Chapter 1
Aid Relationships Have Not Changed

Introduction

The first chapter of the 2008 Reality of Aid Report sets out how, underneath the superficial changes and the commitments of donors, the fundamental realities of aid relationships have not significantly changed.

Indonesia

An article from the Indonesian NGO INFID explains how it has remained impossible to have equal relationships between donors and recipients based on mutual accountability given the power imbalances between the two. Countries such as Indonesia have been led into a situation of aid dependency, with the people of the country having to pay for the debts incurred by corrupt and repressive regimes.

In Indonesia there is an explicit commitment to country ownership. However, the reality is that this ownership is being manipulated through World-Bank-led agencies, demonstrating collusion and nepotism, which coordinate their programme priorities. They force NGOs and sub-national authorities to reorient their activities along these lines. Bottom-up processes risk being undermined by this approach.

The reality is that aid has been used to undermine the interests of the people, causing evictions, displacements, the loss of property and the loss of access to better lives. Even international NGOs are sometimes forced to work according to the terms of the World Bank agencies because of their desperate need for funding.

Bangladesh

The Bangladeshi NGO VOICE highlights the continued impact of conditionalities on the ability of democratic processes to take ownership of development in poor countries. A prescribed neo-liberal model of development is being promoted by the rich nations and IFIs which use their control of aid flows to pressure recipient countries such as Bangladesh into market liberalisations and privatisations of key public services. Donors interfere in the political, economic and cultural spheres.

Although donors are now working through Sector Wide Approaches (SWAps), which are theoretically based on a government-led programme to which all donors contribute funds, the reality is that these SWAps are often led by donors and simply endorsed by government.

CSOs have criticized donors such as the ADB for pursuing their own priorities, setting aside the national interest. Recently they conducted an independent mid-term review of the education SWAp, finding that procurement policy was not following the rules of sector-wide approach. Instead of the expected one fund, three funds exist in the project and the government, the ADB and the pool of donors are using their own procurement policy. UNICEF, JICA and AusAID are also expending in parallel for teachers' training and other activities. As a result the entire procedure has become cumbersome and less accountable.

It has been shown that aid conditionality hampers the development of the countries they are supposed to help and infringes on countries' democracy and sovereignty. Poor and marginalized groups such as indigenous communities, women, and fishing communities in particular have been left out of the aid discourse and policy conditions can undermine already fragile independent and democratic political frameworks.

Some of the consequences of aid policies in Bangladesh undertaken with a total disregard for the voice of civil society have been to: increase the price of gas and power; increase the cost of production and thus reduce the competitiveness of Bangladeshi products; seriously damage indigenous wildlife, fish and crop biodiversity; flooding of agricultural land; and displacement of communities.

Australia

The Australian NGO AidWatch presents the interesting case study of changes in bilateral aid to Australia's former territory of Papua New Guinea (PNG) to show the continued vulnerability of aid funds to becoming instruments to serve the shifting commercial and foreign policy interests of donors.

Australia has ostensibly adopted a more 'partnership-based' approach to bilateral aid with PNG in recent years. This has involved the shift from project aid to Sector-Wide Approaches (SWAps), and the elaboration of new, locally-owned performance and budgetary mechanisms to better manage aid flows.

However, the reality is that new kinds of conditionality have emerged, linked to aid outputs and performance reviews, with a system of benchmarks used to trigger additional funding packages. Whilst the payments are to be spent in PNG's priority areas such as health and education, the benchmarks pertain to policy reform objectives in Australia's priority areas of the economy and governance. It is clear in this case that the 'partnership' approach is still defined in donor terms with entrenched power relationships continuing to pervade these newer aid modalities.

Tied aid and technical assistance are proving particularly resistant to changes in the international aid architecture with funds still going to Australian companies and consultants even if not formally tied. This undermines democratic participation and results in aid that fails to reach the poor and marginalised.

Italy

The case study presented by the Italian NGO CRBM examines the use of Italian aid in Ethiopia, not so much to promote this poor country's urgent development needs, but to subsidise a major Italian company operating there. The Gilgel Gibe II hydro-electric project appears as a case of super-tied aid from Italy, lent in a situation full of shadows.

Once again, there has been a move from formally tied aid to a more subtle version of the same thing. Rather than giving aid to Ethiopia on the contractual condition that it spend it on specific Italian goods, the company leads the way in obtaining the allocation of a significant contract from the Ethiopian government. Official Italian development aid is then sought for this specific project.

Numerous problems are outlined in this case, including the lack of transparency in the tendering processes, the lack of respect for environmental provisions and adequate risk assessments in starting the work, a lack of consultation with the people on the ground who are most effected by the project, and a lack of coherence with Ethiopia's major development needs.

India

PIRC seeks to raise awareness of the fact that all is not positive in the increasing emergence of extensive micro-credit schemes. The recent trends indicate that microcredit programs are moving positively away from the 'development as charity' model, but towards a more profitable 'development as business' approach, as financial institutions see the impressive returns from these schemes. The logic of these schemes then switches from poverty reduction to profit-making, which has serious consequences for the appropriateness of loans to a supposedly beneficiary population that instead ends up indebted.

Micro-credit can play a valuable role in giving people the opportunity to rise from poverty. However, it is not a panacea. In places where the infrastructure, health and education services, employment, food and water supplies are all inadequate, microcredit will, at best, provide very fragile micro-solutions in specific cases.

The authors suggest that microcredit depends on wider changes in the development agenda to be successful. Many women entrepreneurs need support services, such as child care, as well as other urgent needs to be able to develop a micro-business successfully. There is already evidence that people in desperate situations are using micro-credit as a stop-gap measure to buy essential goods, getting themselves into even more precarious situations of indebtedness.

The Philippines

The article from the IBON Foundation focuses on the lack of democratic ownership in development policies. This means that aid goes primarily to furthering foreign and elite policy interests and only secondarily to addressing the country's considerable development needs. Outside forces have strong direct and indirect influence over the Philippines' policies and large parts of aid are disconnected from social realities and priorities.

Formal mechanisms for greater public involvement in development policy making in the Philippines are either absent, underutilized or even bypassed and subverted. These internal weaknesses stem from the on-going democratic transition. The author also highlights that recent years have even seen worrying anti-democratic tendencies.

The article asserts that a major problem is that CSOs are disconnected from large parts of aid and aid-related processes. Infrastructure projects and program loans take up at least two-thirds of total ODA and there is no indication that it is standard practice for CSOs to be involved in setting project or program frameworks. They are for the most part seen as mere implementers of grassroots projects largely designed according to donor preferences and priorities. There is rich anecdotal evidence of projects inappropriate to actual needs and communities' overall politico-economic context being implemented because of this approach.

Conclusions

The reforms in the aid architecture emerging from the Paris Declaration and the development of alternative solutions such as micro-credit schemes may seem to be positive steps on the road to successful sustainable development for the world's poorest countries. However, according to the Reality of Aid authors, these trends have to be seen in the context of an increasingly exploitative global order in which the dominant position of donors and financial institutions is used to drive macro-economic policies of liberalization and globalization.

This reality of aid means that democratic ownership is more rhetoric than reality and that many of the steps forward through aid allocation are accompanied by steps back as countries face indebtedness and loss of control over key policy directions and services. Problems arise both from the unacceptable influence of economic powers— through practices such as tied aid and the enforcement of policy conditionalities — and from internal weaknesses within many developing countries.

Rather than being merely technical or theoretical problems, these issues are having direct and negative impacts on the lives and livelihoods of some of the world's poorest communities. In the name of development they are losing control over their own natural resources, which instead contribute to the increasing wealth of Northern governments and companies.

Aid is Power - The Challenge for CSOs and Democratic Ownership

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Introduction

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

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

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

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

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

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

2007 when it was terminated by President Susilo Bambang Yudoyono.

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

Democratic Ownership

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

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

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

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

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

Donors Club*: Against the Spirit of Democratic Ownership?*

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

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

Concerns have been increasingly raised over the presence of these agencies. The donors pool their funds in the agencies, which either implement their own projects or distribute funds to other agents, whether international or local NGOs, national ministries or local governments. Given this more centralized control of the aid flow, it is then of major concern that these agencies are not under the supervision of government or of democratic institutions, but are designed, managed and controlled by the World Bank. Some Indonesian academics and politicians sit on the Boards of the Agencies, but have only ceremonial functions in practice.

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

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

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

The Role of CSOs in the Democratization of Aid

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

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

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

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

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

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

Another case where CSOs and community groups participated and showed their strong ownership was actually the Poverty Reduction Strategy Paper (PRSP) that was made in multi-stakeholders processes in 2003 and has been taken as the National Poverty Reduction Strategy Document (NPRSD, or better known as SNPK – *Strategi Nasional Penanggulangan Kemiskinan*). The SNPK was integrated in the Medium Term Development Plan 2004 – 2009 that was made into Law No. 25/2004. The SNPK was made in participatory ways and included a rights-based approach, and had clear gender perspectives. For the implementation of the SNPK, the government has developed a National

Program on People's Empowerment (known as PNPM) that sets out the details of operational plans for poverty reduction through promoting the capacities of the local communities and providing funds for development.

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

Challenges to CSOs

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

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

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

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

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

Conclusions

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

Aid Relationships Have Not Changed

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

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

Notes

1. Pilger, G. (2002). *The new rulers of the world*. London and New York: Verso.
2. Information from the staff of the World Bank in Jakarta during the consultation meeting between World Bank and CSOs on 19th March, 2008.
3. Government officials and CSOs in Jakarta have complained that the World Bank campaigns for good governance while the institution is itself practicing collusion and nepotism.

Aid Conditionality and Democratic Ownership

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

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

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

The Paris Declaration and Democratic Ownership

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

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

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

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

The donors shape the policy framework and strategies through impositions, seriously undermining the rights, choices and decisions of the people to determine their own demands and actions needed for their own development. Local societal diversities and ownership are ignored by conditionalities. Thus, poor and marginalized groups such as indigenous communities, women, and fishing communities are left out of the whole discourse, and policy conditions interfere with the formation of an independent and mature democracy and political framework. Even the commitments of donors change according to their whims; there remains a huge gap between commitments and disbursements, which indicates a lack of responsibility.

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

Conditionality Violates the Democratic Process

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

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

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

Influence and wealth have the power to dictate policies and there is no downward accountability. Donors even experiment with policies in poor countries. For example, the United Kingdom and the United States imposed a new "power privatization model" on Chile and India in the 1990s which was not onlycontradictory to the principle of democratic ownership, but also took dangerous risks with those countries' development.

Donor agencies always suggest privatization as a means to reduce poverty. Japan has identified 12 priority sectors, including private sector and power sector, under its new country assistance program. The priority sectors are information and communication technology, tourism, transport, agriculture and rural development, education, health environment etc. Donors always choose those sectors that can promote their business interests. There is also a lot of duplication among donors, whose programs are not at all coordinated.

The Aid Scenario and Strategies in Bangladesh

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

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

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

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

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

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

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

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

- 1975-85: moves to improve efficiency of the state sector through exchange rates, trade policy, and fiscal budgetary, financial sector and price reforms.

- 1985-95: growing disillusionment with the state sector leading to: Move towards supporting private sector development; Privatization of state owned enterprises; Induction of private sector in the area of infrastructure development in such sectors as power generation and distribution, telecommunications, airlines, railways, provision of healthcare and education; Introduction of NGOs in the areas of micro-credit and service delivery, particularly in rural areas.

- 1995 Onwards: increasing emphasis on governance-related issues such as public administration reforms, decentralization of administration, reform of the judiciary, involvement of civil society in enforcing greater public accountability, issues of corruption, improvement of law and order.

- 2000 onwards: emphasis on political issues in relation to state confrontation between the political parties, the malfunctioning of parliament, the issue of strikes and political violence, human rights violation and security concern.[2]

Khulna Jessore Drainage Rehabilitation Project (KJDRP)

The Khulna Jessore Drainage Rehabilitation Project (KJDRP) was undertaken in the southwestern coastal districts of Bangladesh to address the river drainage problem, the result of a series of earlier donor interventions - including by the Asian Development Bank (ADB) - to de-link the floodplains from the rivers. Supported by a $33 million ADB loan out of $62 million, the stated objective of the KJDRP was to upgrade existing flood control embankments and to reduce poverty by alleviating river drainage congestion. The project was also funded by the Dutch government and the Global Environment Fund (GEF).[3]

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

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

Sundarbans Biodiversity Conservation Project

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

The ADB was the major funder of the project, providing US$ 37 million out of the total project cost of US$ 82.2 million which was also funded by PKSF and Global Environmental Facilities. SBCP's consultancy budget was managed entirely by the ADB, which allocated 61% of the total costs to consultancy, showing how sincere the ADB was in its objective of poverty reduction. Local people were never properly consulted about the implementation of the project.[4]

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

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

Latest Strategies and Monitoring

The World Bank, ADB, DFID and Japan have prepared a joint Country Assistance Strategy for Bangladesh for 2005-09. The CAS is aligned with the PRSP that encourages other donor agencies to collaborate at the sector level through improved coordination of implementation.

To reduce overlap and misuse of funds, the government of Bangladesh in association with donors has adopted Sector Wide Approaches (SWAps), theoretically based on a government-led programme to which all donors contribute funds. Two programmes, namely Health, Nutrition and Population sector programme (HNPSP) and Primary Education development programme II (PEDP II), have been incorporated through this approach. There are as many as eleven donors involved in this latter project under the leadership of the Asian Development Bank (ADB).

Although this is perceived as a good way to reduce donor conditionality and increase the country's ownership, SWAps are often led by donors and endorsed by government. Although ADB's contribution to the programme is less than half of the government's, it has an increasing influence on the project since its contribution to the project is the highest among the donors.

CSOs have criticized the ADB for pursuing its own priorities, and setting aside the national interest. Recently they conducted an independent mid-term review of the education SWAp, finding that procurement policy was not following the rules of a sector- wide approach. Instead of the expected one fund, three funds exist in the project and the government, the ADB and the pool of donors are using their own procurement policy. UNICEF, JICA and AusAID are also expending in parallel for teachers' training and other activities. As a result the entire procedure has become cumbersome and less accountable.

There is a major need to improve governance. The World Bank Country Policy and Institutional Assessment (CPIA) performance criterion that assesses the quality of budgetary and financial management places Bangladesh at 3.0 on a scale of 1 (very weak) to 6 (very strong). To monitor performance in public financial management and improve accountability, the Public Expenditure and Financial Accountability (PEFA) framework will be used as an important tool. Reforms in core governance areas such as public and tax administration are underway, as are related sectoral reforms which seek to strengthen governance in banking, health and education.

The Government of Bangladesh and the donor agencies also agreed to harmonize and strengthen aid effectiveness. In line with the Paris Declaration, the government therefore approved a Harmonization Action Plan (HAP) in 2006. A high-ranking official from the Economic Relations Division was appointed to promote implementation and monitoring of the HAP and the Poverty Reduction Strategy (PRS). A PRS-HAP cell and a Harmonization Task Force have been established.

Conclusions

In the current global conditions, talk of 'ownership' is almost solely rhetoric and purely theoretical. In reality, aid is a tool for establishing authority over the policy framework of developing countries. Power imbalance, social hierarchy, and the hegemony of the donors are major obstacles to the appropriate and equal distribution of resources to those who need it most.

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

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

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

Aid Relationships Have Not Changed

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Australian Aid to Papua New Guinea: Change Without Change

Kate Wheen & Flint Duxfield
Aid/Watch

This chapter evaluates the implementation of the Paris Declaration with specific reference to the Australian bilateral aid program to Papua New Guinea (PNG). It highlights the very significant changes that the aid effectiveness framework has delivered in recent years. However, it also cites a number of examples where obstacles to achieving the implementation of the Paris Declaration are emerging, which can be traced to the very weak definition of the principle of ownership.

For donors, the Paris declaration limits itself to the notion that they must "respect country leadership and help strengthen their capacity to exercise it".[1] By confining itself to this restricted sense of 'country ownership', the Paris Declaration does not address obstacles to achieving aid effectiveness such as technical assistance, tied aid and different forms of conditionality, which continue to hinder progress towards 'democratic ownership' of aid in recipient countries like PNG.

This chapter also looks at the depth to which the new 'country-owned' strategy for PNG has institutionalised a principle of 'donor-recipient partnership' and reflects on the emerging projects in the Australia-PNG bilateral program designed to engage PNG civil society. It assesses the potential of this new strategy, but also some associated problems.

Overview

Formerly a colonial territory of Australia, Papua New Guinea has historically received a larger proportion of Australian aid than any other country. Australia is also PNG's most significant and influential donor with its package of assistance totalling approximately AU $356 million per annum.[2]

As highlighted by AID/WATCH in the 2006 Reality of Aid Review, Australian aid policy with regards to PNG and the Pacific has in recent years been profoundly influenced by the 'war on terror' and 'the securitisation of aid' in a regional context.[3] The large proportion of aid funds diverted to regional policing, anti-terrorism initiatives, and the promotion of 'good governance' in the Asia/Pacific region since 2002 has exemplified the vulnerability of aid funds to becoming instruments of the shifting commercial and foreign policy interests of donors.

In the context of this over-emphasis on security and so-called 'failing states', the unilateralism of Australia's approach to aid in PNG was a catalyst for an unproductive deterioration in diplomatic relations between the two countries from 2003 onwards.[4]

Since 2006, sensitivity to criticisms of Australia's unilateral engagement in the region has led to a noticeable shift in its approach to development assistance. A new focus, initiated in the last years of the former conservative government and now embraced by the new Labor government, is emphatically based on a 'partnership' approach to bilateral aid. This shift has moved Australia more in line with the aid effectiveness principles and modalities prescribed by the Paris Declaration. This has included moving all bilateral recipients to country-owned strategies, underpinned by locally developed frameworks (in PNG's case, its own Medium Term Development Strategy - MTDS). It has involved the shift from project aid to Sector-Wide Approaches (SWAps), and the elaboration of new, locally-owned performance and budgetary mechanisms to better manage aid flows. These changes are enshrined in the 2006-2010 Australia-Papua New Guinea Development Cooperation Strategy (DCS)[5].

The recent election of a new Labor government in Australia in November 2007 has also restored more amicable diplomatic relations and a renewed spirit of cooperation between the two countries. In addition, the Australian aid agency, AusAID, has decentralised its activities and decision-making away from Australia's capital Canberra. Its offices in Port Moresby have now taken the leading role in project planning, procurement and implementation.[6]

These moves mark a significant departure from Australia's bilateral aid program that in the past has been criticised for its unilateralism, the carrot-and-stick tactics utilised to push for governance reforms, the ad-hoc nature of project-based aid, and the high proportion of Australian projects running parallel to rather than working within government systems, which undermined PNG's own capacity for service delivery and which, until 2004, were tied exclusively to Australian contractors.

These are significant gains. However, the intent here is not simply to document the changes that Australia has made in transforming its bilateral aid program in this area, but to use the PNG/Australia relationship as a case study to examine where the obstacles are emerging to the implementation of the broader goals of the Paris Declaration.

Performance-Based Conditionality

One of the largest oversights of the Paris Declaration is the absence of a critique of donor conditionality and the prominent impact this has on democratic ownership and accountability.

Conditions placed by donors on aid funding have long been acknowledged by much of the development community as a barrier to aid effectiveness. However, in the context of the Paris Declaration, where aid effectiveness has been linked to managing performance and measuring results, new kinds of conditionalities emerge, linked to aid outputs and performance reviews, that bring with them their own problems and are likely to present significant issues in aid delivery.

Although the new Australian government has taken a much more conciliatory approach to diplomatic relations with PNG, since their election in November last year, they have signalled that they will be increasing the performance-based conditions on the aid program beyond those implemented by the past government, as the necessary companion to scaling-up aid volume.[7]

The 2006 Australia/PNG cooperation strategy emphasises that PNG has developed a *locally owned* performance review process and has formulated for its donors a set of benchmarks against which it can measure its own performance.[8] However, the way Australia operates its benchmarks and incentives structure undermines the capacity of the PNG government to make its own policy decisions.

The essence of performance-based aid is a system of benchmarks which, once reached, trigger additional funding packages - $30 million dollars in the case of PNG. However, details in the 2007/08 aid budget statements reveal that, although the incentive payments are to be spent in PNG's priority areas such as health and education, the benchmarks pertain to policy reform objectives in Australia's priority areas of the economy and governance.[9]

Measuring and monitoring performance is acknowledged as a fundamental element of aid effectiveness. Yet, if the implementation of donor-recommended economic and governance reforms are used as the indicators, this will only continue to undermine both the sovereignty of recipient governments and the accountability of governments to represent the interests of their own people. The risk here is that political and economic conditionalities are reinvented in the context of 'producing development results'.

Country Owned strategies – Genuine Partnership?

The 2006-2010 Australia PNG Development Cooperation Strategy repeatedly insists that the current bilateral aid program is based on a genuine partnership and defined by PNG's own priorities. Within the document, a schematic table aligns the aid priorities identified by PNG and those identified by the Australian government.[10] Whilst there is some crossover, it is not exactly clear how the current strategy has been *actively oriented* towards PNG priorities. Rather, it seems to be laying Australia's own priorities, which focus principally on governance and economic growth over the top.

As an example, one point of difference between Australia and PNG's own MTDS priorities is the priority area of the promotion of income-earning opportunities for adults.[11] With limited opportunities for adult employment in PNG, the PNG government has used lobbying opportunities such as the Pacific Islands Forum to encourage Australia to open up its labour market to PNG citizens[12]. This push has been continually resisted by Australia, principally in terms of the threat to Australia's own national interests. Despite pressure from all quarters, including the World Bank's Robert Zoellick[13], the previous Australian government's response to these demands was instead a policy to build technical collages in PNG and across the Pacific region, which may provide skills, but does not directly address the question of unemployment.

Labour migration is a very complex issue, but the resistance of Australia to opening up its labour markets crystallises a broader concern about whose interests ultimately prevail in a donor-recipient economic relationship.

This is highlighted in a remark by Charles Lepani, the High Commissioner of PNG to Australia, about the means by which the donor community has driven the aid effectiveness agenda. At a 2007 conference on Australia and the South Pacific he remarked "We went from budget support aid in Papua New Guinea to project-tied aid, and now you're bringing in SWAP or Sector-Wide Approach"[14]. There is, in these remarks, a strong sentiment that the 'partnership' approach is still defined in donor terms with entrenched power relationships continuing to pervade these newer aid modalities.

Finally, of course, there is a need to democratise country-owned strategies themselves. On the positive side the MDTS policy is well recognised by PNG's donors and has become institutionalised as a development framework. However, in essence, this kind of national plan remains a "top-down blueprint", as PNG permanent representative to the UN, Robert G Aisi, has remarked[15]. Though the Paris Declaration makes reference to the need for such plans to emerge from 'broad consultative processes'[16], this should be redefined in terms of broad, inclusive and meaningful *participation* if genuine ownership is to be achieved.

Aid Relationships Have Not Changed

Tied Aid and Technical Assistance

Tied aid and technical assistance are two aspects of aid that are proving particularly resistant to the changes in the international aid architecture that are emerging from the Paris Declaration. The hundreds of consultants and advisors to the large corporate project management firms that receive most of Australia's contracts in PNG are adapting easily to the changed policies and programming and the new partnership model to protect and maintain their vested interests.

While Australia formally untied its aid program in 2006 in line with the Paris Declaration, AusAID's annual contract listings show that the same Australian providers still dominate and contractors from aid recipient countries are virtually absent.[17] Superior knowledge of the procurement process and favourable bureaucratic structures have meant that large Australian contractors dominate and local providers are still only accessing aid funds primarily in subcontracting relationships conducted privately through the larger firms. The AusAID website is up front about the fact that the untying of aid was principally motivated to facilitate reciprocal access for Australian companies to European aid contracts.[18]

Australian companies have proved remarkably adaptable to the shift from project-based aid to program-wide and sector-wide approaches in PNG. Top Australian Firms such as Cardno ACIL, Coffey International, GRM International, and JTA International who dominated the project-based aid market now manage large sector-wide programs in the education, health, law and justice, infrastructure, and governance sectors. These primarily provide technical assistance and capacity to PNG government departments.

As an example, JTA International, an Australian firm that specialises in health sector project management, is contracted to run a Capacity Building Service Centre (CBSC) for the health sector in PNG. Following on from an 'institutional strengthening' project within the PNG ministry of Health, the CBSC is intended to work with the partner government department to advise on priorities, financial and human resource management and technical assistance needs, to produce policy recommendations and recruit this assistance both nationally and internationally[19].

Whilst an end to unsustainable parallel projects is a key benefit of the Paris Declaration principles, an unwillingness to significantly increase funds for the expansion of critical infrastructure in health and education has seen sector-wide funding principally focused on using expensive technical assistance to better manage the existing operations of PNG's own government departments. As the Australia/PNG DCS strategy states "donor resources will leverage and not displace Papua New Guinea's own transparent expenditure commitments".[20]

The commercial-in-confidence nature of these large contracts, some 50-100 million dollars for five-year commitments, also makes it impossible to calculate the inputs and outputs for these programs including the internal procurement of what are often very expensive technical assistance consultants.

However, broader trends apparent in a report on the effectiveness of Australia's aid program released by the Australian government in March 2008 suggest that 50% of Australia's country programs consist of technical assistance[21]. This is a disappointing statistic. In 2004 an OECD DAC review of Australian aid judged levels of Technical Assistance, which it calculated to be 47%, to be too high[22]. Four years on that figure has actually grown.

Whilst the new Australian government is signalling that it will put more focus on increasing the reach of service delivery in health and education in PNG than its predecessors[23], the main step it will need to take is to manage the scaling up of aid effectively without feeding the technical assistance industry.

Concerns about conflicts of interest within the private companies also inevitably arise as many of these firms exist within a complex web of corporate subsidiaries with trading interests in similar markets where they act as consultants to governments. In one case GRM International, a company that is managing a $27 million dollar, AusAID-funded, agriculture research and development facility in PNG, also has a trading arm, Austrex, which is one of Australia's largest agricultural exporters in the Asia-Pacific Region[24].

The predominance of these private interests which are 'tied-up' in the aid program, if not formally tied, ultimately reduces the transparency of aid funds to public scrutiny and acts as a barrier to democratic ownership and democratic accountability. Not only does expensive technical assistance in policy making undermine democratic participation, it also results in aid that fails to reach the poor and marginalised as it funds the salaries of foreign advisors and goods and services.

Civil Society and Democratic Governance

One of the biggest challenges for aid programming to emerge from the Paris Declaration is the role that civil society, as a legitimate development actor, can play in promoting development effectiveness outcomes. There has been some recent recognition of the emergence of a strong civil society in PNG, through the proliferation of NGOs, CBOs (Community Based Organisations) and in particular women's groups who have been active in calling governments to account in areas of women's rights.[25]

A number of strategies are being pursued by the Australian aid program in PNG around this question. However, particularly since 2006, they have become almost entirely framed around the role that civil society can play in promoting "better democratic governance".[26] To this end, AusAID has initiated a very significant aid project in PNG designed to bring the disparate 'civil society empowerment' programs - run with CSOs, churches, sporting groups and the media - together under the banner of one Democratic Governance Program called 'Strongim Pipol Kirapim Nesen' or 'Empowering People Strengthening the Nation'. The cost estimated in AusAID's 2007/08 procurement plan is $100 million over five years – a comparatively large volume of funds for a project of this kind[27].

There is much that is exciting and intriguing about the opportunities of this package – not least the very strong emphasis that is placed on civil society as actors, which can increase the accountability of governments, and the long-term possibilities to build capacity, and empower and nurture a vibrant civil society.

However, this project is not without significant risks and concerns. The largest is the extent to which civil society groups are instrumentalised within a broader objective of improving political governance, a much narrower focus than fostering 'democratic participation' more broadly.

The initial draft democratic governance strategy, which was strongly linked to the 2006 White Paper of the previous government highlights the objective of matching supply-side (economic and governance reforms) with demand-side governance in PNG - fantastically 'market-esque' language.[28] There is also an emphasis on identifying and cultivating young leaders and 'change agents' seen to be capable of generating future democratic outcomes.

The very narrow view of the role of CSOs in this respect is to see them as performing a range of pre-determined functions such as educating the public in normative models of civic behaviour as a means of promoting greater understanding of the PNG political system.

Furthermore, there is a danger within this strategy that certain types of civil society organisation and indeed particular individuals will be seen as 'inappropriate' to this prescribed strategy by the donor country. This could prevent the recognition of the very diverse and sometimes quite critical role that a robust civil society can play in increasing the accountability and transparency of aid. Indeed it may also encourage the silencing of dissent in return for donor financing. There has already been one example elsewhere of Australia reneging on funding for an East Timorese NGO when it was found that they had criticised Australian policy[29].

New Horizons

Australian aid policy looks set to go through a significant period of change with the new Labour government signalling its interest in embedding the Millennium Development Goals as the central framework of the aid program. This is certainly a positive step. Furthermore, the "Port Moresby Declaration" which emerged following the recent visit by Australian Prime Minister Kevin Rudd to Papua New Guinea suggests a genuine interest in pursuing and even enhancing a partnership-based approach, creating what has been termed 'Pacific Partnerships for Development'.[30]

However, Australia has often been referred to as a 'monopolistic donor' to PNG and there remains a growing concern that these partnerships will be conceived purely on a government-to-government basis, where the old emphasis on rapid economic growth, free trade and governance that underpinned Australia's past unilateral approaches will simply become rebadged under the mantle of partnership and 'mutual responsibility'.

Despite a welcomed emphasis on 'country ownership', genuine democratic ownership seems more difficult to attain where donor conditionalities and the vested commercial and foreign policy interests of donor nations continue to influence aid flows. It is in this context where firmly articulated principles of genuine partnership and democratic ownership could go a long way in moderating the historical power relations between countries.

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The Gilgel Gibe II Hyrdoelectrical Project - A Case of Super-Tied Aid

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Introduction

Whilst the Paris Declaration calls for ownership, alignment, harmonisation, managing for results and mutual accountability, the reality is that many donor countries are still engaging in practices which deliberately contravene good practice expectations. This article examines a case study where Italian aid has seemingly been used in Ethiopia, not so much to promote the developing country's urgent development needs, but to subsidise a major Italian company operating in the country.

Background

The Gilgel Gibe II hydroelectric project is a 25-kilometer long tunnel that generates power by exploiting the drop between the basin created by the Gilgel Gibe I dam on the Gilgel Gibe river and the river Omo. Gilgel Gibe II, when finished, will be connected to the electric grid with a long transmission line to Addis Ababa and a short one to Gibe I.

A EUR 490 milion contract for the construction of the infrastructure was signed in May 2004 between the Ethiopian Electric Power Corporation (EEPCo) – a fully state-owned company and the sole electric utility in the country – and Salini Costruttori S.p.A., an eminent Italian contruction firm that has a strong presence in many African countries.

The contract was awarded following a direct negotiation between the two companies; no international tender was called. This contravenes the procurement procedures issued by the Ethiopian Ministry of Finance and Economic Development as well as Italian law and international best practices on procurement.

Despite the irregularities in the procurement procedures, in October 2004, the Directorate General for Development Cooperation (DGCS) at the Italian Ministry of Foreign Affairs approved the allocation of a EUR 220 million aid credit to Ethiopia for the realisation of the Gilgel Gibe II. The loan was the biggest aid credit ever granted by the Italian development revolving fund. The project also benefited from a EUR 50 million loan from the European Investment Bank.

Only three months later (in January 2005) the Italian Government ratified the cancellation of EUR 332,35 millions of Ethiopian bilateral debt. Besides the question of procurement irregularities, such practices by the Italian Government are totally incompatible with the best practice adopted by other countries participating to the HIPC initiative aimed at preventing the reindebtment of HIPC countries and consisting in lending only small loans strictly addressed to poverty reduction projects.

Concerns Within Italy

The DGCS provided no explanation regarding its decision to approve the funding. In particular, it failed to justify its disregarding of the negative opinions expressed by the DGCS internal Technical Evaluation Unit and Ministry of Economy and Finance.

The DGCS internal Technical Evaluation Unit in its assessment pointed out that:

- The contract was secured through direct negotiation, contrary to existing DGCS procedures, Italian law (law 109/94), and the current procedures undertaken by International Organisations and the European Union in this regard;
- No feasibility study had been carried out;
- No costs relating to environmental impact mitigation measures were contemplated;
- Contract management and control procedures were given inadequate attention;
- The concessionality rate of 42.29 percent was completely inappropriate, taking into account the critical debt situation of the country.

The Italian Ministry of the Economy and Finance, formally responsible for the revolving fund management, expressed deep concerns on the following points:

- Ethiopia is an HIPC (Heavily Indebted Poor Country), therefore, the granting of this loan is a substantial breach of Decision n. 139 of 29.7.2003 on developing countries' eligibility for aid credit.
- This aid credit has a 42.29 percent concessionality level and it is in sharp contrast with IMF forecasts concerning Ethiopia.
- The expected returns are assumed to come from the profits deriving from power exports and from national end-user tariffs. However, some forms of subsidy for increasing electricity access will be required, as Ethiopia ranks among the poorest countries in the world.
- This is an unprecedented amount of credit since the creation of the revolving fund and it undermines the commitments that have already been made.
- The overall cost of this project might not be covered in full, as Ethiopia is supposed to contribute EUR 132million.

Concerns were raised within the Italian Parliament. Between 2004 and 2006 two parliamentary questions on the Italian funds allocated to the Gilgel Gibe II project were submitted to the Lower Chamber and the Senate respectively. On 25th November 2005, a parliamentary question was submitted by MPs Calzolaio and Spini to the Chamber of Deputies. The questions sought to clarify the positions of the different ministries and institutions involved and attempted to discover the relationship between the concession of the loan and the HIPC initiative aimed at relieving Ethiopia's debt burden.

Undersecretary Luigi Mantica answered on 19th January 2005, addressing the question but giving no explanations with regard to the main issues raised. On 9th February 2006, a new parliamentary question was submitted by Senators Iovene, Martone, Tonini and others. The question highlighted the fact that this was one of the highest loans ever granted for a single project, considering that the financial resources allocated by Italy in 2003 throughout the world amounted to less than EUR 180 million. It was also noted that Salini Costruttori S.p.A.

had subcontracted part of the work to Società SELI, a company that in March 2005 started drilling the hydroelectric tunnel. The procedures that led to the allocation of the contract appear dubious at best. This question received no response due to the termination of the mandate of the then government.

In March 2006 the Prosecutors' Office in Rome instigated criminal proceedings concerning Gilgel Gibe II hydroelectric project. At the moment, it is still not possible to know the nature of the charges filed because of the investigation's secrecy, though it is plausible to think that they are likely to concern alleged corruption in the DGCS.

On February 2007, the DGCS office concerned put together a file containing relevant documents on the Gilgel Gibe II case for the DGCS Secretariat to be forwarded to the Tax Squad of the Finance Police. So far, the DGCS has not been formally contacted by the investigators to check documents and interview people as would be standard practice in such cases. It is not clear if the investigation ever started. Suspicions of a cover-up are being voiced.

Other Donors

The European Investment Bank provided EUR 50 million for the project in October 2005. However, it did not examine the details of the contract, but accepted the statement of the Ethiopian government that claimed the funding was necessary to redress the imbalance between electricity supply and demand that was creating an emergency situation and hindering the country's economic growth.

The European Investment Bank approved the loan when the contract was already signed and the construction work well advanced, requiring an international tender procedure only for the EIB's funded components: the purchase and the installation of the electromechanical equipment for which sub-contracts were awarded. Moreover the EIB was not concerned about the fact that construction work began more then one year before without the environmental permit issued by the Environmental Protection Authority.

The World Bank did not support Gilgel Gibe II because the contract was signed before the securing of finances and because of the inadequate procurement process. SACE, the Italian Export Credit Agency, identified similar risk factors to the Italian Ministry of Economy and Finance and also refused credit.

Problems and Inconsistencies

The justification used for the project of an emergency in energy supply is really questionable. Ethiopia has one of the world's lowest levels of access to modern energy services and relies primarily on traditional biomass. Furthermore, in February 2004, only a few months before the signing of the contract of Gilgel Gibe II, Gilgel Gibe dam (know now as a Gilgel Gibe I) became operational. This increased the national generation capacity to 783 MW while Ethiopia's peak domestic demand as of January 2006 was only 587 MW.

Gilgel Gibe II is now facing a delay due to the inadequacy of the preliminary studies. The project was originally planned to be finalised in December 2007 but it is currently facing, at minimum, a one-year construction delay. A large drilling machine is stuck in the main tunnel and the problem is yet to be solved . An optimistic forecast would be a minimum delay of 18 months.

Under the EPC (Engineering Procurementm Construction) contract, the contractor is responsible for virtually all extra costs and can be sanctioned for delays. However the delay in question is due to geological reasons and as the construction started without accurate geological studies, the project contract included an exception of contractor responsibility for geological risk. This was agreed by EEPCo and Salini to be an exception. Therefore, Salini has received an extension and is not subjected to the sanction's payment.

Aside from the project delay and investigations into contract procurement and financing, a team from the European Commission monitoring the project identified several other "lessons learned": "*The Project was defined without a comprehensive sector support strategy. Possible negative consequences are: limited coordination and policy influence for the long-term sector development in synergy with other interconnected sectors; limited scope for supporting best practices with regard to (socio) environmental impacts of large infrastructure projects; absence of an accompanying programme for social development and capacity building; de-link with grant programmes and projects financed by the Italian Development Cooperation in Ethiopia.*"[1]

An On-Going Strategy

The 'Gilgel Gibe Affair' is more than simply one irregular or 'dodgy' project. The hydro-projects are part of an overall strategy to develop electricity supply, in which Salini Costruttori S.p.A. is continually a central actor. Today, there are five hydro-electric projects under construction: Gilgel Gibe II (428MW); Tekeze (300 MW); Beles (400 MW); Amerti-Neshi (100 MW) and Gilgel Gibe III (1870 MW). Salini Costruttori S.p.A is actually involved in three out of the five projects under construction (Gilgel Gibe II, Beles and Gilgel Gibe III) and also constructed Gilgel Gibe I.

The Beles, Amerti-Neshi and Gilgel Gibe III projects were not even identified in a list of projects under construction, study and design in government documents from 2005.[2] In that year, the Government of Ethiopia released an aggressive 25 year national energy Master Plan with the aim of exlpoiting the huge country hydro potential estimated at between 30,000 and 45,000 MW and over 300 sites have been identified for possible future development. The Master Plan implies a large hydro infrastructure development aimed at exporting energy to Kenya, Sudan and Djibouti. EEPcO identifies Salini Costruttori S.p.A. as a main commercial partner in this plan.

Gilgel Gibe III is the latest and most worrying episode of this saga. On 19th July 2006, Salini Costruttori S.p.A and EEPCo signed another contract for the building of the Gilgel Gibe III dam on the Omo River, which is the biggest hydro-electric project ever realised in Ethiopia, with a 240m drop and generating 1870 MW, for a total cost of EUR 1.4 billion. This contract, as with the previous one, was awarded through direct negotiation without an international tendering process. The construction of the dam began immediately after the signing of the contract and, as of November 2007, 13 percent of the infrastructure was reportedly complete.

The dam site is located in the upper Omo basin. The area is characterised by a large plateau with a long and relatively narrow canyon where the river flows. The climate in the basin is arid to semi-arid. Upstream of the dam site, a 150km-long reservoir will be created with the Gojeb River emptying into it, flooding the whole canyon from the dam upstream to the Gibe river. The reservoir will have a surface area of of about 34,150km² (the Gibe I reservoir is about 4,200km²) and with a useful capacity of 11,750m³. Five hundred hectares of agricultural land will be flooded as well as 1,532 ha of riverine forest and 25,506 ha of deciduous woodland. Despite local people living mostly on the plateau, it is envisaged that around 400 households will be displaced. The banks of the rivers are mostly used as grazing land and for firewood collection and as an important route of exchange between the communities living on the both sides of the river.

Downstream of the dam's site, the Omo river flows another 600km to the south, crossing the Omo National Park and reaching Lake Turkana, located at the border with Kenya. The Omo National Park is one of the areas with the largest biodiversity in Africa and it is populated by more then fifteen different tribal groups still living through traditional means. In 1980, the lower Omo Valley was declared a World Heritage site by UNESCO because of "*The discovery of many fossils there, especially Homo gracilis, has been of fundamental importance in the study of human evolution.*"

The construction of such a mega-dam and, the consequent creation of this large reservoir will definitively compromise a very fragile and unique ecosystem, as well as the social environment of the entire region, which is nationally and internationally identified as a protected area. It is important to note that, a Gilgel Gibe IV dam is also envisaged on the same basin, very close to the Omo National Park perimeter. Feasibility studies for the dam are currently ongoing. The contractor will again be Salini Costruttori.

Who is Interested in Supporting Gilgel Gibe III?

By April 2008, the project had still not received any financing from public institutions[3]. The finances for starting construction were secured by EEPCo itself. Given the procurement irregularities and likely social and environmental impact of the hydroproject, it can well be questioned whether the project is in the development interests of Ethiopia. Yet the provision of aid to fund the project, would certainly be in the interests of a major Italian company and therefore also possibly of interest to the Italian government.

The Italian government has been formally approached by the Ethiopian Minister of Foreign Affairs for a EUR 250 million loan, but its official response states that the Italian government could take into consideration a new loan for Gilgel Gibe III only after the completion of Gilgel Gibe II. Salini Costruttori is proactively lobbying all levels of the Italian Foreign Ministry in order to obtain the loan.

The ongoing criminal investigation and the DGCS's dubious conduct in the Gilgel Gibe II project appraisal have not resulted in the Italian Government categorically ruling out its participation.

The World Bank is not willing to finance an additional electricity generation project because there is not sufficient energy demand to justify such a huge investment. Moreover the procurement is not in line with the bank's guidelines. Finally the bank is worried about the EEPCo's financial situation as it requires between USD 3,2 million and USD 4 million to complete the ongoing projects.

The African Development Bank has a positive attitude towards the project considering that it has reached a point of no-return. Under these circumstances, it deems that it is more practical to complete the infrastructure. Although the Bank recognizes that the project's contract procurement is not in line with the Bank's guidelines, it is looking for a way to overcome this problem, namely by subcontracting the purchase and installation of electromechanical components through official and open tender procedures. They are willing to support the project up to USD 200 million but they are waiting to know the final position of other donors before taking a final decision by mid-2008.

Other donors identify the European Investment Bank as a highly possible investor in the operation, lending up to EUR 200 million. It has been formally approached by EEPCo. Meanwhile, the Chinese Government is clearly not interested in being involved in the operation. SACE, the Italian Export Credit Agency, has officially declined a request by Salini for an export credit guarantee, a replication of its 2006 decision.

Conclusions

Despite Italy already being warned by the OECD's Development Assistance Committee (DAC) in 2001 for the consolidated practice of tying its aid, nothing seems to have changed and with Gilgel Gibe II additional allegations of maladministration have been reported. Gilgel Gibe II appears as a case of super-tied aid from Italy, lent in a situation full of shadows and in the presence of an already signed contract without tendering procedure for a project involving a well known Italian firm, involved in other controversial dams in Africa such as Bujagali in Uganda and Bumbuna in Sierra Leone.

It seems highly possible that in the near future the Italian Government will step into the Gibe III project, perpetuating the "Sistema Italia", in other words subsiding its national companies through aid projects.

At the European level, the European Investment Bank should operate its external lending in support of the EU development goals and in this case, in the framework of the "Cotonou agreement". However, European development policy seems to be still incoherent and lacking effective operational frameworks.

Campagna per la Riforma per la Banca Mondiale (CRBM) and CEE Bankwatch Network realeased on February 2007 a full report about Gilgel Gibe hydro-electrical projects titled "The Gilgel Gibe Affair" available at http://www.crbm.org/modules.php?name=download&f=visit&lid=216

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Notes

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2 Ethiopian Ministy of Water Resources.

3 A USD 400 million loan has been requested to the commercial bank JP Morgan Chase and it is not clear right now if the loan has been approved by the bank. CSOs questioned the bank on 14th of January 2008, without receiving any response.

Women's Empowerment and the New World of Microcredit Evangelism

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Introduction

Microcredit has become a buzzword in development circles. Advocates of microcredit often perceive it as a panacea for poverty alleviation. Historically, microcredit programs were initiated by women's groups and non-governmental organizations (NGOs) as a potential tool for women's empowerment, giving poor women greater access to financial resources. By and large, microcredit programs have remained localized, functioning within existing savings and credit facilities. Now, attempts are being made to launch microcredit programs at the global level, hard selling it as an anti-poverty formula.

Recent trends indicate that microcredit programs are moving away from the 'development as charity' model to a more profitable 'development as business' approach. According to a recent World Bank survey, microcredit lending will reach nearly US$ 12 billion worldwide by the end of 1997. In the case of India, not only private donors but a large number of governmental financial institutions (NABARD, SIDBI), bilateral donors (SDC, GTZ), World Bank and other international financial institutions are promoting microcredit programs on a large scale.

Even the transnational banks are jumping on the microcredit bandwagon. It is not wrong to say that there has been a flooding of financial resources to carry out microcredit programs in India and elsewhere. Thanks to microcredit, for the first time, we see a "partnership" between two diverse groups - NGOs and women's groups on one hand and multilateral financial institutions and transnational banks on the other. Historically, these two groups had nothing in common in terms of world view, ideology, strategy or "clients".

The reasons for growing interest in microcredit programs by the commercial banks and financial institutions are as varied as the players in the field of microcredit. There are two types of micro-lenders in India and elsewhere:

1. Those whose primary goal is empowerment of the poor. These combine microcredit with health care, training and organization of labor to raise the living standards of women and poor people. They view microcredit programs as a potential tool for empowerment, giving women and poor people greater access to financial resources to break the shackles of poverty.

2. Those whose primary goal is profit. These micro-lenders see microcredit as a new profitable avenue of business. Many financial institutions have realized that micro-lending offers immense opportunities to make profit as interest rates can range from 20 to 100 percent and repayment rates are over 90 percent, far above commercial lending rates. However, exorbitant interest rates often keep the poor people

trapped in a downward spiral of debt. This economic logic makes the poor more attractive to banks and financial institutions, but not the other way around.

Growing Influence of Donors and World Bank

The sudden spurt of interest in microcredit among developmental banks and financial institutions unfortunately stems from viewing it as a 'win-win' option, wherein investors profit handsomely while the poor gain access to financial resources. They see microcredit as a 'cheaper' alternative for poverty alleviation because it avoids the 'overhead' costs of a wider development agenda covering areas such as group organization and mobilization, support for campaigns, access to natural resources, redistribution of resources and skills training.

However, this thinking totally undervalues the role and significance of public policy through measures such as social sector spending and other developmental initiatives which contribute to the eradication of poverty. It needs to be emphasized that microcredit is not a substitute to social-sector spending and anti-poverty programs. How beneficial is credit if cuts in social services continue to exacerbate women's poverty and increase their total labor hours? This is not to argue that credit has no role in alleviating poverty but what can women do with credit if they do not have child care, education, training, and health services?

In this context, the role of the World Bank in promoting microcredit needs to be discussed and debated. In 1995, the World Bank launched its own micro-lending arm, CGAP, with the goal of 'systematically increasing resources in microfinance.' The Bank's President, James Wolfensohn, announced this program at the 1995 Fourth World Conference on Women in Beijing. Unfortunately, CGAP appears to be narrowly focussed on micro-lending as an end in itself.

A recent report prepared by the Washington DC-based Institute for Policy Studies found that 46 percent of CGAP's expenditures in its first year of operation was spent on policy reforms which may benefit lenders but end up hurting poor borrowers, particularly women. For example, CGAP views micro-lending as unviable in the presence of usury laws - laws which provide ceilings on interest rates. Thus, its first dictate at a conference in Mali was to get government officials to repeal their nation's usury laws.

CGAP also calls on countries to completely privatize their micro-lending institutions, removing all subsidies for banks which service the poor. CGAP advocates stronger debt collection laws - specifically collateral laws - which will result in a safer environment for bankers but which could exclude the poorest, and poor women in particular, from access to small loans.

Microcredit Summit

A global campaign to ensure that millions of the world's poorest families receive credit for self-employment was launched at the three-day Microcredit Summit in Washington, DC, 2-4 February 1997. Organized by RESULTS Educational Fund, a US-based non-governmental organization, the Summit goal was 'to ensure that 100 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the year 2005.' The Summit was supported by a number of financial and development banks including the World Bank, International Fund for Agriculture and Development, Citicorp, MasterCard, Chase Manhattan and American Express.

Surprisingly, the registration fee for the Summit was $200, not a small amount for many small practitioners of microcredit. Hardly anyone from small and grassroots

Aid Relationships Have Not Changed

organizations of the South sat on the panels. On the other hand, International Financial Institutions, especially the World Bank and its microcredit facility, Consultative Group to Assist the Poorest (CGAP), were well represented. Similarly, the summit was addressed by high-level speakers such as Hillary Clinton, President Fujimori of Peru and Queen Sophia of Spain and representatives of financial institutions. Most NGO participants were from the larger and best-known organisations such as FINCA, Women's World Banking, Accion International, Catholic Relief Fund, and Save the Children Fund.

Although Summit organizers claimed that no single model of microcredit delivery was promoted during the event, an emphasis on scale, commercial viability, and quantitative assessment criteria was evident throughout, according to Nan Dawkins Scully of the Institute of Policy Studies who attended the Summit. She argued that this was not surprising given the attendees were donors and commercial financial institutions which tend to favour a market-based model, in which commercial banks team up with profitable micro-lenders seeking increases in 'market share' as a means of reaching larger numbers of 'clients' (poor borrowers). Donors and international financial institutions increasingly promote such a model as 'best practice'.

A number of participants expressed concern that the Summit might produce negative consequences. Many feared that the Summit's rhetoric framed microcredit as a sole source or best possible solution for poverty - particularly women's poverty. NOVIB, a Dutch NGO, issued a statement stating, "the goal of the microcredit Summit to 'solve' poverty by providing credit is highly over-rated; the poorest groups in societies cannot take control over their own future - nor completely over the use of credit - without change in more structural issues like literacy, unequal power relations, employment and wages that reinforce their present position. The solution of poverty cannot be totally put on the shoulders of the poorest."[1]

Jaya Arunachalum of Working Women's Forum in India echoed this concern: "Addressing economic interests alone is not sufficient. Poverty is a consequence of systematic social exclusion from policy options or productive measures for the most vulnerable groups." Similarly, Oxfam's Ben Rogaly and Susan Johnson pointed to trickle-up microcredit programs implemented by small, local-level initiatives as the most likely to be successful.

Despite the fact that small practitioners were not well-represented on plenaries during the Summit, a coalition of 43 African microfinance providers issued the following statement: "Any future criteria for accessing microfinance funds needs to take into account the involvement of small, start-up organizations. We are concerned that a significant global microfinance fund set up by donors has already bypassed our nascent, indigenous organizations." The coalition went on to say that "criteria for selection of microfinance operators should be developed through a broad-based process and popular participation."

The Summit's quantitative objective of reaching 100 million people needs to be challenged, since achieving this goal would require a massive increase in the scale of microcredit programs. It seems that nothing has been learnt from past experiences that clearly show that this risks resulting in institutions that are too big and too removed to be effective. Further, increasing outreach to 100 million people requires a marriage between commercial banks and practitioners of microcredit. Like donors, commercial banks prefer practitioners who offer financial services only - not the credit programs which offer 'expensive' services such as training, education, child care, labor organizing, etc. Thus, the achievement of this goal may lead to the promotion of credit at the cost of other developmental measures.

Indian Scenario

Overall in India, a number of self-help savings and credit groups and microcredit programs have been initiated since the 1980s to provide credit facilities to the poor, especially women, in both urban and rural areas. These programs stumbled upon a surprising finding: by targeting women, repayment rates came in well over 95 percent, higher than most traditional banks. Impressed by the repayment rates, banking institutions like National Bank for Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) began increasing their lending to such groups.

However, the lending rates to borrowers are not cheap. For example, (SIDBI) lends to NGOs at 9%; NGOs are allowed to on-lend to credit groups at a rate up to 15%; and groups, in turn, are allowed to charge up to 30% to individual borrowers. Although such high-interest credit is touted as a vehicle for poverty alleviation wherein the poor use the funds to undertake commercial ventures, various studies have also found that the loans are often used by poor people to meet their daily consumption needs rather than creating productive assets.

Now on a much larger scale, microcredit institutions are being established in India, with liberal grants, in the form of seed money, from international donor agencies like the Ford Foundation, UNDP and Swiss Agency for Development and Cooperation (SDC). This seed money, in turn, will attract additional capital from the corporate sector and financial institutions. Loans are to be provided to borrowers through a network of subsidiary lending institutions. To assure investors a good rate of economic return, these corporate entities will lend at market rates. This market-based approach has evoked sharp criticism from many researchers who argue that it may keep the poor on the treadmill of debt or bypass them altogether in favour of those who can afford credit at market rates.

Keeping the CGAP framework in view, the World Bank recently financed a project in India called Rural Women's Development and Empowerment Project. The entire focus and emphasis of this project is to launch credit programs through the establishment of self-help groups in India. Whilst one might expect that a project with such a progressive title as “Empowerment” would include developmental components other than credit, women's empowerment is only seen in terms of economic development with a narrow focus on credit and income-generation programs.

Other aspects are clearly essential to genuine empowerment. In the case of rural women, their control and ownership over land can play a very important role not only in economic welfare but, more importantly, in terms of social and political empowerment as land is a symbol of political power and social status in rural India. Furthermore, it is not realized by the World Bank and even many women's groups that self-employment is the last choice for poor women in India. Perhaps the Bank is not interested in a process of women's empowerment that may be too political and requires various other strategies. This could explain why the Bank - and the women's groups that will be involved in this project - have agreed to adopt a “soft” approach towards women's empowerment by promoting the credit programs and self-employment activities.

In general, and as the number of micro-lenders in India multiplies, a proper regulatory framework under which these entities should function must be developed to ensure that those involved in microcredit come under close public scrutiny. Otherwise, these new entities may end up as an exploitative form of organized money lending with no public accountability.

A More Balanced View of Microcredit

Microcredit has to be seen in the context of an increasingly exploitative global order in which macro-economic policies of liberalization and globalization are destroying formal sector jobs, decreasing social-sector spending in real terms, and leading to increased unemployment. In this scenario, the last option left for poor people is self-employment, which microcredit aims to promote. With the support of credit, many poor women are involved in income-generation activities of producing consumer and household goods.

However, the odds are stacked against the success of the self-employed in the market, as they do not enjoy any market protection. Besides, they have to compete with the goods made by big business and transnational corporations. How can poor women compete with the transnationals and big businesses that have strong financial clout and can spend millions every year on advertising, brand selling and marketing? Similarly, how can they be successful if they are not adequately supported by the relevant service infrastructure in fields such as health, education and childcare?

Thus, these women are placed in an extremely disadvantaged position in the market and are not empowered to succeed. To make this situation advantageous to women requires radical changes in macro-economic policies and significant spending in the social field. There are very few examples of microcredit programs where macro-interventions for more favourable economic policies for poor women have been sought or where associated social spending has been foreseen.

This is not to undermine the valuable role that microcredit can undoubtedly play in poverty alleviation in various situations. Yet, any developmental strategy will require far more than the 'band-aid' of microcredit on the gaping wound of poverty and unemployment. Otherwise, microcredit programs, at best, can lead to just micro solutions. Advocates of microcredit must heed the warning of U.N. researcher Linda Mayoux that, "Microcredit's success is dependent on, rather than a substitute for, wider changes in the development agenda."

Notes

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Democratic Ownership of Aid in the Philippines

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

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

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

Overall Aid Trends

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

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

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

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

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

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

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

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

Aid, Conditionality and Ownership

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

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

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

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

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

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

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

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

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

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

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

A Non-Participatory Aid System

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

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

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

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

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

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

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

Conclusions: Towards a More Democratic Aid System

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

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

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

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

Notes

1 Data for on-going loans from National Economic and Development Authority (NEDA) 15th Official Development Assistance Portfolio Review (2006) and for net loan commitments from Commission on Audit (COA), Official Development Assistance Audit Reports 2000 and 2006.

2 Unless otherwise noted, all ODA donor loan data from NEDA's15th Official Development Assistance ODA Portfolio Review (2006).

3 For instance, the Senate Blue Ribbon Committee in September 2007 started investigating alleged high-level corruption involving US$130 million in bribes in a Chinese ODA-funded telecommunications

project. Tying aid to Chinese contractors and without competitive bidding has also sparked accusations of overpricing and dubious quality goods. See for example Roel Landingan, "The Perils and Pitfalls of Aid: ODA Surge Sparks Scandals for Arroyo, Debt woes for RP," Philippine Center for Investigative Journalism (PCIJ), February 11, 2008.

4 NEDA Public Investment Staff-Investment Programming Division (PIS-IPD) ODA Firm Pipeline as of December 11, 2006 and NEDA *DevPulse 10*(65), February 15, 2007.

5 IBON computations using NEDA ODA figures and *Bangko Sentral ng Pilipinas* (BSP) national income and foreign exchange rate data.

6 IBON computations on BSP data.

7 Ibid.

8 IBON computations on total non-debt expenditures totaling P734.7 billion and revenues collected of P979.6 billion in 2006 using an average peso-dollar exchange rate of P51.31. Data on ODA from NEDA's 15th ODA Portfolio Review, on national government expenditures from the Department of Budget and Management (DBM), on revenues from the Bureau of Treasury (BTr) and on the exchange rate from the BSP.

9 IBON computations comparing ODA disbursement to the DPWH of US$454.5 million in 2006 with the DPWH budget then of P85,289.4 million. Data on ODA from NEDA's 15th ODA Portfolio Review, on DPWH's expenditure program from the DBM, and on the exchange rate from the BSP.

10 IBON computations comparing ODA disbursement to the sector of US$226.2 million in 2006 with the sectoral allocation then of P47,660.3 million. Data on ODA from NEDA's 15th ODA Portfolio Review, on sectoral expenditure allocation from the DBM, and on the exchange rate from the BSP.

11 NEDA. (2008, February). Report on the baseline study and survey of the government of the Philippines' compliance with the Paris Declaration commitments.

12 Unless otherwise noted, all US foreign assistance data from the Congressional Research Service (CRS) Report for US Congress, "The Republic of the Philippines: Background and US Relations", RL33233, Updated August 10, 2007.

13 Alston, P. (2007). Report of the United Nations Special Rapporteur on Extrajudicial Summary or Arbitrary Executions about his mission to Philippines from February 12-21, 2007.

14 Covering Foreign Military Financing (FMF), International Military and Education Training (IMET), International Narcotics Control and Law Enforcement (INCLE), Non-Proliferation, Anti-Terrorism and De-Mining (NADR), Peacekeeping Operations (PKO) and Peace Corp funding.

15 United States Agency for International Development (USAID) Program Overview 2007.

16 Wain, B. (2008, January/February). Manila's bungle in the South China Sea. *Far Eastern Economic Review.*

17 Philippines-Japan NGO Partnership (PJP). (2006, November). Empowering the poor for poverty alleviation towards 2015: Partnership building between Philippine and Japanese NGOs. A paper presented during the Philippines-Japan NGO Symposium.