

FACTS against MYTHS

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Official Development Assistance (ODA) as Condition for Enforcing Imperialism

"... we will provide military advice and equipment to free nations which will cooperate with us in the maintenance of peace and security. Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history, humanity possesses the knowledge and skill to relieve the suffering of these people."

(Harry Truman, at the foundation of the NATO)

COMMENT

The year 2005 will be a historic one for many of the heavily indebted poor countries in Africa. Eight of the world's highly industrialised nations, that comprise the G-8 countries have agreed to canceling \$40 billion worth of multilateral debt owed to the World Bank, the International Monetary Fund (the IMF) and the African Development Bank (the AfDB). These are 100% debt cancellations! There is a need to unpack such terms as aid, debt relief, official development assistance, heavily indebted poor countries, multilateral and bilateral aid, etc. These are a whole set of jargon that has been used traditionally by global aid agencies and funding organisations and also the governments in the various countries that have provided such aid or loans. Most nations of the South have needed this assistance, but it has come at a heavy price and has only led to the furthering the impoverished status of the developing nations. Hence, it is important to understand the dynamics behind the business of aid and assistance and thus counter the forces behind imperialism.

The term ODA is often used to refer specifically to Official Development Assistance, which is aid given by governments on certain concessional terms, usually as simple donations. It is given by governments through individual countries' international aid agencies and through multilateral institutions such as the World Bank and by individuals through development NGOs. Historically, the term used for donation of expertise has been technical assistance. International aid falls into two categories broadly: Public and Private. The former, i.e. the public component (known as ODA) is channeled through international institutions such as those within the UN system or by directly donor governments. These can be of two types- multilateral aid and bilateral aid. Private aid on the other hand flows from private charities or through philanthropic activities of high net worth private individuals or corporations or a number of private NGOs (such as some Dutch development organisations) depend considerably on their governments for their resources rather than the public directly.

Definition of Official Development Assistance

ODA consists of flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25% (calculated at a rate of discount of 10%).

(Source: A History of the Development Assistance Committee and the Development Cooperation Directorate in Dates, Names and Figures - Helmut Führe. Organisation for Economic Cooperation and Development, Paris 1996)

The historical beginnings of official development assistance are in the development activities carried out by the colonial powers in their overseas territories. Institutions and programs for economic cooperation were created under the United Nations auspices after the Second World War, the US Point Four Program and the large scale support for economic stability in the countries on the periphery of the communist bloc of that era. The success of the Marshall Plan created considerable and perhaps excessive optimism about the prospects for helping poorer countries in quite different circumstances through external assistance. However, it should also be located in the context of the Cold War and the speech given by Harry Truman when announcing the foundation of the NATO (refer to the quote at the beginning of the fact sheet). According to Truman, provision of military advice and equipment to free nations would lead to a program where the benefits of scientific advances and industrial progress would be made available for the growth of the under developed area of the world. He saw the poverty in these (many newly independent) countries as a hindrance to the progress of the "prosperous areas" too. And hence the aid given by the rich countries was considered essential under the circumstances of the Cold War.

Close to the end of the Second World War, the United Nations Monetary and Financial Conference at Bretton Woods in the United States of America led to the formation of the International Bank for Reconstruction and Development or the IBRD (which later came to be known as the World Bank) and the International Monetary Fund or the IMF. Later in 1945, representatives of fifty countries drew up the United Nations Charter and the preamble to the Charter expresses the determination of the peoples of the

United Nations "to promote social progress and better standards of life in larger freedom" and "to employ international machinery for the promotion of the economic and social advancement of all peoples". Over the years following their declaration, a number of countries who had colonies in the South passed acts that recognised the situation there and provided development assistance to them.

The Earth Summit at Rio de Janeiro in 1992 adopted the Agenda 21 which among other things included an ODA aid target of 0.7% of Gross National Product for rich nations, which are roughly 22 members of the OECD. However, year after year, none of these targets have been met. Instead of 0.7%, the amount of aid has been around 0.2% to 0.4%, which is some \$100 billion short. Also, according to the World Bank, over the years, overall ODA worldwide has been decreasing by about 20% since 1990.

A majority of the loan is disbursed by the United States and Japan. In 2001, the OECD noticed that the United States increased aid due to "\$600 million disbursed to Pakistan for economic support in the September 11 aftermath". However, Japan's ODA fell by nearly \$4 billion due to the depreciation of the Yen. There was a 5% increase in 2002- again the United States increased its ODA by 11.6% (in relation to health and humanitarian aid) and Japan's ODA fell by 1.8%- again due to the depreciation of the Yen. In 2003, the aid increases were modest- this was due to the continuing growth in general bilateral grants (\$2 billion), the start of reconstruction aid to Iraq (\$2 billion) and offset by a cyclical fall of contributions to multilateral concessional funds (-\$1.2 billion). There was a sharp decline in aid for agricultural development and a rising share in total aid outlays of humanitarian aid in response to emergencies as opposed to long term development and aid to the poorest countries.

The combined ODA of OECD countries in 2004 was \$78.6 billion. The United States is the world's largest contributor of ODA in absolute terms, \$19 billion, but this figure should be compared to the combined EU contribution that totaled \$42.9 billion. Expressed as a percentage of Gross National Income, Norway's contribution remained in the lead at 0.87% with the combined European Union at 0.36%. The United States however, remains the lowest contributor as a percentage of the OECD at 0.16%. Aid also rose in real terms by 4.3% between 2003 and 2004 due to increases in contributions to international organizations, aid to Afghanistan and Iraq and technical cooperation grants.

The following table shows the official development assistance that has been given out by the various countries in the years between 2001 and 2004. The figures are in U.S. Dollars and also given as a percentage of the Gross National Product of that particular country.

Official Development Assistance (ODA) from 2001 to 2004								
Country	ODA in U.S. Dollars (Millions)				ODA as GNP Percentage			
	2001	2002	2003	2004	2001	2002	2003	2004
Australia	852	962	1,237	1,465	0.25	0.25	0.25	0.25
Austria	457	475	503	691	0.25	0.23	0.2	0.2
Belgium	866	1,061	1,887	1,452	0.37	0.42	0.61	0.61
Canada	1,572	2,013	2,209	2,537	0.23	0.28	0.26	0.26
Denmark	1,599	1,632	1,747	2,025	1.01	0.96	0.84	0.84
Finland	389	466	556	655	0.33	0.35	0.34	0.34
France	4,293	5,182	7,337	8,475	0.34	0.36	0.41	0.41
Germany	4,879	5,359	6,694	7,497	0.27	0.27	0.28	0.28
Greece	194	295	356	464	0.19	0.22	0.21	0.21
Ireland	285	397	510	586	0.33	0.41	0.41	0.41
Italy	1,493	2,313	2,393	2,484	0.14	0.2	0.16	0.16
Japan	9,678	9,220	8,911	8,859	0.23	0.23	0.2	0.2
Luxembourg	142	143	189	241	0.8	0.78	0.8	0.8
Netherlands	3,155	3,377	4,059	4,235	0.82	0.82	0.81	0.81
New Zealand	111	124	169	210	0.25	0.23	0.23	0.23
Norway	1,346	1,746	2,043	2,200	0.83	0.91	0.92	0.92
Portugal	267	282	298	1,028	0.25	0.24	0.2	0.21
Spain	1,748	1,608	2,030	2,547	0.3	0.25	0.25	0.25
Sweden	1,576	1,754	2,100	2,704	0.76	0.74	0.7	0.7
Switzerland	908	933	1,297	1,379	0.34	0.32	0.38	0.38
United Kingdom	4,659	4,749	6,166	7,836	0.32	0.3	0.34	0.34
United States	10,884	12,900	15,791	18,999	0.11	0.12	0.14	0.14

Note: The U.N. ODA agreed target is 0.7 percent of GNP. Most nations do not meet that target.

Source: OECD Web site- <http://www.oecd.org>

India has been receiving Official Development Assistance since the 1980s. Post independence India opted for a centrally planned industrialisation strategy that looked at creating a congenial environment for the growth of private industry. The state also outlined that the majority of the industrial activity would be done by the private sector, but it would itself take the responsibility of seeing that the industrial growth was performed by social purpose and not for profit. Hence, it reserved some sectors such as defense production, communications, power, steel and fertilizers. The agricultural sector was given special attention. This resulted in over 60% of investments in the industrial sector going into public sector enterprises. All these measures had resulted in a reasonably high growth rate of the economy. Following, Nehru and Mahalonobis's socialist framework of a heavy industry planning model, India in the 1960s began to be heralded in the West as the epitome of rational planned economic development. John P. Lewis, the dean of American foreign aid experts, argued that India's planned development was the most feasible and desirable path for a country at an early juncture in the development process and that the decentralised market system was inappropriate, destined to fail, and had only led to the development of Great Britain and the United States because of "special circumstances". He also made an impassioned plea for vastly stepped up levels of American aid to support the rationally planned

economic development of India's second five year plan.

According to Frankel (2005), signs of stagnation came into the economy from the second half of the Third Five Year Plan (1961-66). Per capita income did not increase at all as the population growth rates neutralized the low overall gains in the rate of growth of national income. Per capita availability of food grains and other essential articles of consumption were below level. Average growth rates of 8-10% during the first years of the 3rd Plan, the proportion of domestic budgetary finances to total finances for Plan outlay fell to 59%. The balance was funded by foreign aid which accounted for 28% of total plan outlay. Thereafter the loan from the IMF with a credit of over \$ 187 million and the PL480 came about. This was probably the first few steps towards economic liberalization.

As of 1981/82, India's eight largest firms were in the public sector, as were 24 of the top 30 in terms of total capital employed. The planners had succeeded in making Nehru's dream come true- a self reliant economy with a socialist pattern of society. However, a number of economic costs had been incurred in the process. Industrial growth rates were stagnating at 4% until 1975-76 and this was in contrast with the high growth rate of East Asian, South East Asian and Chinese economies which had entered a period of sustained high growth and competitive international trade. Further downfalls in the agrarian sector, a

phenomenal rise in the external debt (\$ 91.78 billion by 1993) and finally the balance of payments crisis led to India receiving loans from the IMF (yet again), the World Bank and the Asian Development Bank which in turn initiated a series of economic reforms under the New Economic Policy in 1991 and which in turn was based on the prescription of the Structural Adjustment Program (SAP) of the IMF and the World Bank.

India's heavily centralised economic planning, its lack of openness to trade and investment (as a measure to protect the domestic manufacturing industries) and its large accumulated inflow of foreign aid mainly in the form of ODA have set it apart from its neighbours. Even though the multilateral agencies have come forward to provide aid to the dwindling state of the economy, they came with economic reforms that would have to be instituted. Hence, along with the aid came the conditionalities by the IMF and the World Bank. According to Kamath (1992), "the interaction between a country's economic performance and official foreign economic assistance (or foreign aid in contrast to other voluntary private foreign assistance) is difficult to isolate...although the statistical evidence seems to indicate a balance that aid has had little or negative impact on development indicators such as saving, investment and the growth of national income. It is clear, however, that the majority of the so-called developing nations that have received large amounts of foreign aid have failed to develop". Despite the fact that so much foreign assistance has come in to the country and on the pretext of development, that particular development has not taken place in over five decades of all this money pouring in. However, with the increasing number of conditions imposed by the Bretton Woods Institutions, the role of the State in social welfare has been decreasing, and yet again the country has to depend on foreign aid to develop critical areas such as education, health, etc.

In August 1958, the World Bank organized the Aid-to-India Consortium, consisting of the World Bank Group and thirteen countries: Austria, Belgium, Britain, Canada, Denmark, the Federal Republic of Germany (at that time, West Germany), France, Italy, Japan, the Netherlands, Norway, Sweden, and the United States. The consortium was formed to coordinate aid and establish priorities among India's major sources of foreign assistance and to simplify India's requests for aid based on its plans for development. Consortium aid was bilateral government-to-government aid from the thirteen consortium countries, and almost all of the aid, including that from the World Bank Group, was for specific projects judged to be valuable contributions to India's development.

Since the beginning in 1979-80, ODA worth Rs. 1859.5 crores was disbursed to India. Out of this Rs.1353.1 crores was utilised. Similarly in 1990-91, Rs. 8123.4 crores was disbursed as ODA and Rs. 18124.7 crores

was used and given as ODA to India, out of which Rs. 14254.3 crores were utilised. The latest figures, i.e. for the year 2003-04 so that Rs. 17105.1 crores was disbursed and Rs. 17344.4 crores was utilised. If one would look at the amounts that were authorised, then we could see that between 1990 and 1991 and 1979-80, the ODA has increased by Rs. 6263.9 crores and between 1990-91 and 2000-01, it has increased by Rs. 10,001.3 crores. However, between 2000-01 and 2003-04 there has actually been a decrease in the disbursement of ODA to India by about Rs. 1019.6 crores. India receives a large chunk of foreign aid from the United States and the European Commission.

The aid from the United States assistance was significant in the late 1950s and 1960s but, because of strained India-United States relations, it fell sharply in the 1970s. The United States accounted for 8.6% of all of the aid India received from independence through financial year 1988, but for only 0.6% in financial year 1990. In financial year 1993, actual United States obligations through USAID totaled almost US\$161 million. The bulk of this aid was provided as United States PL480 food aid grants with lesser amounts for development assistance (including energy and the environment, population control, child survival, acquired immune deficiency syndrome (AIDS) prevention, and economic growth) and housing guaranty loans. Similarly Germany and Britain have also carried out substantial aid-to-India programs. Among countries not in the World Bank consortium, the Soviet Union was the most important contributor, providing more than 16% of all aid between 1947 and financial year 1988. Since 1991, however, Russia has provided little aid.

The European Commission on the other hand has been extending economic assistance to India since 1976. The EC assistance is entirely in the form of grants. According to the Ministry of Finance (http://finmin.nic.in/the_ministry/dept_eco_affairs/eec/eec_index.htm), the cumulative total of EC's financial and technical assistance since 1976 has been around Euro 2.00 billion. The three priority sectors for the EC are education, health and environment. Presently, EC assistance is being provided for projects in the sectors of irrigation, forestry, education and health. There are two ongoing central projects in education sector (Sarva Siksha Abhiyaan) and health sector (Health & Family Welfare Sector Development Program) with EC assistance of Euro 200 million and Euro 240 million respectively.

Over the years India has gained a foot hold in this area too. The country maintains a small but well-established foreign aid program of its own. In financial year 1990, Rs. 1.6 billion of aid was authorized, of which Rs.582 million was for Bhutan and Rs.578 million for Nepal. Bangladesh and Vietnam received significant amounts of aid during the 1980s, but, as the result of the changing world political and economic conditions,

these programs were hardly significant by the early 1990s.

The other continent that gets the largest amount of aid is Africa. Most of the country's economies here survive on the official development assistance that they receive. However, a large number of these countries come under the category of Highly Indebted Poor Countries (HIPC) and have had to bear the debt to the first world donor countries for decades together. Along with the loan amounts, the countries have had to restructure their economies and institute policies (the Structural Adjustment Program or SAP) that have not been in favour of the population. The recent move by the G-8 countries towards debt cancellation was brokered by the Chancellor of the Exchequer- Gordon Brown and who has claimed that this will "save countries such as Mozambique and Ethiopia a total of \$15 billion in debt payments over the next ten years". The U. S. Treasury Secretary can be quoted to say that they have "presented the most comprehensive statement that finance ministers have ever made on the issues of debt, development, health and poverty... represents a new deal between the rich and the poor of the world". The G-8 countries would compensate the World Bank and the AfDB in full for the assets written off and have also agreed to meet any shortfall that the IMF could not cover from its own resources. Britain will pay \$700 million – 960 million over the next ten years, while the United States will pay \$1.3 billion – 1.8 billion. Germany would pay \$848 million – 1.2 billion.

The global aid groups have praised the G-8 rich countries on their debt cancellation, but have also said that more could be done. Aid agencies have expressed their desire for this relief money to be used for health care, education and infrastructure development. Many argue that the G-8 is rewarding bad governance, and the write-offs would "only relieve the most indebted of their past sins of profligacy" and that "it cannot guarantee that they will build fresh infrastructure or target basic education needs". However, there is another point of view that says that the "indebtedness has been choking the weakest economies and blocking the economic progress for billions of the poorest. The write-off gives them an opportunity to start with a clean state".

Looking at the entire deal more critically, only eighteen countries would 'benefit' from such a move. If one looks closer one would see that the debt relief is partial and is not a complete cancellation as only bilateral aid and the debt held by the World Bank and the AfDB has been cancelled. According to Ghosh (2005), the total financial burden on the G-8 of the entire operation would amount to some \$2 billion a year, which when compared to the estimated \$350 billion annually devoted by the G-8 to farming subsidies or the \$700 billion spent by the G-8 on military expenditure is much less. The annual amount spent by all these G-8

countries put together for the announced cancellation is less than half of the amount the US government spends every month on its continued illegal occupation of Iraq. Hence, even though the debt cancellation is a welcome move, one should still recall that these countries would still have to grapple with a large amount of multilateral debt. Along with the debt owed to multilateral agencies come the conditions- selling natural resources, their public assets, and depriving the people of the basic conditions of a decent life, in order to advance the profiteering by large corporations from the G-8 countries and elsewhere.

There are a number of conditionalities that these countries would have to undergo privatisation of natural resources and of strategic economic sectors to the benefit of large multinational corporations; higher cost of health care and education, directly affecting the access of the poor to these basic socio-economic rights; increases in VAT, a regressive tax, which means increased costs and lower real incomes of ordinary people; free flow of capital, which leads to great volatility of exchange rates and capital flight by the elite; and lastly, lower tariff protection, which leads to thousands of small and middle producers losing their livelihoods because they cannot compete with imported goods

One can conclude to say that except for a few cases of alleged foreign aid success (such as critical food relief when millions were on the verge of starvation in the early 1950s and again during the mid-1960s) foreign aid to India and most other countries has been an unmitigated disaster. In many ways it has encouraged corruption, rent seeking, and forming a graft in the economies of these developing nations. Foreign aid has been—and continues to be—predicated on an outdated and false theory of development economics that assumes that only capital and access to technology are needed for economic development.

Aid is more than just charity and experiences so far show that it cannot be separated from other issues of politics and economics. The United Nations notes that effectiveness of aid to poor countries requires a focus on economic infrastructure. Countries giving aid could help by providing greater investment; greater debt relief; actually practise free and fair trade. Those donors' largesse has actively encouraged the impoverishment of nations. It is time to stop this weaning of the resources of the developing nations in the name of providing assistance. It is time to "Make Poverty History".

The "Make Poverty History" campaign has mobilised people to creating the political will to drive lasting policy changes. It has engaged a new generation into holding their governments accountable for their actions on the world stage. In the run up to the G-8 meeting in Scotland, this United Kingdom based campaign that comprises 450 development agencies, campaigns, faith groups, trade unions and other organisations had

Why has Aid Dropped over the Years?

Most of the developing countries and India too have witnessed a decrease in ODA from governments of developed nations. With the collapse of USSR and the emergence of a uni-polar world, the developing nations have lost one of their key rationales for aid, i.e. to win friends in the developing world and prevent them from allying with USSR. On earlier occasions, aid has been used to prop up undemocratic regimes. Developed nations have recommended that opening up of borders so as to allow a free flow of transnational investment would be the panacea to all the problems. In this respect then the role of aid has also been modified, i.e. it now assists or facilitates such investment and thereafter the quantities of aid that was flowing into these countries has also increased.

According to Thomas (1999), ODA flows amounted to \$206 billion in 1997. But, only 10% of this went to low income countries and among them, the bulk to China and India". Again, it is not the poor who benefit from this aid. According to Thomas (1999), average expenditure for OECD countries on basic education is only 1.4% of ODA in 1997 in India and for basic health it was 2.4%. The large inflow of private funds into developing countries is for the most part debt which these countries are called upon to repay at a future date. Thus, official aid has long been a convenient cover to promote the business interests of the developed nations. The economic misuse of aid is also evident in the widespread use of aid for arms deals by some developed nations where sophisticated weaponry is sold to developing countries on the back of aid promises.

got together to how solidarity towards the world's poor. The 'Make Poverty History' campaign advocates three policies: First, donors must now deliver at least \$50 billion more in aid and set a binding timetable for spending 0.7% of national income on aid. Aid must also be made to work more effectively for the poor. Second, the unpayable debts of the world's poorest countries should be cancelled in full, by fair and transparent means. Third, fight for rules that ensure governments, particularly in poor countries, can choose the best solutions to end poverty and protect the environment. These will not always be free trade policies. End export subsidies that damage the livelihoods of poor rural communities around the world. Make laws that stop big business profiting at the expense of people and the environment. These are ambitious and valid demands that all the developing nations ask from the rich countries. What we need to think about is how to persuade the rich nations to do all the above. Debt for Africa has been cancelled. But one still has to wait and see how much of it can be achieved, how much of it is just hot air and how all of this can be achieved after fighting corruption, political weakness, rampant HIV infection and civil wars.

Myth: Official Development Assistance (or ODA) given to India through multilateral agencies will resolve many of the problems of under-development in India.

Fact: The biggest multilateral aid agency that comes to mind when one thinks of India is the World Bank. India received its first World Bank loan on August 18, 1949 for development of the government owned Indian Railways. Over the years India has received an accumulated net amount of well over \$20 billion in historical year's dollars from 1951 through 1989. According to Kamath (1992), "the Bank would prefer

to ... base its financing on a national development program, provided that it is properly worked out in terms of projects by which the objective of the program are to be attained". Most of the money went to public sector projects. Thus Kamath comments that "by requiring governments to undertake comprehensive development planning as a pre-condition for receiving foreign aid, donor nations and agencies actively abet the socialisation of the developing world".

A substantial part of the World Bank's (as well as the USAID's) concessional loan to India has gone for state projects in irrigation, area development, infrastructure development, dairy development, rural and urban drinking water supply, population and nutrition, and agricultural extension and training. The major portion of the World Bank's lending to India for rural development has been for state run irrigation projects.

Most of the projects that were put into operation by the World Bank have actually been dubious themselves, leave alone the ones run by the government of that particular country itself. Many of them have ended in failures. But despite the impressive record of failure of public irrigation projects in India, the World Bank approved more than \$1.2 billion in new irrigation credits for New Delhi between 1985 and 1990, including \$150 million (of a total credit of \$450 million) for the Narmada dam and river valley project. The threat of environmental damage, flooding of valuable agricultural and forest lands, destruction of critical ecosystems, and displacement of thousands of tribal and other communities has made the Narmada project (especially the component called the Sardar Sarovar project) one of the most hotly debated World Bank (and Indian) projects of all time. In spite of a World Bank policy on involuntary resettlement, which requires that a resettlement plan be established before a project

is approved, no comprehensive resettlement plan has been established for the Sardar Sarovar project; even the number of people to be displaced has not been determined. The gap between the World Bank's stated goals and reality on the ground is growing. ... The World Bank, rather than consistently aiding in alleviating Third World poverty, in reality has contributed to the marginalization and devastation of hundreds of thousands of tribal and indigenous people and rural poor in India, Indonesia, and Brazil.

The second multilateral agency that has given extensive loans and 'support' to India is the International Monetary Fund (or IMF). India was one of the first recipients of an emergency IMF loan, after the fund's founding in 1944, and (except for short periods of time) it has been on one or another IMF program ever since—that is, for more than five and a half decades. Several times in the 1970s India received short-term loans from the IMF for balance-of-payments support. Its biggest borrowing from the IMF was negotiated in 1980, when the combination of the oil shock of 1979 and a disastrous harvest led India to seek a \$5.8 billion loan under the IMF's relatively new "Extended Fund Facility." The loan's early repayment, due to a set of fortunate circumstances, caused India to be heralded as a developing nation that had matured and transcended the vicissitudes of uneven development. In early January 1991, however, foreign exchange reserves fell to the equivalent of the value of two weeks of imports, and India came close to defaulting on its commercial borrowing, as well as on loans from the World Bank and the IMF. In late January the IMF hurriedly approved a \$1.8 billion loan for India. That initial loan was followed in October 1991 by many more until the loan committed India to negotiate a further structural adjustment loan from \$5 billion to \$7 billion with the IMF.

Money has come in plenty through the loans of the IMF and the World Bank as the leading multilateral agencies in India. However, the projects for turning India into a developed country have been failures. They have only led to the further impoverishment of the limited natural resources of the country. Instead of giving the requisite support through these loans, these Bretton Woods Institutions have tried to control the natural resources by reshaping national policies, reframing national laws and changing institutional structures in the country, so as to ensure their monopoly over the market for these resources. If we use the natural resource—water as an illustration of the above, we will see that the multilateral agencies—especially the World Bank has pushed India to reform its water sector since the 1990s. They have sought to introduce commercialization, decentralisation and cost recovery to the Indian water supply market. This new focus could increase decision making power over water issues. But it also stipulates a definition of water as a commodity provided by the private sector according to the demand and to be purchased by clients. User

groups are expected to coordinate, develop, manage and finance their own water infrastructures. The states are no longer obliged to provide financial means and logistical support for drinking water and sanitation services. There is however, no support for decentralised, low cost alternatives to public and private provision of water services, such as rain water harvesting. Hence, one would be led to think— is this the solution to be used to change our nature of being undeveloped or under-developed?

Myth: Aid given to developing countries has to be 'tied' so that the donor agencies can prove their position of being absolutely transparent and accountable organisations in their dealings.

Fact: The argument given by most donors regarding funds is that at most times they have to hand out conditions along with the aid as their actions are accountable in the parliaments and the public discourse in their own country. However, they also assert that adequate conditionality is requisite and that at the same time it must give scope to the control needs of donors and respect the political autonomy of recipients at the same time.

The concept of tied aid is not new to the big world of foreign aid. When aid is given to a poor country on the condition that all or part of the money will be spent on buying commodities from the donor countries, it is called Tied Aid. This is done to boost the export incomes of donor countries. Tied aid exists in the category of bilateral aid (country-to-country). Using foreign aid to promote a country's exports is standard policy in Britain, France, and Japan. The problem with tied aid is that the recipient country is not able to shop around for the best prices or the most appropriate product.

In many ways this may seem fair and balanced to many, because the donor gets something out of this relationship as well. But on the other hand, for the poor country it can mean that important resources are used up in buying more expensive options, which could otherwise have been used in other circumstances. It also means that the recipient country has less control and decision making on how aid money

African Growth and Opportunity Act signed into US Law in 2000 is more sinister than tied aid. If a country is to be eligible for AGOA, it has to refrain from any actions that may conflict with the United States' 'strategic interest'. The war against Iraq was of strategic interest to the United States, as a result several African members of the UN Security Council including Cameroon, Guinea and Angola, were virtually held to ransom when the United States was seeking council support for the war in 2003.

Reasons why governments do not want to implement conditionality

1. Governments do not have the capacity or expertise to implement technical reforms
2. Governments are not willing to implement reforms because they do not agree with or understand the Bank and Fund's policy prescriptions
3. Governments are not willing to implement reforms because it is politically difficult for them to do so since they are regarded as biased, or inappropriate by their electorates or harmful by significant elites
4. Past experience with IMF/WB reform programs have not been positive
5. Programs contain too many conditions
6. They have insufficient finance to do so properly

is spent. The money that is being doled out to Africa to fight HIV/AIDS. USAID officials in Washington insist that the continent's government purchase anti-AIDS drugs from the United States instead of buying cheaper generic products from South Africa, India or Brazil. In this way a status quo is maintained whereby rich countries like the United States continue to have financial lever to dictate what good governance means and to pry open markets of developing countries for MNCs. Developing countries have no such handle for the Northern markets, even in sectors like agriculture and textiles, where they have an advantage but continue to face trade barriers and subsidies. Another aspect of aid tying into interests of donors is exemplified with climate change negotiations. Powerful nations such as the United States have been vocally against the Kyoto Protocol on climate change.

The conditionalities attached to borrowing from multilateral agencies is far worse. Acute economic crisis in Mexico, South East Asia, Russia, Brazil and Argentina etc forced them to borrow money from the IMF. Debtor governments had to agree to impose very strict economic programs in their countries in order to reschedule their debts or borrow more money. These programs were known as Structural Adjustment Programs or SAP. The SAP consists of measures designed to help a country repay its debts by earning more hard currency- i.e. increasing exports and reducing imports. Applying the SAP meant the country had to spend less on health, education and social services, devalue the national currency, reduce export earnings and increase import costs, cut back on food subsidies, cut jobs and wages for workers in the government industries and services, encourage

privatisation of public infrastructure, take over small subsistence farmers for large scale export crop farming instead of staple foods. Thus, acceptance of the SAP conditions can be a pre-condition for receiving further aid.

It has been emphasised that areas such as gender, poverty, environmental and education have been neglected in the programs designed by the IMF and the World Bank, and these have directly or indirectly caused unnecessary hardship and suffering as a result. When the program outcomes have been poor, the Bretton Woods Institutions have argued that the policy prescription is correct but expected improvements have not materialised because reforms have not been deep or wide enough or programs have not been properly implemented. Thus they have imposed even more conditions and preconditions in more areas of government policy and have placed more stress on monitoring the reform process. Hence, the 'Second Generation of Reforms' which focuses on good governance, deeper structural reforms and capital account liberalisation, and reorienting the allocation of government spending to social sectors and away from unproductive sectors.

According to a paper prepared by the Policy Development and Review Department of the IMF in February 2001, (Conditionality in Fund-Supported Programs—Overview), it is stated that the Fund's conditionality has been an important element in recent proposals to reform the international financial system. According to the Fund, conditionality is "the link between the approval or continuation of the Fund's financing and the implementation of specified elements of economic policy by the country receiving this financing ... it provides safeguards to the Fund to ensure that successive tranches of financing are delivered only if key policies are on track, and assurances to the country that it will continue to receive the Fund's financing provided that it continues to implement the policies envisaged". Further the paper also states that the period since the 90s has seen a major expansion of conditionality, particularly in the structural area, and it was not so prior to this. These changes were a result of several factors:

First, the Fund has over time placed increasing emphasis on economic growth as a policy objective, with the recognition that raising growth on a sustainable basis requires strengthening the supply side through structural reforms and thus growth became increasingly prominent as an objective in the 1980s, against the background of the poor growth record of the heavily indebted countries and mounting criticisms that Fund programs had focused excessively on austerity.

Second, the Fund became increasingly involved with different groups of countries in which structural reforms were viewed as a particularly important part of an overall policy package. In particular, with the establishment of the Structural Adjustment Facility

(SAF) and later the Enhanced Structural Adjustment Facility (ESAF) in the 1980s, the Fund became increasingly involved in lending to low-income countries.

A third factor behind the expansion of structural conditionality was an increasing awareness that the monetary and fiscal policy objectives that are key to macroeconomic adjustment often themselves depend critically on structural conditions—including the removal of extensive market distortions and the establishment of the institutional underpinnings for effective policy making in a market economy.

Many in the first world imagine the amount of money spent on aid to developing countries is massive. Actually it amounts to only 0.3% of the gross national income of the industrialised nations. According to Shah (2005), in 1995, the director of the USAID defended his agency by testifying to his congress that 84 cents of every dollar of aid goes back into the US economy in goods and services purchased. He also stated that "in 1995, severely indebted low-income countries paid one billion dollars more in debt and interest to the International Monetary Fund (IMF) than they received from it". So one can add to the above by saying that while aid does not aid the recipient, it aids the donor. The disastrous food aid policies is another example of how aid was used as an arm of foreign policy objectives. It helped their corporations and large farmers at a huge cost to developing countries. This leads us to the question of whether foreign aid is required at all or not?

Myth: "Abolishing aid gives people their self respect back. It offers the developing countries the chance to refute western scepticism about their capacities".

Fact: Donor agencies (both multilateral and bilateral) have been known to harbour the opinion that it is best for the developing countries or the recipient countries to work out their own policies and this would work out best if national governments draft them, argue their case and implement reforms. "Ownership" has become the buzzword. The developing countries have also recognised that the structural adjustment policies of the 80s and 90s were widespread failures.

Such a policy of the government of India has led to the criticism that these countries that have been barred from any interaction such as the Scandinavian ones, have been done so because of their severe criticism for India's policies. For instance, countries such as Norway, Sweden and Denmark snapped their aid to India post Pokhran II. Japan had criticised it too at the time, but Japan has not been penalised in such a manner. Similarly, The Netherlands had criticised the events in Gujarat 2002 but has initiated a number of successful programs such as the Indo-Dutch Program on Alternatives in Development (IDPAD) and Mahila Samakhya, etc too. This just goes to show that the Indian government becomes unhappy with those who

are critical about how the money is being utilised. Hence, even though Russia is a minor donor, they have not been left out. It is the same with the United States.

It is this kind of circumstances that leads first world countries to question the idea whether aid is required at all? The snapping of aid by many of the donor countries due to the stand of the government can have a number of implications. First, this would mean a crucial fall out in India's federal politics. Reforms that were initiated in 1991 meant that there would be less control by the central government over the state government, thus allowing direct negotiations with donors- both bilateral and multilateral. This meant a lot for the social sector programs such as education, reproductive health, watershed development, social forestry, urban sanitation and water supply, many of which were being carried out by donors who have been struck off the list. Secondly, India's ability to access soft loans, aid and grants even from the multilateral agencies would be doubtful. The Scandinavian countries are one of the key donors to the multilateral agencies. After being snubbed by the Indian government, they may not be inclined toward supporting programs that would be supported by these multilateral agencies in India.

On the other hand many donor governments put forth the argument that aid to the developing nations should be stopped. Peter Marres, the Dutch ambassador to Ethiopia wrote an article in May 2001 about stopping development aid. According to Peter Marres's article, abolishing development aid gives people their self respect back and only then the process of decolonisation is rounded off. It offers the developing countries the chance to refute western scepticism about their capacities. He also cited a number of pros and cons of abolishing aid. These were:

- ❖ Abolishing aid gives people their self respect back
- ❖ If aid is no longer forthcoming, the tax system will have to be reformed an actively collected and the water and electricity bills would have to be paid. And then tax paying citizens will make demands from the government
- ❖ "Abolishing aid is a hardly conceivable option: a whole branch of industry closes down overnight. Not only can one slim down within the governments, but also international and national development organisations will stop to exist.

In response to the above, John Breman (at the University of Amsterdam, The Netherlands) said that Marres had raised an important argument, but the way in which it was raised was wrong. Breman found the statement about developing countries losing their self-respect a "pitiful" statement. According to Breman, "poverty always goes together with a loss of self-

respect. How can one give back their self-respect by stopping aid". Breman also goes on to say that more aid should be given to developing countries as the wealth of the rich nations is never questioned whereas developing countries have been placed at such structural arrears that they would never succeed in making it up. He also stated that most donors demand good governance while giving aid, however, they themselves may not enforce it. Breman has discussed how the donor countries have got rich today because they had been able to put up trade barriers and under also gained advantages under colonisation. But today too free trade and opening up of the markets presupposes equality within parties and globalisation of the economy will deprive the poor countries of the possibilities the rich countries had for themselves.

In comparison the aid recipient countries in Africa are in a much worse situation. Under the reign of the Washington Consensus development aid became aggressively conditional upon good governance as was defined by the Washington based multilateral aid agencies and thus SAP had to be the mould in which all foreign aid transactions had to fit. What one sees now is a cementing of the union between aid and politics. Hence, development aid including humanitarian assistance cannot be left to bilateral parties or agreements.

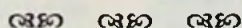
Aid has to be effective. It has been seen that foreign aid and development assistance have gained a bad reputation on account of their not showing any capacity to reduce poverty, even in economies that have attracted the largest share of foreign assistance. For instance in Kenya, despite all the plutocracy to which Moi's government subjected the Kenyan economy, the country was able to withstand donor withdrawals of multilateral assistance without bringing the economy to its knees.

According to the Reality of Aid Report on Africa, "foreign aid to Africa has acted like a storm gathering away from the rains. In a number of instances, the storm has ended up destroying social infrastructure without boosting the economy. It also states that "the theory and practise of foreign aid points to a power system that is not keen to provide the people of Africa with practical tools for mastering basic life challenges

and innovative ways to navigate the road to life on the basis of their capacity to control their own destiny, regardless of its global worth".

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