: (62)65125391  
Email: forumlsmaceh@yahoo.com  
Web: www.forumlsmaceh.org

#### **International NGO Forum on Indonesian Development (INFID)**

JL Mampang Prapatan XI, No. 23 Jakarta 12790,  
Indonesia  
Tel: (62) 21 7919-6721 to 22  
Fax: (62)21 794-1577  
Email: infid@infid.org  
Web: www.infid.org

### **JAPAN**

#### **Pacific Asia Resource Center (PARC)**

2, 3F Toyo Bldg., 1-7-11 Kanda-Awaji-cho, Asia Taiheiyō  
Shiryo Centre, Chiyoda-ku, Tokyo 101-0063, Japan  
Tel: (81) 3-5209-3455  
Fax: (81) 3-5209-3453  
Email: office@parc-jp.org  
Web: www.parc-jp.org

#### **Friends of the Earth (FOE) Japan**

International Environmental NGO, FoE Japan  
3-30-8-1F Ikebukuro Toshima-ku  
Tokyo 171-0014, Japan  
Tel: (81)3-6907-7217  
Fax: (81)3-6907-7219  
Email: aid@foejapan.org ; finance@foejapan.org  
Web: www.foejapan.org

#### **Japanese NGO Center for International Cooperation (JANIC)**

5th Floor Avaco Building, 2-3-18 Nishiwaseda,  
Shinjuku-ku, Tokyo 169-0051, Japan  
Tel: (81) 3-5292-2911  
Fax: (81) 3-5292-2912  
Email: global-citizen@janic.org  
Web: www.janic.org.en

#### **Japan International Volunteer Center (JVC)**

6F Maruko Bldg., 1-20-6 Higashiueno,  
Taito-ku, Tokyo 110-8605 Japan  
Tel: (81) 3-3834-2388  
Fax: (81) 3-3835-0519  
Email: kiyoko@ngo-jvc.net; info@ngo-jvc.net  
Web: www.ngo-jvc.net

## List of Members

**Japan ODA Reform Network-Kyoto**  
Email: cy0325@mbox.kyoto-inet.or.jp

### KOREA

**ODA Watch Korea**  
110-240 #503 Dong-Shin Bldg.  
139-1 Anguk-dong, Jongno-gu, Seoul, Korea  
Tel: (82) 2-518-0705  
Email: odawatch.korea@gmail.com; hanlight@hanmail.net  
Web: www.odawatch.net

**People's Solidarity for Participatory Democracy (PSPD)**  
Contact Person: Cha Eun Ha  
Email: pspdint@pspd.org

### KYRGYZSTAN

**Forum of Women's NGOs in Kyrgyzstan**  
Isanova 147, kv. 7; 720033 Bishkek, Kyrgyzstan  
Tel: (996) 312 214585; (996) 555 996612  
Web: www.forumofwomenngos.kg

### LEBANON

**Arab NGO Network for Development (ANND)**  
P.O.Box: 5792/14, Mazraa: 1105 - 2070  
Beirut, Lebanon  
Tel: (961) 1 319366  
Fax: (961) 1 815636  
Web: www.annd.org

### MALAYSIA

**Third World Network (TWN)**  
131 Jalan Macalister, 10400 Penang, Malaysia  
Tel: (60) 4 2266728/2266159  
Fax: (60) 42264505  
Email: twnet@po.jaring.my  
Web: www.twinside.org.sg

### MONGOLIA

**Centre for Human Rights and Development (CHRD)**  
Room 310, Tsetsee-Gun Management University,  
Chingeltei district, Sukhbaatar Street -6,  
Ullanbaatar, Mongolia  
Tel: (976) 11325721  
Fax: (976)11325721  
Web: www.owc.org.mn

### NEPAL

**Nepal Policy Institute (NPI)**  
60 Newplaza Marga, Putalisadak, Kathmandu,  
Nepal  
Tel: (977) 1-4429741  
Fax: (977) 1-4419610  
Email: npi.info@wlink.com.np  
Web: npi.org.np

**NGO Federation of Nepal**  
PO Box 7768, Budhanagar, Naya Baneshwor,  
Kathmandu, Nepal  
Tel: (977) 1 4782908  
Fax: (977) 1 4780559  
Email: info@ngofederation.org  
Web: www.ngofederation.org

**All Nepal Peasants' Federation (ANPFA)**  
PO Box: 273, Lalitpur, Nepal  
Tel: (977) 1-4288404  
Fax: (977) 1-4288403  
Email: anpfa@anpfa.org.np  
Web: www.anpfa.org.np

**National Network of Indigenous Women (NNIW)**  
Kathmandu Metropolitan- 34, Baneshwor,  
PO Box 7238, Nepal  
Tel: (977) 1-4115590  
Fax: (977) 1-4115590  
Email: nniw@wlink.com.np  
Web: www.nniw.org.np

### NEW ZEALAND

**Council for International Development (CID)**  
2/F James Smith's Building cnr. Manners Mall and  
Cuba St., Wellington, New Zealand/ PO Box 24 228,  
Wellington 6142, New Zealand  
Tel: (64) 4 4969615  
Fax: (64) 4 4969614  
Email: david@cid.org.nz; pedram@cid.org.nz  
Web: www.cid.org.nz

### PAKISTAN

**Lok Sanjh Foundation House**  
House 494, Street 47, G-10/4, Islamabad, Pakistan  
Tel: (92) 51-2101043  
Fax: (92) 51 221 0395  
Email: lok\_sanjh@yahoo.com  
Web: www.loksanjh.org

## List of Members

### **Pakistan Institute of Labor and Education Research (PILER)**

ST-001, Sector X, Sub Sector - V, Gulshan-e-Maymar,  
Karachi – Pakistan  
Tel: (92) 21 6351145-7  
Fax: (92) 21 6350354  
Email: piler@cyber.net.pk; info@piler.org.pk  
Web: www.piler.org.pk

### **Peoples Workers Union**

B-25, Bano Plaza, Garden East, Nishtar Road,  
Karachi, Pakistan  
Tel: (92) 30-02023639

### **PHILIPPINES**

#### **Cordillera People's Alliance (CPA)**

# 2 P. Guevarra Street, West Modern Site,  
Aurora Hill, 2600 Baguio City, Philippines  
Tel: (63) 74 304-4239  
Fax: (63) 74 443-7159  
Email: cpa@cpaphils.org; pic@cpaphils.org  
Web: www.cpaphils.org

#### **Council for People's Democracy and Governance (CPDG)**

Quezon City, Philippines  
Tel: (63) 2 3741285  
Email: cpdg.org@gmail.com

#### **IBON Foundation Inc.**

114 Timog Avenue, Quezon City,  
1103 Philippines  
Tel: (63) 2 9277060 to 62  
Fax: (63) 2 929 2496  
Email: research@ibon.org  
Web: www.ibon.org

#### **Mindanao Interfaith People's Conference (MIPC)**

2F PICPA Bldg., Araullo St., Davao City 8000  
Philippines  
Tel: (63) 82 225 0743  
Fax: (63) 82 225 0743  
Email: mmfat\_mipc@meridiantelekoms.net

#### **AidWatch Philippines**

114 Timog Avenue, Quezon City,  
1103 Philippines  
Tel: (63) 2 927 7060 to 62  
Fax: (63) 2 929 2496  
Email: research@ibon.org

#### **Solidarity for People's Advocacy Network (SPAN)**

Cebu, Philippines  
Email: gigilabra@yahoo.com

### **SRI LANKA**

#### **Green Movement of Sri Lanka (GMSL)**

No 9 , 1st Lane, Wanatha Road, Gangodawila,  
Nugegoda, Sri Lanka  
Tel: (94) 11 2817156  
Fax: (94) 11 4305274  
Email: office@greensl.net  
Web: www.greensl.net

#### **SEWALANKA Foundation**

# 432 A, 2nd Floor, Colombo Road, Boralessgamuwa,  
Sri Lanka  
Tel: (94) 11 - 254 5362- 5; 0773-863236, 0773 829948  
Fax: (94) 11 - 254 5166  
Email: south@sewalanka.org  
Web: www.sewalanka.org

#### **Law & Society Trust (LST)**

No. 3, Kynsey Terrace, Colombo 8, Sri Lanka  
Tel: 94 11 2684845 / 94 11 2691228  
Fax: 94 11 2686843  
Email: lst@eureka.lk , lstadmin@slt.net.lk  
Web: www.lawandsocietytrust.org

### **THAILAND**

#### **Shan Women's Action Network (SWAN)**

PO Box 120 Phrasing Post Office,  
Chiangmai 50200, Thailand  
Web: www.shanwomen.org

### **TIMOR LESTE**

#### **East Timor Development Agency (ETDA)**

P.O. Box 30, Bairro Pite, Dili, Timor-Leste  
Telephone: (670) 723 3674; (670) 723 3816  
Email: etda@etda-dili.org

### **VIETNAM**

#### **Vietnam Union of Science & Technology Associations (VUSTA)**

53 Nguyen Du Str. - Ha Noi - Viet Nam  
Tel: (84)4 9432206  
Fax: (84)4 8227593  
Web: www.vusta.vn

## List of Members

### ROA LATIN AMERICA

#### ARGENTINA

##### **Fundación para el Desarrollo en Justicia y Paz (FUNDAPAZ)**

Calle Castelli 12, segundo piso "A", (C1031AAB)  
Buenos Aires, Argentina  
Tel: (54) 11 4864-8587  
Fax: (54) 11 4861-6509  
Email: comunicacion@fundapaz.org.ar  
Web: www.fundapaz.org.ar

##### **Instituto de Desarrollo Social y Promoción Humana (INDES)**

Pte Luis Sáenz Peña 277, 5 Piso Oficina 10, 1110  
Buenos Aires, Argentina  
Tel: (54) 11 4372-6358  
Fax: (54) 11 4372-6358  
Email: indes@arnet.com.ar  
indesmisiones@arnet.com.ar  
Web: www.indes.org.ar

##### **Servicio Habitacional y de Acción Social (SEHAS)**

Bv. del Carmen 680, Villa Siburu, (5003) Córdoba,  
Argentina  
Tel: (54) 351 480-5031  
Fax: (54) 351 489-7541  
Email: sehas@sehas.org.ar; secretaria@sehas.org.ar  
Web: www.sehas.org.ar

#### BOLIVIA

##### **Centro de Educación Popular (QHANA)**

Apartado postal 9989, La Paz, Calle Landaeta No.  
522, La Paz, Bolivia  
Tel: (591) 2 249-1447; 249 1494  
Fax: (591) 2 212-4198  
Email: qhana@qhana.org.bo  
Web: www.qhana.org.bo

##### **Centro de Investigación y Promoción del Campesino (CIPCA)**

Calle Claudio Peñaranda N° 2706 esquina Vicenti,  
Sopocachi, Casilla 5854, La Paz Bolivia  
Tel: (591) 2-2910797; 2-910798  
Fax: (591) 2-2910796  
Email: cipca@cipca.org.bo  
Web: www.cipca.org.bo

##### **Fundación Taller de Iniciativas en Estudios Rurales (Fundación Tierra)**

Apartado postal 8155, La Paz; Calle Hermanos  
Manchego No. 2576, La Paz, Bolivia, Casilla postal  
3972 6022, Santa Cruz de la Sierra, Bolivia  
Tel: (591) 2 243-0145 - 243-2263 /2683  
Fax: (591) 2 211 1216  
Email: fundaciontierra@ftierra.org  
Web: www.ftierra.org

##### **Productividad Biosfera Medio Ambiente - Probioma**

Equipetrol calle 7 Este No 29 Santa Cruz de la  
Sierra, Bolivia  
Tel: (591) 2 3431332  
Fax: (591) 2 3432098  
Email: probioma@probioma.org.bo  
Web: www.probioma.org.bo

#### BRAZIL

##### **Centro de Assessoria Multiprofissional (CAMP)**

Porto Alegre - RS Brazil 90840 - 190,  
Praca Parobé, 130-9o Andar Centro,  
90030.170 Porto Alegre - RS Brasil  
Tel: (55) 51 32126511  
Fax: (55) 51 3233 7523  
Email: camp@camp.org.br  
Web: www.camp.org.br

##### **Federación de Organos para Asistencia Social Educacional (FASE)**

Rua das Palmeiras, 90, Botafogo  
22270-070, Rio de Janeiro - RJ  
Tel: (55) 21 2536 7350  
Fax: (55) 21 2536 7379  
Email: fase@fase.org.br  
Web: www.fase.org.br

##### **Instituto de Estudos Socioeconomicos (INESC)**

SCS Quadra 08 Bloco B-50, salas 433/441, Edificio  
Venâncio 2000, CEP 70333-970 Brasilia - DF, Brazil  
Tel: (55) 61 3212-0200  
Fax: (55) 61 3212-0216  
Email: protocoloinesc@inesc.org.br  
Web: www.inesc.org.br

##### **Instituto de Estudos, Formacao e Assessoria em Politicas Sociais (POLIS)**

Rua Araújo, 124 Centro, Sao Paulo - SP Brazil

## List of Members

Tel: (55) 11 2174-6800  
Fax: (55) 11 2174 6848  
Email: polis@polis.org.br  
Web: www.polis.org.br

### CHILE

#### **Corporación de Estudios Sociales y Educación (SUR)**

José M. Infante 85, Providencia,  
Santiago, Chile  
Tel: (56) 2 235 8143; 236 0470  
Fax: (56) 2 235-9091  
Email: corporacionsur@sitiosur.cl  
Web: www.sitiosur.cl

#### **Juventudes para el Desarrollo y la Producción (JUNDEP)**

Fanor Velasco 27, Santiago, Chile  
Tel: (56) 3611314; 3611321  
Email: jundep@jundep.cl; corpjundep@123.cl  
Web: www.jundep.cl

#### **La Morada**

Purísima 251, Recoleta, Santiago, Chile  
Tel: (56 2) 732 3728; 735 1779 / 1785 / 1820  
Fax: (56 2) 732 3728; 735 1779 / 1785 / 1820  
Email: secretaria@lamorada.cl  
Web: www.lamorada.cl

### COLOMBIA

#### **Centro de Investigaciones y Educación Popular (CINEP)**

Carrera 5 No. 33 A – 08  
Bogotá, Colombia  
Tel: (57) 1 245 61 81  
Fax: (57) 1 287 90 89  
Email: info@cinpe.org.co  
Web: www.cinep.org.co

#### **Corporación Región para el Desarrollo y la Democracia**

Apartado postal 67146 Medellín, Calle 55 No. 41-10  
Tel: (57) 4 216-6822  
Fax: (57) 4 239-5544  
Email: coregion@region.org.co  
Web: www.region.org.co

#### **Corporación Viva la Ciudadanía**

Calle 54, No. 10-81, piso 7, Bogotá, Colombia  
Tel: (57) 1 348 0781  
Fax: (57) 1 212 0467  
Email: info@viva.org.co  
Web: www.viva.org.co

#### **Fundación Foro Nacional por Colombia**

Carrera 4 A No 27 62 Bogotá D.C., Colombia  
Tel: (57) 1 282-2550  
Fax: (57) 1 2861299  
Email: info@foro.org.co  
Web: www.foro.org.co

### COSTA RICA

#### **Fundación Promotora de Vivienda (FUPROVI)**

P.O. Box: 1738-2100, Guadalupe, San José, Costa Rica  
Del Costado Norte de la Iglesia de Moravia, 700  
Mts. Este, 100 Mts. Norte, 100 Mts. Oeste, Moravia,  
San José, Costa Rica  
Tel: (506) 2 247-0000  
Fax: (506) 2 236-5178  
Email: fuprovi@fuprovi.org  
Web: www.fuprovi.org

### CUBA

#### **Centro Félix Varela (CFV)**

Calle 5ta. No 720 esq. a 10, El Vedado municipio  
Plaza de la Revolucion, C.P. 10400, Ciudad de la  
Habana, Cuba  
Tel: (53) 7 836-7731  
Fax: (53) 7 833-3328  
Email: director@cfv.org.cu; cfv@cfv.org.cu  
Web: www.cfv.org.cu

### ECUADOR

#### **Central Ecuatoriana de Servicios Agrícolas (CESA)**

Apartado Postal 17-16-0179 C.E.Q. Inglaterra  
N3130 y Vancouver, Quito - Ecuador  
Tel: (593) 2 2524830  
Tel: (593) 2 503006  
Email: cesa.uio@andinanet.net  
Web: www.cesa.org.ec

#### **Centro Andino de Acción Popular (CAAP)**

Apartado postal 17-15-173-B, Martín de Utreras  
733 y Selva Alegre, Quito  
Tel: (593) 2 522-763; 523-262  
Fax: (593) 2 568-452  
Email: capporg.ec@uio.satnet.nett  
Web: www.ecuanex.net.ec/caap/

#### **Centro de Investigaciones (CIUDAD)**

Calle Arturo Meneses N24-57(265) y Av. La Gasca,  
Sector Universidad Central, Casilla 17 08 8311,  
Quito, Ecuador  
Tel: (593) 2 2225-198; 2227-091; 2500322 ;

## List of Members

2227091; 2227086 ; 098344757  
Fax: (593) 2 500-322 ext 11  
Email: ciudadinfo@ciudad.org.ec; confe@ciudad.org.ec  
Web: www.ciudad.org.ec

### **Fondo Ecuatoriano Populorum Progressio (FEPP)**

Mallorca N24-275 y Coruña, La Floresta, Quito - Ecuador  
Web: (593)2 2520-408; 2529-372; 2554-741; 2554-744  
Fax: (593) 2 2504978  
Email: fepp@fepp.org.ec  
Web: www.fepp.org.ec

### **EL SALVADOR**

#### **Fundación Nacional para el Desarrollo (FUNDE)**

Calle Arturo Ambrogi #411 entre 103 y 105 Av. Norte, Col. Escalón, San Salvador, El Salvador, P.O. BOX 1774, CENTRO DE GOBIERNO  
Tel: (503) 2209-5300  
Fax: (503) 2263-0454  
Email: funde@funde.net  
Web: www.funde.org

#### **Fundación Salvadoreña para la Promoción y el Desarrollo Económico (FUNSALPRODESE)**

17ª Avenida Norte y 27ª Calle Poniente No. 1434, Colonia Layco, San Salvador; Apartado Postal 1952. Centro de Gobierno, San Salvador. El Salvador, Centro América  
Tel: (503) 22 25-2722; 22 25-0414; 22 25-0416; 22 25-1212  
Fax: (503) 2225-5261  
Email: funsal@telesal.net  
Web: www.funsalprodece.org.sv

### **GUATEMALA**

#### **Centro para la Acción Legal en Derechos Humanos (CALDH)**

6a. Avenida 1-71, Zona 1, Ciudad de Guatemala  
Tel: (502) 2251-1505 /2251-0555  
Fax: (502) 2230-3470  
Email: caldh@caldh.org  
Web: www.caldh.org

#### **Proyecto de Desarrollo Santiago-La Salle (PRODESSA)**

Km. 15 Carretera Roosevelt, zona 7 de Mixco. 01057 Interior Instituto Indígena Santiago

Guatemala, Centro América  
Tel: (502) 2435-3911; (502) 2435-3912  
Fax: (502) 2435-3913  
Email: codireccion@prodeessa.net  
Web: www.prodeessa.net

### **HONDURAS**

#### **Instituto Hondureño de Desarrollo Rural (IHDER)**

Colonia Presidente Kennedy, Zona No.2 Bloque No. 37, Casa #4416, Supermanzana No. 5 Tegucigalpa, Honduras  
Tel: (504) 230-0927  
Fax: (504) 2300927  
Email: ihder@sdnhon.org.hn

#### **Comisión de Acción Social Menonita (CASM)**

Barrio Guadalupe 21-22, Calle 3, Av. NE, 2114, San Pedro Sula, Cortés, Honduras  
Tel: (504) 552 9469 / 70  
Fax: (504) 552 0411  
Email: casm@sulanet.net  
Web: www.casm.hn

### **MEXICO**

#### **Asociación Latinoamericana de Organizaciones de Promoción al Desarrollo, A.C. (ALOP)**

Benjamin Franklin #186-Col. Escandon, Del. Miguel Hidalgo, Mexico D.F. C.P. 11800  
Tel: (52) 55 5273 3400; 2614 3450  
Fax: (52) 55 5273 3449  
Email: corpregion@geo.net.co; info@alop.org.mx  
Web: www.alop.or.cr

#### **Deca-Equipo Pueblo**

Francisco Field Jurado Nº 51, Col. Independencia, Deleg. Benito Juárez, México D.F. CP.- 03630  
Tel: (52) 55 5539 0055; 5539 0015  
Fax: (52) 55 5672 7453  
Email: equipopueblo@equipopueblo.org.mx  
Web: www.equipopueblo.org.mx

#### **Enlace, Comunicación y Capacitación, AC (ENLACE)**

Benjamin Franklin No. 186, Col. Escandón CP 11800, México, D.F.  
Tel: (52) 55 52 73 34 03; 52 73 44 86  
Email: enlace@enlacecc.org  
Web: www.enlacecc.org

## List of Members

### **Servicios para la Educación Alternativa AC (EDUCA)**

Escuadrón 201 # 203 Col. Antiguo Aeropuerto,  
Oaxaca 68050, México  
Tel: (52) 951 5025043; 513 6023  
Email: educa@prodigy.net.mx  
Web: www.educaoaxaca.org

### **Centro Operacional de Vivienda y Poblamiento (COPEVI)**

1o. de Mayo No. 151, San Pedro de los Pinos,  
México, D.F. C.P. 03800  
Tel: (52 55) 5515 9627 / 4919  
Fax: (52 55) 5271 4119  
Email: copevi@prodigy.net.mx  
Web: www.copevi.org

### **NICARAGUA**

#### **Asociación para el Desarrollo de los Pueblos (ADP)**

Apartado postal 4627, Managua  
C.S.T. 5 cuadras al Sur, 1 1/2; cuadra al Oeste  
Managua, Nicaragua  
Tel: (505) 2228-1360; 2228-3005  
Fax: (505)2664878  
Email: adp@turbonett.com  
Web: www.adp.com.ni

#### **Servicio de Información Mesoamericano sobre Agricultura Sostenible (SIMAS)**

Lugo Rent a Car 1c al lago, Esq. Sur oeste parque El Carmen. Reparto El Carmen, Managua, Nicaragua  
Tel: (505) 2268 2302  
Fax: (505) 2268 2302  
Email: simas@simas.org.ni  
Web: www.simas.org.ni

### **PANAMA**

#### **Instituto Cooperativo Interamericano (ICI)**

Apartado Postal 0834-02794  
Ave. La Pulida, Pueblo Nuevo, Panamá  
Tel: (507) 224-6019 ó 224-0527  
Fax: (507) 221-5385  
Email: icipan@cwpanama.net  
Web: www.icipan.org

#### **Programa de Promoción y Desarrollo Social (PRODESO)**

Apartado postal 168, Santiago de Veraguas,  
Calle 4, Paso de las Tablas,  
Santiago de Veraguas, Panamá  
Tel: (507) 998-1994

Email: prodeso@cwpanama.net.pa  
Web: www.prodeso.org

### **PARAGUAY**

#### **Base, Educación, Comunicación, Tecnología Alternativa (BASE-ECTA)**

Avenida Defensores del Chaco, piso 1 San Lorenzo,  
Paraguay, Código Postal 2189 San Lorenzo  
Tel: (595) 21 576-786; (595 21) 580-239  
Email: basedir@basecta.org.py

#### **Servicio Ecumenico de Promoción Alternativa (SEPA)**

Apartado postal 23036 Fernando de la Mora,  
Soldado Ovelar 604 Marcos Riera,  
Asunción, Paraguay  
Tel: (595) 21 515-855; 514-365  
Fax: (595) 21 515855  
Email: sepa@sepa.com.py

### **PERU**

#### **Asociación Arariwa para la Promoción Técnica-cultural Andina**

Apartado postal 872, Cusco, Perú;  
Avenida Los Incas 1606,  
Wanchaq, Cusco, Perú  
Tel: (51) 1 205 5730  
Fax: (51) 1 205 5736  
Email: arariwa\_cusco@terra.com.pe  
Web: www.arariwa.org.pe

#### **Centro De Derechos Y Desarrollo (CEDAL)**

Jr Talará No. 769, Jesús de María, Lima 11  
Tel: (51) 1 433-3207 / 433-3472  
Fax: (51) 1 433-9593  
Email: cedal@cedal.org.pe  
Web: www.cedal.org.pe

#### **Centro de Estudios y Promoción del Desarrollo (DESCO)**

Sede central: Jr. León de la Fuente 110 - Lima 17,  
Perú  
Tel: (51) 1 613-8300  
Fax: (51) 1 613-8308  
Email: postmaster@desco.org.pe  
Web: www.desco.org.pe

#### **Centro Peruano de Estudios Sociales (CEPES)**

Av. Salaverry No. 818 Jesús María, Lima 11, Perú  
Tel: (51) 1 433-6610  
Fax: (51) 1 433-1744

## List of Members

Email: [cepes@cepes.org.pe](mailto:cepes@cepes.org.pe)  
Web: [www.cepes.org.pe](http://www.cepes.org.pe)

### **REPÚBLICA DOMINICANA**

#### **Centro Dominicano de Estudios de la Educación (CEDEE)**

Santiago 153, Gazcue (Apdo. Postal 20307)  
Santo Domingo, Dominicana, Rep.  
Tel: (1809) 6823302; 6882966  
Fax: (1 809) 686-8727  
Email: [cedee@codetel.net.do](mailto:cedee@codetel.net.do); [cedee@verizon.net.do](mailto:cedee@verizon.net.do)

### **URUGUAY**

#### **Centro Cooperativista Uruguayo (CCU)**

E. Victor Manuel Haedo 22-52, Montevideo,  
Uruguay, C.P. 11200  
Tel: (598) 2 40-12541 / 4009066 / 4001443  
Fax: (598) 2 400-6735  
Email: [ccu@ccu.org.uy](mailto:ccu@ccu.org.uy); [Info@ccu.org](mailto:Info@ccu.org)  
Web: [www.ccu.org.uy](http://www.ccu.org.uy)

#### **Centro Latinoamericano de Economía Humana (CLAEH)**

Zelmar Michelini 1220, 11100 Montevideo,  
Uruguay  
Tel: (598) 2 900-71 94  
(598) 2 900-7194 ext 18  
[info@clae.org.uy](mailto:info@clae.org.uy)  
[www.claeh.org.uy](http://www.claeh.org.uy)

### **VENEZUELA**

#### **Asociación Civil Acción Campesina**

Calle Ayuacucho oeste No. 52, Quinta Acción  
Campesina, Estado de Miranda,  
Venezuela  
Tel: (58) 212 364 38 72; 321 4795  
Fax: (58) 212 321 59 98  
Email: [accicamp@cantv.net](mailto:accicamp@cantv.net)  
Web: [www.accioncampesina.com.ve](http://www.accioncampesina.com.ve)

#### **Grupo Social Centro al Servicio de la Acción Popular - (CESAP)**

San Isidro a San José de Avila,  
final Avenida Beralta (al lado de la Abadía) Edif.  
Grupo Social CESAP, Caracas,  
Venezuela Santiago  
Tel: (58) 212 862-7423/ 7182 - 861-6458  
Fax: (58) 212 862-7182  
Email: [presidencia@cesap.org.ve](mailto:presidencia@cesap.org.ve)  
Web: [www.cesap.org.ve/](http://www.cesap.org.ve/)

### **ADDITIONAL MEMBER**

#### **Coordinación de ONG y Cooperativas (CONGCOOP)**

2a. Calle 16-60 zona 4 de Mixco, Residenciales  
Valle del Sol, Edificio Atanasio Tzul, 2do. Nivel  
Guatemala, Centro America  
Tel: (502) 2432-0966  
Fax: (502) 2433-4779  
Web: [www.congcoop.org.gt](http://www.congcoop.org.gt)

### **ROA EUROPEAN OECD COUNTRIES**

### **AUSTRIA**

#### **Global Responsibility Austrian Platform for Development and Humanitarian Aid**

Berggasse 7/11, A-1090 Vienna, Austria  
Tel: (43) 1 522 44 22-0  
Email: [office@globaleverantwortung.at](mailto:office@globaleverantwortung.at)  
Web: [www.agez.at](http://www.agez.at)

#### **OEFS- Austrian Foundation for Development Research**

Berggasse 7, A-1090 Vienna, Austria  
Tel: (43)1 317 40 10 - 242  
Fax: (43) 1 317 40 15  
Email: [office@oefse.at](mailto:office@oefse.at)  
Web: [www.oefse.at](http://www.oefse.at)

### **BELGIUM**

#### **11 11 11 - Coalition of the Flemish North-South Movement**

Vlasfabriekstraat 11, 1060 Brussels, Belgium  
Tel: (32) 2 536 11 13  
Fax: (32) 2 536 19 10  
Email: [info@11.be](mailto:info@11.be)  
Web: [www.11.be](http://www.11.be)

#### **European Network on Debt and Development (EURODAD)**

Rue d'Edimbourg, 18-26  
1050 Brussels, Belgium  
Tel: (32) 2 894 46 40  
Fax: (32) 2 791 98 09  
Email: [bellmers@eurodad.org](mailto:bellmers@eurodad.org)  
Web: [www.eurodad.org](http://www.eurodad.org)

#### **Eurostep**

Eurostep AISBL, Rue Stevin 115, B-1000 Brussels ,  
Belgium

## List of Members

Tel: (32)2 231 16 59  
Fax: (32) 2 230 37 80  
Email: admin@eurostep.org  
Web: www.eurostep.org

### DENMARK

#### **MS Action Aid Denmark**

Fælledvej 12  
2200 Kbh N., Denmark  
Tel: (45) 7731 0000  
Fax: (45) 7731 0101  
Email: ms@ms.dk  
Web: www.ms.dk

#### **IBIS Copenhagen**

Norrebrogade 68B, 2200 Copenhagen N, Denmark  
Tel: (45) 35358788  
Fax: (45) 35350696  
Email: ibis@ibis.dk  
Web: www.ibis.dk

### FINLAND

#### **Service Centre for Development Cooperation-KEPA**

Töölöntorinkatu 2 A, 00260 Helsinki, Finland  
Tel: (358) 9-584 233  
Fax: (358) 9-5842 3200  
Email: info@kepa.fi  
Web: www.kepa.fi

### FRANCE

#### **Coordination SUD**

14 passage Dubail, 75010 Paris, France  
Tel: (33) 1 44 72 93 72  
Fax: (33) 1 44 72 93 73  
Email: sud@coordinationsud.org  
Web: www.coordinationsud.org

### GERMANY

#### **Terre Des Hommes - Germany**

Hilfe für Kinder in Not  
Ruppenkampstraße 11a  
49084 Osnabrück, Germany  
Postfach 4126  
49031 Osnabrück, Germany  
Tel: (05 41) 71 01 -0  
Fax: (05 41) 71 01 -0  
Email: info@tdh.de; gf@tdh.de  
Web: www.tdh.de

#### **Christoffel-Blindenmission Deutschland e.V. (CBM)**

Christian Blind Germany e.V.,  
Nibelungen Straße 124,  
64625 Bensheim, Germany  
Tel: (49) 6251 131-0  
Fax: (49) 6251 131-199  
Email: christian.garbe@cbm.org  
Web: www.christoffel-blindenmission.de

### IRELAND

#### **Concern Worldwide**

52-55 Lower Camden Street, Dublin 2 Ireland  
Tel: (353) 1 417 7700; (353) 1417 8044  
Fax: (353) 1 475 7362  
Email: olive.towey@concern.net  
Web: www.concern.net

### ITALY

#### **CeSPI - Centro Studi di Politica Internazionale**

Via d'Aracoeli 11, 00186 Rome, Italy  
Tel: (39) 06 6990630  
Fax: (39) 06 6784104  
Email: cespi@cespi.it  
Web: www.cespi.it

#### **Campagna per la Riforma della Banca (CRBM)**

Mondiale (CRBM), via Tommaso da Celano 15,  
00179 Rome, Italy  
Tel: (39) 06-78 26 855  
Fax: (39) 06-78 58 100  
Email: info@crbm.org  
Web: www.crbm.org

#### **Action Aid Italy**

ActionAid International - via Broggi 19/A - 20129  
Milano  
Tel: (39) 02 74 2001  
Web: www.actionaid.it

### UNITED KINGDOM

#### **British Overseas NGOs for Development (BOND)**

Regent's Wharf  
8 All Saints Street,  
London N1 9RL, UK  
Tel: (44) 20 7520 0252  
Fax: (44) 20 7837 4220  
Email: bond@bond.org.uk; advocacy@bond.org.uk  
Web: www.bond.org.uk

## List of Members

### **UK Aid Network (UKAN)**

UK Aid Network (UKAN)  
ActionAid, Hamlyn House  
Macdonald Road, London  
N19 5PG, UK  
Email: [advocacy@bond.org.uk](mailto:advocacy@bond.org.uk); [ukan@bond.org.uk](mailto:ukan@bond.org.uk)  
Web: [www.ukan.org.uk](http://www.ukan.org.uk)

### **Action Aid UK**

Hamlyn House, Macdonald Road,  
Archway, London  
N19 5PG, UK  
Tel: (44) 20 7561 7561  
Fax: (44) 20 7272 0899  
Email: [mail@actionaid.org](mailto:mail@actionaid.org)  
Web: [www.actionaid.org.uk](http://www.actionaid.org.uk)

### **NORWAY**

#### **Norwegian Forum for Environment and Development (ForUM)**

Storgata 11, 0155 Oslo, Norway  
Tel: (47) 2301 0300  
Fax: (47) 2301 0303  
Email: [forumfor@forumfor.no](mailto:forumfor@forumfor.no)  
Web: [www.forumfor.no](http://www.forumfor.no)

#### **Networkers South-North**

Ullveien 4 (Voksenåsen), 0791 Oslo, Norway  
Tel: (47) 93039520  
Email: [mail@networkers.org](mailto:mail@networkers.org)  
Web: [www.networkers.org](http://www.networkers.org)

### **PORTUGAL**

#### **OIKOS**

Rua Visconde Moreira de Rey,  
37 Linda-a-Pastora  
2790-447 Queijas, Oeiras - Portugal  
Tel: (351) 218 823 649; (351) 21 882 3630  
Fax: (351) 21 882 3635  
Email: [oikos.sec@oikos.pt](mailto:oikos.sec@oikos.pt)  
Web: [www.oikos.pt](http://www.oikos.pt)

### **SPAIN**

#### **Intermón Oxfam**

Calle Alberto Aguilera 15, 28015 Madrid  
Tel: (34) 902 330 331  
Email: [info@intermonoxfam.org](mailto:info@intermonoxfam.org)  
Web: [www.intermonoxfam.org](http://www.intermonoxfam.org)

### **SWEDEN**

#### **Diakonia-Sweden**

SE-172 99 Sundbyberg,  
Stockholm, Sweden  
Tel: (46) 8 453 69 00  
Fax: (46) 8 453 69 29  
Email: [diakonia@diakonia.se](mailto:diakonia@diakonia.se)  
Web: [www.diakonia.se](http://www.diakonia.se)

#### **Forum Syd**

PO Box 15407, S-104 65  
Stockholm, Sweden  
Tel: 0046 8-506 371 62  
Fax: 46 8 506 370 99  
Email: [forum.syd@forumsyd.org](mailto:forum.syd@forumsyd.org)  
Web: [www.forumsyd.org](http://www.forumsyd.org)

### **SWITZERLAND**

#### **Alliance Sud**

Monbijoustrasse 31,  
PO Box 6735 CH-3001 Berne, Switzerland  
Tel: (41) 31 390 93 33  
Fax: (41) 31 390 93 31  
Email: [mail@alliancesud.ch](mailto:mail@alliancesud.ch)  
Web: [www.alliancesud.ch](http://www.alliancesud.ch)

### **THE NETHERLANDS**

#### **Novib - Oxfam Netherlands**

Mauritskade 9, P.O. Box 30919,  
2500 GX The Hague,  
The Netherlands  
Tel: (31) 70 3421777  
Fax: (31) 70 3614461  
Email: [info@oxfamnovib.nl](mailto:info@oxfamnovib.nl)  
Web: [www.novib.nl](http://www.novib.nl)

## **ROA NON-EUROPEAN OECD COUNTRIES**

### **AUSTRALIA**

#### **Australian Council for International Development (ACFID)**

14 Napier Close Deakin Australian Capital Territory  
(Canberra) 2600, Australia  
Tel: (61) 2 6285 1816  
Fax: (61) 2 6285 1720  
Email: [main@acfid.asn.au](mailto:main@acfid.asn.au)  
Web: [www.acfid.asn.au](http://www.acfid.asn.au)

## List of Members

### **Aid/Watch**

19 Eve St Erskineville NSW 2043, Australia  
Tel: (61) 2 9557 8944  
Fax: (61) 2 9557 9822  
Email: info@aidwatch.org.au  
Web: www.aidwatch.org.au

### **CANADA**

#### **Canadian Council for International Cooperation/ Conseil Canadien Pour La Coopération Internationale (CCIC/CCCI)**

450 Rideau Street, Suite 200  
Ottawa, Ontario, K1N 5Z4, Canada  
Tel: (1) 613 241-7007  
Fax: (1) 613 241-5302  
Email: info@ccic.ca  
Web: www.ccic.ca

### **JAPAN**

#### **Pacific Asia Resource Center (PARC)**

2, 3F Toyo Bldg., 1-7-11 Kanda-Awaji-cho, Asia  
Taiheiyo Shiryo Centre, Chiyoda-ku, Tokyo 101-  
0063, Japan  
Tel: (81) 3-5209-3455  
Fax: (81) 3-5209-3453  
Email: office@parc-jp.org  
Web: www.parc-jp.org

#### **Friends of the Earth (FOE) Japan**

3-30-8-1F Ikebukuro Toshima-ku  
Tokyo 171-0014, Japan  
Tel: (81)3-6907-7217  
Fax: (81)3-6907-7219  
Email: aid@foejapan.org  
Web: www.foejapan.org

#### **Japanese NGO Center for International Cooperation (JANIC)**

5th Floor Avaco Building, 2-3-18 Nishiwaseda,  
Shinjuku-ku, Tokyo 169-0051, Japan  
Tel: (81) 3-5292-2911  
Fax: (81) 3-5292-2912  
Email: global-citizen@janic.org  
Web: www.janic.org.en

#### **Japan International Volunteer Center (JVC)**

6F Maruko Bldg.,  
1-20-6 Higashiueno, Taito-ku,  
Tokyo 110-8605, Japan  
Web: (81) 3-3834-2388  
Fax: (81) 3-3835-0519  
Email: info@ngo-jvc.net  
Web: www.ngo-jvc.net

#### **Japan ODA Reform Network-Kyoto**

Email: cy0325@mbox.kyoto-inet.or.jp

### **KOREA**

#### **ODA Watch Korea**

110-240 #503 Dong-Shin Bldg.  
139-1 Anguk-dong, Jongno-gu, Seoul, Korea  
Tel: (82) 2-518-0705  
Email: odawatch.korea@gmail.com;  
hanlight@hanmail.net  
Web: www.odawatch.net

#### **People's Solidarity for Participatory Democracy (PSPD)**

Contact Person: Cha Eun Ha  
Email: pspdint@pspd.org

### **NEW ZEALAND**

#### **Council for International Development (CID)**

2/F James Smith's Building  
cnr. Manners Mall and Cuba St.,  
Wellington, New Zealand  
Tel: (64) 4 496 9615  
Fax: (64) 4 496 9614  
Web: www.cid.org.nz

### **USA**

#### **American Council for Voluntary International Action (InterAction)**

1400 16th Street, NW, Suite 210 | Washington, DC  
20036, USA  
Tel: (1) 202 667-8227  
Fax: (1) 202 667-8236  
Email: ia@interaction.org  
Web: www.interaction.org



This report from the Reality of Aid Network takes a critical look at the nature, shortcomings and potentials of South-South Development Cooperation from a Southern civil society perspective.

The report is a specialized selection of researches ranging from the emergence of new global donors such as India, China and South Africa as well as the establishment of a new international financial architecture in South America to the impact of these trends on the diverse economies of Asia, Africa and the Americas. It presents the general condition of the Southern continents along with the specific experiences of Zimbabwe, Uganda and the Philippines, and illustrates the viability as well as the deficiency of the rising South-South development cooperation. The report also contains two researches on the noteworthy contribution of Cuba in Timor Leste and South West Pacific and its ongoing cooperation with Venezuela.

This report provides development actors important lessons, not just for improving South-South cooperation but also for enhancing the development effectiveness of international development cooperation as a whole.