

ISSN 1655-5295

**IBON**

# **EDM**

Education for Development

Vol. 4, No. 5

September - October 2007

**ON**

# **AID**

# **EFFECTIVENESS**



**GLOBAL HUNGER STILL ON THE RISE  
FINANCIAL VOLATILITY SPREADS WORLDWIDE  
DONOR CONDITIONALITY HAMPERS AID EFFECTIVENESS IN GHANA**

## COVER



### 3 The Philippines and aid conditionality

Sonny Africa

### 5 NEWS



### 6 FEATURES ON AID: Digging Our Graves: ODA and mining investments in the Philippines

Lisa Ito and Dr. Giovanni Tapang

### 10 Donor conditionality continues to hamper aid effectiveness in Ghana EURODAD

### 13 The third High Level Forum on aid effectiveness

Ajoy Datta

### 16 Civil society organizations and aid effectiveness

RoA Secretariat

### 18 WORLD ECONOMY: Uncertainty rules as financial volatility spreads worldwide

Martin Khor

### 22 GLOBALIZATION ISSUES: Global hunger still on the rise, says UN rights expert

Kanaga Raja

### 25 SPECIAL FEATURES: Musharraf and his collaborators

S Akbar Zaidi

### 28 WI-FI Technology: Safety Unproven; Are We Victims of the Wireless Age?

Utusan Konsumer

### LETTERS

### 30 STATS & NUMBERS:

### 31 Lost revenues from corruption 'scandalous' amid worsening state of poor families

IBON Foundation

Education for Development Magazine  
is published by



International Dept., IBON Foundation  
IBON Center

114 Timog Avenue, Quezon City  
1103 Philippines

E-mail Address: [ibon.international@ibon.org](mailto:ibon.international@ibon.org)

Tel. Nos. +632 927 7060 to 62

Local 202

Fax +632 425 1387

Antonio Tujan, Jr.

International Director  
International Department

Maria Theresa Nera-Lauron  
Head, International Department

Layout Artist  
Florenio Bambao

Cover Artist  
Jenny Padilla

Photo Credits  
BayanMuna/Bulatlat  
Bulatlat

Kenneth guda/Pinoy Weekly

David Sproule/Oxfam AUS

Curt Carnemark/WorldBank

IBON International

rednuht/flickr.com

Businessweek.com

photo: Jamie Martin/World Bank

DOD/Pingnews.com

innocent\_tauruscian/flickr.com

lahore.metblogs.com

Bagwis

IBON Foundation - International holds the rights to the contents of this publication. The publication may be cited in part as long as IBON-International is properly acknowledged as the source and IBON-International is furnished copies of the final work where the quotation or citation appears.

# THE PHILIPPINES and aid conditionality

IBON Foundation, Inc.

PHOTO: BAYAN MUNA/BUATLAT



**T**he *Paris Declaration* was signed in 2005 with official donors committing to improve the effectiveness of their official development aid (ODA) towards greater reductions in poverty and inequality. The aid reform agenda promoted spans ownership, alignment, harmonization, managing for results and mutual accountability with a dozen indicators for monitoring progress. But despite all this and after all the attention given them, the most basic question can still be asked: what is it really about aid that makes it “ineffective” and unhelpful in reducing poverty and inequality?

For all the concerns the *Paris Declaration* raises it is unfortunately conspicuously silent on conditionalities. Yet among the wide range of aid and aid-related concerns this is likely the biggest problem with the most far-reaching adverse effects. The reality is that “aid effectiveness” cannot just be about improved aid delivery and management or more efficient aid processes. The issue of conditionality is central and there is a strong case for arguing that the *Paris*

*Declaration* and the aid reform agenda will be futile if it doesn't meaningfully address this.

“Conditionalities” are basically any specific requirements donors ask of recipient governments before they give aid, whether loans or grants. In doing this, donors consciously exploit the economic weakness of underdeveloped countries which suffer scarce capital, foreign exchange and fiscal resources. They purposely wield ODA in pursuit of their foreign policy interests and use the corresponding financial pressure to leverage actions that they want the recipient government to undertake. In many cases it also helps that large-scale ODA provides lucrative opportunities for corrupt officials and local businessmen.

Policy conditionalities invariably involve “free market” policies of trade and investment liberalization, privatization and deregulation. These are of course packaged as rational economic policies that ultimately benefit domestic economies and peoples, even some unavoidable short-term pain or adjustment

is conceded. However the Philippine experience is a cautionary tale of the real effect of such policy conditionalities.

### **Philippines policy conditionalities**

The Philippines has a long history of ODA conditionalities particularly associated with the International Monetary Fund (IMF) and World Bank (WB). To be sure, conditionalities aren't the only factor in domestic socioeconomic policy-making. Nonetheless they've been a significant influence especially in the last three decades - with severe effects on the local economy and the lives and livelihoods of millions of Filipinos.

The country's first loan with the IMF in 1962 was on condition of the removal of foreign exchange controls and resulted in a sudden drastic devaluation of the peso against the dollar. The next four decades had 24 IMF loans totaling US\$3.0 billion and SDR3.1 billion and each of which more or less contained the standard IMF "stabilization program" of tight fiscal and monetary policies. The last IMF loan, for instance, was a US\$1.4 billion stand-by arrangement from 1998-2000 which had 110 conditionalities euphemistically called "structural reform measures".

Likewise with the WB. The country's first structural adjustment loan (SAL) with the WB in 1980 - which was only months away from being the WB's first such loan anywhere in the world - initiated trade liberalization which the Philippines is in the final stages of today. To date there have been some US\$2.8 billion in WB structural and sectoral adjustment loans. The most recent is a US\$250 million Development Policy Loan in 2006 which among

others covered fiscal austerity and new taxes - picking up from where the IMF left off - as well as power privatization.

IMF and WB aid conditionalities especially since the 1990s have been far-ranging and included, among others: tax reform, import liberalization, oil deregulation, power sector reform, retail trade liberalization, financial and banking sector reform, securities reform, privatization and general foreign investment liberalization. All these have gone far in turning the Philippines into one of Southeast Asia's most open economies with the lowest tariffs and least restrictions on foreign capital, next only to Singapore.

### **"Globalization" and underdevelopment**

The effect on the economy has been dramatic. Trade measured as a percentage of gross domestic product (GDP) has doubled, from 52% in 1980 to 105% in 2005, while foreign investment by the same measure has nearly quadrupled, from 4% to 14 percent. Yet the Philippines is more backward than ever. The country's productive sectors are devastated. Manufacturing is a smaller share of the economy than it was in the 1960s as well as the most foreign-dominated it has ever been. Agriculture's share in the economy is at historically low levels, agricultural trade deficits have been rising since the mid-1990s, and the country is more dependent than it has ever been on imported food.

Most tellingly, joblessness has been at record highs for over six years now and the unemployment rate has averaged over 11% with, in 2006, 12 million jobless or otherwise underemployed Filipinos. This deteriorating situation drives some 3,500 overseas to find work

everyday and there are now some 9-10 million overseas Filipino workers (OFWs), or "economic refugees", scattered in over 190 countries. There is severe poverty especially at the lowest income levels which is disguised by sharpening inequality. In any case, some 69 million Filipinos or 80% of the population struggle to survive on the equivalent of some US\$2 or less a day. Around 46 million Filipinos go hungry everyday and cannot meet even minimum nutritional requirements.

But policy conditionalities have not just been about macroeconomic policies and have been applied on a sector per sector basis, with much the same devastating effects. Nor has it been only the IMF and WB which have used ODA to leverage desired "free market" outcomes. The case of health sector is just one example.

The Philippines' public health sector cannot be said to have ever been very substantial, even it had long dominated the country's health service system, yet this inadequacy has become even worse in recent decades. The first WB Health Development Project in 1989 worth US\$70.1 million arguably began the process of thoroughgoing health privatization in the country. This combined with consecutive technical assistance efforts to establish privatization and decentralization as the central thrust of public health policy. Most recently, the Asian Development Bank's (ADB) US\$200.0 million Health Sector Development Program in 2004 covers health care financing, public hospital financial autonomy, and rationalization of health facilities and performance. The WB also provided US\$110.0 million in 2006 as National Sector Support for Health Reform.

*(continued on page 11)*

## IBON to WTO Head Lamy: Aid shouldn't be used to promote trade

**D**evelopment aid should not be used to promote the developed countries' "free trade" agenda, independent think-tank IBON Foundation said today, as World Trade Organization (WTO) Director-General Pascal Lamy arrives in Manila to kick off an Asian Development Bank conference on Mobilizing Aid for Trade (AfT).

The WTO defines AfT as "donor funds" channeled to finance trade-related technical assistance and infrastructure, plus aid used to develop productive (supply-side) capacity.

According to IBON research head Sonny Africa, development aid could be of assistance to resource-starved underdeveloped countries such as the Philippines. But this can only happen if aid is

divorced from the 'free trade' economic agenda of rich donor countries and decisions over where it is channelled and how it is implemented are placed under the control of local shareholders.

Lamy's intention of promoting aid for trade only affirms how the WTO dangles development instruments like aid to Third World countries such as the Philippines to force open their economies further. **IBON Foundation, Inc.**

## JPEPA undermines RP constitution, shuts door to real economic dev't

**T**he Japan Philippines Economic Partnership Agreement (JPEPA) violates provisions of the 1987 Constitution which are vital to the country's future economic development, according to independent think-tank IBON Foundation.

The JPEPA directly undermines the intent of the Constitutional mandate to promote the "preferential use of Filipino labor, domestic materials and locally-produced goods", IBON research head Sonny Africa said. The JPEPA's various provisions on National Treatment in Articles 17 (goods), 73 (services), 89 (investment), 131 (government procurement) prevent the Philippines from actively supporting Filipino producers.

The JPEPA moreover severely restricts the country to pass laws setting economic policy by prohibiting performance require-

ments. This effectively prevents Congress from enacting laws that ensure that the country benefits from Japanese investments.

Africa pointed out that under the Agreement, the country would be prohibited from enacting local content requirements, local labor requirements and technology transfer provisions.

The JPEPA's provisions on taxation expropriation also lay the groundwork for legal challenges to future tax measures, effectively protecting the profits of Japanese corporations at the expense of the country's right to tax all economic activity within its jurisdiction.

The country's past experience with free trade validates the wisdom of such economic protections guaranteed in the Constitution, Africa said. Trade as a share of gross domestic product (GDP) has doubled from in recent years. Over

that same period, foreign investment quadrupled as a share of GDP, from 4% to some 15 percent. And yet joblessness has soared to historic highs with unemployment rates of 11% and some 11 million Filipinos either jobless or looking for more work. The share of domestic manufacturing to GDP has continued to fall to 23%, as has employment in the sector to 9%, while agricultural deficits have been high and rising since the mid-1990s.

According to Africa, the provisions in the Philippine Constitution are based on solid historical experience of countries that have reached any kind of industrial or agricultural development, including Japan itself. But the JPEPA enshrines a defeatist policy-making and in doing so violates the 1987 Constitution's vital economic provisions. **IBON Foundation, Inc.**

# DIGGING OUR GRAVES: ODA and mining investments in the Philippines

Lisa Ito (Kalikasan-People's Network for the Environment) and  
Dr. Giovanni Tapang (Center for People's Development and Governance)

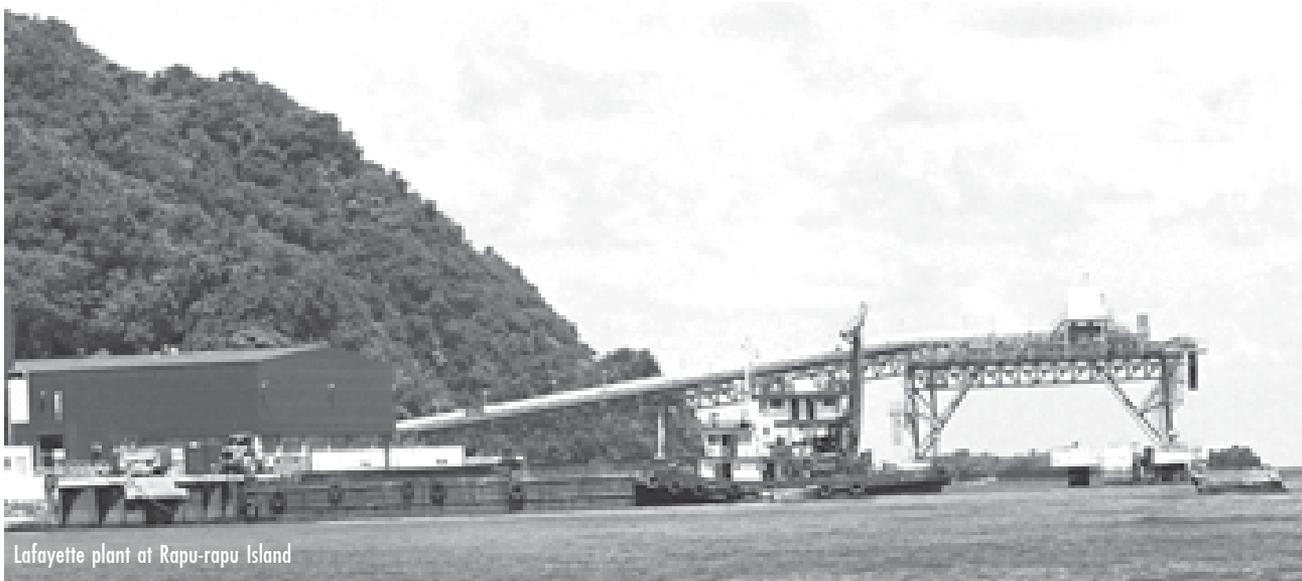


PHOTO: KENNETH GUDA/PINOY WEEKLY

Lafayette plant at Rapu-rapu Island

## **T**he Invisible Hand: Development Aid and the liberalization of Philippine Mining

International financing and development aid institutions have been instrumental not only in providing outside financing for mining projects but also in steering Philippine national policies towards mining. Institutions such as the World Bank have figured prominently in promoting

mining liberalization as a national policy and lobbying for the enactment of the current Mining Law. This liberalization is part of the structural adjustment programs began by the World Bank and the International Monetary Fund (IMF) in 1980

Aid institutions provided funding for mineral resource investigations that would later on be cited as a basis for revitalizing the mining industry. During the lull in mining activities in the early 1980s, the Philippine

government conducted mineral potential studies in the country with help from the United Nations Development Program (UNDP), the Asian Development Bank (ADB) as well as US, British, German and Japanese governmental aid.

Dealing with the Aquino and Ramos administrations, development aid institutions explicitly moved for the liberalization of existing country controls in the mining industry as well as other economic sectors, such as the oil industry. In the Economic Integration program in 1992 of the World Bank was a loan tied to a recommendation for the Philippine government to attract more foreign investors and to expand the coverage of foreign participation in various industries, including mining.

The ADB directly influenced the liberalization of the mining sector and in a 1993/94 study put forward an explicit recommendation for immediate action to enact a new mining code with far more open and generous terms for investors than the past mining laws.

These studies and recommendations eventually shaped the government's thrust on liberalizing and restructuring the mining industry which culminated on March 6, 1995, when former President Fidel V. Ramos signed the Mining Act of 1995 (Republic Act 7942) into law following instruction and support from the World Bank, UNDP, and Asian Development Bank.

RA 7942 was passed in tandem with other laws aiming to effect the policies of liberalization, deregulation, and privatization, including RA 8179 (Amendment to the 1991 Foreign Investment Act) and RA 8180 (Downstream Oil Deregulation Act), as well as

accession to the General Agreement on Tariffs and Trades-World Trade Organization (GATT-WTO).

Eventually, development support to the Philippines extended beyond the forging of Mining Act of 1995 to promotion of mining investments, increased security aid to areas of mining projects as well as technical support to the Philippine government's capacity to facilitate and monitor mining operations.

Speaking at a National Mining Conference in December 2003, then World Bank Country Director Robert Van Pulley exhorted Philippine government officials, mining industry members, and civil society groups to pursue mining as a means to "increase economic growth and expand the public revenue base needed to achieve sustainable development and to reduce poverty".

Van Pulley also disclosed that the World Bank, along with funding support from the Australian, Canadian, Japanese and U.S. governments, has assisted in the promotion of mining in the Philippines by facilitating resource speakers, conferences, and mine study tours.

President Arroyo quickly responded to this call by the World Bank barely a month later by enacting supplementary policies to RA 7942, such as Executive Order 270 (National Policy Agenda on Revitalizing Mining in the Philippines) on 14 January 2004, which categorically declared "mineral development" as one of the Arroyo administration's main economic programs, and directed the Environment Department to craft a National Mineral Action Plan (NMAP). These pro-mining liberalization measures reached a climax in December 2004 when the

Supreme Court reversed its earlier decision that stated that certain provisions of RA 7942 were unconstitutional.

More foreign mining firms have grabbed the opportunity to enter the Philippines since then. As of October 2006, the Philippine government has approved a variety of mining permits covering 514,948.76, or more than half a million hectares of Philippine lands nationwide under RA 7942.

The DENR approved 28 exploration permits (EPs) covering a total of 89,828.76 hectares, 229 Mineral Production Sharing Agreements (MPSAs) covering a total of 373,201 hectares and 2 Financial and Technical Assistance Agreements (FTAAs) covering 51,919 hectares of land nationwide.

An additional 2,000 applications for mining permits remain pending for approval to date, including 43 FTAA applications covering around 2.16 million hectares or some 8% of Philippine territorial land.

The Arroyo administration has also openly declared support for 24 Priority Mining Projects encompassing a total of 176,000 hectares, mostly in the Cordillera Region, Southern Mindanao Region and Caraga Region. Largest among these are the Tampakan Copper Project (31,600 has.) in South Cotabato, Amacan Copper Project (27,058 has) in Compostela Valley, Nonoc Nickel Project (25,000 has) in Surigao del Norte, Didipio Copper Project (21,465 has.) in Nueva Vizcaya, and Pujada Nickel Project (11,799 has) in Davao Oriental.

The ADB's invisible hand stretches until the present. Their recommendation in a 1993/94 study includes Intermediate Term Recommendations which lists the

following for consideration of the government to enable it to revive the Philippine mineral industry:

- government's limited role and policy formulation on the mineral sector;
- negotiations of the MPSAs and FTAA's;
- environmental concerns;
- the decentralization of national government functions vis-à-vis that of the local government;
- the promotion of the mineral sector;
- changes in the fiscal regime; and,
- the strengthening of the Mines and Geosciences Bureau.

**Official Development Aid and Mining Investments: The case of Australia**

Direct official development aid by Australia can be correlated to the influx of Australian mining investors in the Philippines. This fact was not lost to the National Economic and Development Agency team who visited Canberra in 2005 to discuss Australian ODA who said that "the constitutionality of the Philippine Mining Act will surely have a positive effect on the bilateral trade relations between the Philippines and Australia."

AusAID previously funded feasibility studies related to aeromagnetic surveys of the Philippines to identify potential mineral deposits as well as programs in reduction in red-tape in land administration. Presently, it is funneling aid to security programs and peace-building efforts in Mindanao where four of the largest mining projects are located.

Australian-Philippines war games are also being held under the guise of an RP-Australia defense pact, which includes military support.

The deployment of Australian troops will be concentrated in the southern Philippines region where mining investments especially from Australian firms are on the rise. This includes BHP Billiton - the world's largest mining firm - in Pujada Peninsula in Davao Oriental and Claver in Surigao del Norte, Medusa Mining in Eastern Mindanao, Red 5 in Siana in Surigao del Norte, Indophil in South Cotabato, Climax-Arimco in Surigao del Norte.

More and more Philippine "priority" mining projects owned by Australian mining firms are getting into trouble for causing environmental damage, human rights violations and community unrest for the past few years, yet the Arroyo administration's silence seems to have been bought by Australian aid and investments.

The following Australian firms have figured in recent mining related disasters and rights violations:



*Lafayette Mining Limited*- which owns 74% of the Rapu-Rapu Polymetallic Project in Albay that began operations in April 2005. Six months later, on October 11 and 31 2005, two mine tailings spills occurred that resulted in fish kills. Despite this, Lafayette was allowed by the DENR to continue full commercial operations. Community residents in Albay continue to oppose the project.



*BHP Billiton* - the world's largest mining firm is developing four nickel exploration sites in the Philippines, including a potential \$1.8 billion project in the mineral-rich southern island of Mindanao. BHP Billiton recently entered into an agreement with the Sibuyan Nickel Property Development Corp. (SNPDC) in Romblon, which has yet to clear its accountability in the fatal shooting of anti-mining advocate Arman Marin last October 3.



*Royalco Resources Ltd.* - the foreign partner of Oxiana Philippines in its mining project in Kasibu, Nueva Vizcaya. Last July, seven indigenous people's tribes in Kasibu have banded together in a barricade to block the entry of Oxiana's exploration equipment into their communities.

Australian and New Zealand firms are estimated to account for an estimated one-fourth of the investments in the Philippine mining sector

**Lessons from Mining Liberalization: Marinduque**

The liberalization of the mining industry since the Mining Act of 1995 has brought little improvement to the lives of the Filipino people, and death,

destruction and displacement to communities affected by the increased mining operations.

The country's record of mining accidents is evidence of this. Most infamous is the Marcopper disaster of 1996, on Marinduque Island, when a mine tailings spill of more than four million metric tons of waste caused widespread flooding and damage to farm lands and property. Villages were evacuated and an estimated 20,000 people along the Boac River were affected. The river was subsequently declared biologically dead.

The Marinduque Mining Project, managed and controlled by Placer Dome (then Placer Development Limited), was given a USD 40 million loan from the ADB in 1992 promising daily 30,000 tons of output from the mine. The spill contaminated the Boac, Mogpog and Makulapnit river systems with an estimated over 3 million cubic meters of tailings that drained into the Calancan Bay bringing with it high levels of heavy metals that are environmentally toxic to fish stocks and marine flora.

### What can be done?

The Filipino people believe that mining has a fundamental role in national industrialization and that it can be responsibly utilized for the people's welfare: to meet the needs of hospitals and schools, homes and industries. Mining has its rightful place in a society where governance and science and technology is for the people, and not for corporate interests. Mining can be made sustainable if pursued at a much balanced scale in contrast to the

present practices of all-out mineral extraction for export, unchecked waste generation, and plunder.

However, the current policies and programs brought about by mining liberalization, pushed and strengthened by international financing institutions and official development aid, practically sell the country's remaining mineral reserves, lands and waterways to foreigners. These are pursued at the expense of grave ecological destruction, threats to the people's health and livelihood, and dubious economic gains. When local communities oppose these foreign mining projects, the state uses its own military forces— whose firearms and training are "enhanced" by foreign aid—to intimidate, threaten, or even kill.

Furthermore, many of these mining giants that are now encouraged by

the government to invest in the Philippines—such as BHP Billiton and Anglo-American—are notorious in other countries for their role in grave environmental disasters, spotty human rights records, and anti-labor histories.

BHP Billiton, the world's largest mining company which is eyeing a multi-million dollar nickel project in Pujada, Davao Oriental, faces a \$4 billion class suit by the people of Papua New Guinea. For two decades, it dumped 80,000 tons of mine tailings filled with toxic heavy metals such as lead directly into the Fly and Ok Tedi rivers, ruining the livelihoods of the people, poisoning forests, and contaminating river systems. Anglo-American, the fourth largest mining company in the world, paid its South African laborers the world's lowest wages and was named as one of the main toxic lead polluters in North America. Now, it has numerous mining operations in the Cordillera and Mindanao, some of which have been even classified by the government as "priority projects".

This should not and must not happen in the Philippines. Development agenda and programs should truly mirror the people's basic aspirations and address their real needs and problems and the communities around Rapu-Rapu, Kasibu and Sibuyan has shown that concerted action will be their answer against development aggression that ruin the environment, physically and economically displace people and communities, harm and kill people.



PHOTO: DAVID SPROULE/OXFAM AUS

Michael (top) and Jay (bottom). Michael has skin problems which local people blame on the mine waste pumped into Calancan Bay.

# Donor conditionality continues to hamper aid effectiveness in Ghana



**C**onditionality on aid – specifically on budget support – should cease. This is a key message of an extensive new Joint evaluation of Multi Donor Budget Support in Ghana. According to the evaluation, there is “no evidence that (conditionality) is generating effective incentives for the faster implementation of reforms but it is undermining the quality of dialogue, generating unnecessarily high transaction costs and diverting attention away from the fundamental issues”. In fact conditionality has led to a dialogue that is “superficial” and “confrontational” undermining the potential for more strategic and constructive dialogue that would be an indication of a more genuine partnership.

Donor practice of providing base level grants which may then be topped up with “incentive tranches” for good behaviour also come under attack by the evaluators and they recommend that they be

eliminated. The evaluation seems to suggest that donors have been tinkering around at the margins of real “partnership” with developing country governments and that it is time they grow up and develop a more mature relationship based on trust. One way of building this would be to agree upfront on eight due process principles that the government would agree to. These should be things that the government is doing anyway, and not adhering to them would indeed to be a reason to cut funding. Performance-based conditions, however, should not. The eight “due process” that are recommended are:

1. Continued respect for democracy and human rights;
2. Maintenance of fiscal and monetary policies consistent with macro-economic stability and growth;
3. Adherence to a clear poverty reduction strategy and allocation of resources in line with this;

4. Respect for national budgetary and procurement legislation and the related systems to ensure that spending is in line with the approved budget and follows required procedures;
5. Continuing reforms to improve the quality of these systems and raise value for money;
6. Transparent measurement of the results of public spending and use of these to improve sectoral policies; and
7. Continuous strengthening of the quality of governance and public administration, and periodic public assessments to assess progress

These due process principles would mean a fundamental shift away from the current donor negotiated performance conditions. According to the authors, "it entails an assessment that Government is acting in good faith and following its own legal requirements as well as international norms of transparency and fiscal discipline".

The monitoring of results would become a key part of the process. This would not be to tie aid transfers to specific performance targets or outcome indicators but as a means of monitoring progress. Where results were not achieved and it was deemed to be a result of the government not respecting the "due process" principles, then budget support could be cut.

### Results so far

The evaluation finds that budget support to Ghana has overall been quite positive. The reduction in domestic debt and

the increase in poverty-related expenditures would not have been possible without it. Budget support has contributed to particularly good results in the education sector. Total enrolment of 6-11 year olds in private and public schools has jumped by nearly 20% from 2004/05 – 2005/06 and there has been a 5% growth in the number of public schools and an 8% growth in the number of teachers from 1999/00 to 2004/05. Multi-donor budget support funds were also found to be more predictable and lower in transaction costs than other aid modalities.

Given these positive results, it is perhaps surprising that budget support has actually been declining and not increasing in recent years. In 2003, budget support represented 39% of total ODA and 13% of total spending. This declined in 2005 to 27% and 9% respectively.

An important conclusion of the evaluation however, is that multi-donor budget support in Ghana could be greatly improved if it were conceived as a tool for budget financing rather than as a tool for leveraging policy change as is currently the case. The Ghanaian government needs to put in place a clear aid policy and strengthen the budget process and absorptive capacity of the government in order to facilitate this change in approach. Some of these reforms have already started to be instituted.

The largest donors to the Ghanaian multi-donor budget support programme were (from highest): World Bank, DFID, African Development Bank, EU, Netherlands, Canada and Germany.

*(continued from page 4)*

National government (NG) health spending has correspondingly fallen steeply from what was already a low "peak" of 0.74% of GDP in 1990-91, to just 0.31% programmed in the 2008 NG budget. The impact of deteriorating public health services in the context of a poor population with incomes not even enough for decent living - much less able to cope with sudden health emergencies - is evident. For instance, the proportion of Filipinos dying without medical attention is increasing; 74% of deaths in 1975 were attended by trained health professionals compared to just 67% in 2002. Coverage of fully-immunized children has fallen from 69% in 1993 to 60% in 2003. In the 2008 NG budget, there are conspicuous cuts in programs for the poorest such as in subsidies to indigent patients and for the public hospitals they go to.

Aside from macroeconomic and sectoral conditionalities, it may even be argued that alongside this should be the implicit debt service conditionality. While not formally written in any specific loan or grant agreement, the unspoken donor demand for all debt to be honored is clear. In the Philippines, as with many other heavily indebted countries worldwide, this means high and rising foreign debt payments. The country's debt stock was US\$17 billion in 1980. Over US\$130 billion has since been paid in debt service yet the debt stock has continued to rise and stands at some US\$64 billion today.

### Key lessons

The Philippine experience affirms the adverse effect of conditionalities. There has been

PHOTO: BULATLAT



severe and accumulating damage to economy and to people's lives and livelihoods that has been worst for the most vulnerable sectors (e.g., peasants, labor, informal workers, women, children, migrants and others).

But apart from these socio-economic effects the very process of aid and conditionalities has altered the policy-making landscape itself. The relentless efforts over decades has resulted in much greater "internalization" by the Philippine government and its technocrats of the "free market" policy content of conditionalities. National "development" strategies are now virtually indistinguishable from what donors want and there is now unparalleled ideological convergence with donor priorities and concerns. Among the domestic business community, corporate elites have aligned with foreign capital and add to the semblance of these policies' "legitimacy". The way in which conditionalities influence policy has then evolved to seem less intrusive or externally imposed.

There is even a Philippine Development Forum (PDF) which regularly brings together donors and the country's top policymakers

to define and thresh out socioeconomic policy thrusts.

And still, the basic vulnerability to the financial carrot of ODA remains with the country's need for capital, foreign exchange and fiscal resources as stark as ever. The government's fiscal bind is revealing. In 2006, nearly 90% of the national government's total revenue of P980 billion went to foreign and domestic debt service (i.e., P854 billion).

With only P126 billion remaining and yet P734 billion in total non-debt expenditure, the government had to borrow some more and ended up financing 83% of its non-debt expenditure from additional borrowing, especially from ODA. This reliance on borrowing translates into considerable donor country leverage. As it is, ODA commitments (not disbursements) in 2006 reached US\$9.5 billion (P488 billion at prevailing exchange rates), and ODA took up over 40% of the country's foreign debt stock.

#### Areas for CSO action

In terms of the *Paris Declaration*, the question is how its ostensible aid reform agenda can be linked to the larger development framework that the people need and that civil society organizations (CSO) advocate. Reforms in delivery and management are important but - as the Philippine experience points to - removing the undue direct and indirect donor influence on national policies through ODA is crucial.

The demand to remove all explicit and especially "free market" conditionalities in ODA is then central. These conditionalities are arguably the single biggest barrier to aid effectiveness which not only

makes aid developmentally ineffective but actually counter-productive. Without meaningful reductions the danger is that the aid reform agenda will be merely diversionary and a smokescreen to continue pushing destructive "globalization" policies. And while their removal may not automatically result in development, it will at least remove a key adverse influence on domestic policies.

There are also other areas for action. Donor-proposed mechanisms that further increase their individual and collective leverage over recipient country policies should be opposed, especially those that are IMF- and WB-centered. This includes such as Poverty Reduction Strategy Papers (PRSP), Country Assistance Strategies (CAS), Highly-Indebted Poor Countries (HIPC) initiative and others. Debt cancellation is also critical inasmuch as continued and burdensome debt servicing is a pervasive, albeit merely implicit, conditionality. On the other hand, more aid should go to health, education, water and sanitation especially for countries with greater absolute poverty.

CSOs can also work towards making governments more transparent and accountable. They can undertake efforts at creating the domestic policy and political conditions to overcome backwardness. The CSO voice, capacity and role in the aid system can be strengthened. At the end of the day, however, the link of ODA to self-interested donor foreign policy is a basic constraint in the current aid system. This points to how fundamental changes that de-link ODA from donor foreign policy may, more than anything else, go furthest towards making aid building societies that genuinely serve the people's interests and welfare.

# The third High Level Forum on aid effectiveness

Ajoy Datta  
Forum on the Future of Aid

## The Paris Declaration

The Paris Declaration was signed in 2005 by 107 countries, 26 International Organisations and 14 International Civil Society Organisations. This moved the aid effectiveness agenda beyond the general consensus around making aid more effective in combating poverty and accelerating progress in achieving the MDGs, reached at Rome in 2003, towards committing its signatories to take action to strengthen national ownership, aid alignment and harmonisation, mutual accountability and results orientation. The Paris Declaration presents a monitoring framework to assess progress toward fulfilling these commitments, based on 12 actionable baseline survey against the targets and indicators in 2006/07 in 34 countries receiving aid. The OECD has published an overview of the results to the Paris Declaration and the country chapters. A second round of monitoring will be organised in the first quarter of 2008 and will be an important contribution to the Accra High-Level Forum on Aid Effectiveness to be held between 2nd and 4th September 2008.

## The High Level Forum in Accra

The main objectives of the third High Level Forum on aid effectiveness in Accra (HLF 3) are:

- 1) to review the progress made in implementing the Paris Declaration;
- 2) broaden and deepen the dialogue on aid effectiveness by giving space and voice to partner countries and newer actors, such as Civil Society Organisations and emerging donors; and
- 3) identify the action needed to make progress in improving aid effectiveness for 2010 and beyond.

## Structure of the consultation

The HLF 3 will be organised as a three-tier structure:

- 1) The Marketplace, which will provide an opportunity for different actors to showcase good and innovative practices and lessons from promoting aid effectiveness;
- 2) Roundtable meetings, which will provide an opportunity for in-depth discussion on key issues to facilitate and support decision making and policy endorsement on aid effectiveness; and
- 3) Ministerial-Level Meeting, which is expected to conclude the HLF 3 with an endorsement of a ministerial statement based on high-level discussions and negotiation around key issues.

## Management of the HLF-3

The overall responsibility for the substance of the HLF 3 rests with the Working Party on Aid Effectiveness. This was set up in May 2003 in the context of the international consensus reached at Monterrey on the actions needed to promote a global partnership for development and accelerate progress towards the MDGs. The Working Party is mandated to promote, facilitate and monitor the Paris Declaration. It is an international forum in which equal numbers of bilateral donors and partner countries are represented, with participation from all the multilateral banks, the OECD, and the United Nations. Under the umbrella of the Working Party, the Steering Committee, chaired by the Chair of the Working Party with the World Bank and the Government of Ghana as vice-chairs, meets on a quarterly basis to provide advice on the content of the Forum. The Core Group, comprised of the World Bank, the Government of Ghana and OECD, is undertaking much of the preparatory work, including overseeing the planning of preparatory events.

## The HLF-3 consultation process

Consultation processes leading up to HLF 3 are underpinned by the desire to:

- 1) deepen the understanding on aid effectiveness issues;
- 2) build ownership of the Accra agenda; and
- 3) help build consensus around key issues by the broadest range of actors.

Several strands of consultation events are planned or underway. Four rounds of mini-consultation meetings with partner countries were carried out from June to September 2007 in Mauritius, Ghana, Honduras and the Philippines. Inviting eight to ten partner countries primarily from the region, the consultation meetings identified important issues for HLF 3 through frank discussions around issues and challenges partner countries face when implementing the Paris commitments at country level. These consultations are expected to be followed-up by broader regional consultations in 2008 in order to start to build consensus around key aid effectiveness issues amongst a broader range of actors.

Specific consultations are also underway or planned around various relevant topics on aid effectiveness. This includes each of the Joint Ventures on Public Financial Management, Procurement, Managing for Development Results and Monitoring the Paris Declaration, the DAC subsidiary bodies (DAC Network on Government, Fragile States, Evaluation, Gender Equality, Poverty Reduction, Conflict, Peace and Development, Environment, and the Working Party on Statistics), other institutions (for example, the World Health Organisation and the Global Fund) and other informal working groups. It is expected that these workstreams will provide supporting analytic work on various topics through consultation with various stakeholders.

In addition to the official HLF process, there are two parallel spaces for CSOs in the process to the HLF in Accra, 2008: The official process, led by the Advisory Group on Civil Society and Aid Effectiveness (AG-CSO), which was established by the Working Party on Aid Effectiveness; and the CSO's own parallel process.

### The Official CSO process

The official CSO process aims to discuss how civil society's own contribution to development could be enhanced, with the Paris Declaration taken as a key reference point, as well as provide advice on CSO participation in the official process in Accra. The AG CSO pursues outcomes in three areas: better recognition and voice of CSOs in discussions of aid effectiveness; applying and enriching the international aid effectiveness agenda; and sharing good practice. The AG takes the Paris Declaration and the aid effectiveness principles contained therein as a reference point upon which to build as required to meet the requirements of its specific mandate.

The AG-CSO is a multi-stakeholder group consisting of 12 members, including three members each from developing country partner governments, donors, and civil society organizations (CSOs) from developed and developing countries and is intended to function at least until the HLF3. The AG-CSO have scheduled five regional consultations to involve Southern CSOs, one Northern CSO consultation (in Belgium and organised by CONCORD, an umbrella of European CSO platforms) and a North/South CSO consultation (in Johannesburg bringing together selected representatives from each of the regional consultations, including

the Northern Consultation to analyse the outcomes of the regional consultations and discuss outstanding North/South civil Society issues related to CSO aid effectiveness) all to take place between September 2007 and September 2008, to receive input on the official process.

Except for the Northern Consultation, each consultation will have a two-day CSOs-only session in which approximately half the time is devoted to CSO perspectives on the current aid effectiveness agenda (the Paris Declaration) and the remaining time is devoted to case studies, best practices and issues in CSO aid effectiveness. This will then be followed by a day-and-a-half in a multi-stakeholder format with Southern CSOs, government representations, donors and Northern CSOs.

### Nordic Plus, aid effectiveness and civil society

A number of donors, led by Norway, are organizing a research program on reforming donor funding models and mechanisms for supporting civil society at country level, from an aid effectiveness perspective. This research will identify the strengths and weaknesses of current funding mechanisms and make recommendations for support to more harmonized, transparent and collectively effective support to NGOs/CSOs. In carrying out the research, country analyses will look at the strengths and weaknesses of the structure, value and impact of civil society within the particular country.

While it is unclear how CSOs will contribute to this research, Norway is a member of the Advisory Group and will presumably feed the results to the AG-CSO.

## The International CSO forum

The AG-CSO will be bringing together approximately 150 to 200 CSOs from the South and the North, donor representatives and Southern government representatives for an International Forum to consider the results of the consultations (and from other processes related to the mandate of the AG-CSO). This will be held in Ottawa, Canada between 3rd and 6th February 2008. The International Forum will offer analysis and advice to the Advisory Group on issues related to its mandate. The Advisory Group in turn will be providing some recommendations on CSO aid effectiveness to the Working Party on Aid Effectiveness, the body hosted by the DAC to monitor the implementation of the Paris Declaration.

Most of the CSO participants for the International Forum will be identified through the regional consultations; however, there will be space for other interested CSOs who have considered some of the issues involved and/or have produced case studies related to these issues. The Canadian Council for International Cooperation (which is a member of the Advisory Group) has been mandated by the Advisory Group to organize this Forum.

## The CSO parallel process

The CSO Parallel process aims to influence the outcomes of the official HLF process in the months leading up to Accra by raising CSOs' concerns around the aid effectiveness agenda and its broader implications for development effectiveness. This process brings together various local, national, regional and international NGOs who are engaged in aid architecture and

effectiveness issues. This process is led by the International CSO Steering Group for the Accra High Level (ISG), which promotes the participation of CSOs in the AG-CSO sponsored consultations and aims to support CSOs to critically analyse the aid effectiveness agenda. There are a series of national and regional consultations leading up to the above mentioned international conference in Ottawa in February 2008. All of this will feed into the High-Level Forum in Accra. In addition, the ISG has created a new web site, [www.betteraid.org](http://www.betteraid.org), which brings together the latest information on CSO perspectives and plans relating to the Accra High Level Forum on aid effectiveness.

The network is keen to develop awareness of the aid effectiveness agenda at the local and national level and sees the HLF-3 as an important opportunity for bringing about discussion and debate and the engagement of CSOs on the said agenda. CSO concerns include among others, governance and accountability, ownership, effective aid delivery, tied aid and conditionality, at the same time ensuring that the core issues of gender equality, human rights and solidarity in the aid architecture are seriously addressed.

The list of current partner networks involved in this initiative include Alliance 2015, Eurodad, Social Watch, Civicus, IBIS, Reality of Aid, Third World Network (TWN), IBON, and CONCORD. The ISG is currently under the chairmanship of IBON in the Philippines.

The ISG has proposed two potential engagements with official process planning the High Level Forum (the Working Party on Aid Effectiveness, based at the OECD DAC and its Steering Committee for the High Level Forum):

- 1) The Advisory Group on CSOs and Aid Effectiveness will be meeting on 5-6 November 2007. The Chair of the Advisory Group will invite members of the CSO International Steering Committee and members of the Steering Committee of the Working Party on Aid Effectiveness to a half day engagement on issues of concern to CSOs for the High Level Forum. The timing for this meeting during these two days has not yet been confirmed.
- 2) The full Working Party on Aid Effectiveness (23 donors, 23 partner governments from the South, multilateral donors) will be meeting on 27-28 November 2007. The CSO International Steering Committee is in discussion with the Chair of the Working Party, Ambassador Cedergren from Sweden, to arrange a meeting with the Working Party for selected members of the CSO International Steering Committee. The timing and agenda for such a meeting is yet to be confirmed.

In addition, the Canada-based Halifax Initiative is planning a Conference on International Finance and Cooperation, timed to take advantage of participants coming to Ottawa for the Advisory Group's International Forum. The Halifax Initiative is a coalition of Canadian CSOs working on reform of the international financial institutions.

The themes of this conference are intended to cover a broader scope of international financing issues than development assistance. This is due to be held from 1st to 2nd February 2008.

The follow-up to Accra (HLF-4) will be taking place in December 2011.

# Civil society organizations and aid effectiveness

Secretariat  
Reality of Aid

**F**ollowing the need for a more effective aid regime, the Advisory Group (AG) on Civil Society Organizations (CSOs) programmed a CSO process towards Accra HLF 3 in 2008. This process comprised consultations and conferences among Civil Society Organizations in the national and regional level. It is intended to draw the perspectives of CSOs towards aid effectiveness together with CSOs concerns particularly to the Paris Declaration.

The Advisory Group specifically identified three outcomes for these activities:

1. Better understanding and recognition of the roles of civil society organizations (CSOs) as development actors and as part of the

international aid architecture and engagement of CSOs in general discussions of aid effectiveness (recognition and voice);

2. Improved understanding of the applicability and limitations of the Paris Declaration for addressing issues of aid effectiveness of importance to CSOs, including how CSOs can better contribute to aid effectiveness (applying and enriching the international aid effectiveness agenda); and
3. Improved understanding of good practice relating to civil society and aid effectiveness by CSOs themselves, by donors and by developing country governments (lessons of good practice).

Starting September of this year, as mandated by the AG on CSOs and Aid Effectiveness, the Reality of Aid Network together with its local partners organized five regional workshops held in the Southern regions.

Regional workshops were held for the regions of Asia (North, Central and East) and The Pacific (Hanoi, Viet Nam); South and West Asia (Kathmandu, Nepal); West, Central and North Africa (Cotonou, Benin); East and Southern Africa (Lusaka, Zambia); and the Americas (Managua, Nicaragua).

The regional workshops provided an avenue for

PHOTO: IBON



Regional workshop held in Viet Nam

dialogues among Southern CSO platforms as well as international NGOs, donor agencies and government representatives. The agenda included plenary sessions where case studies/reports were presented by the CSOs which brought the participants into deeper understanding in the pressing issue of aid effectiveness and the Paris Declaration, and on how they can participate in the crucial processes towards Accra High Level Forum in 2008.



Regional workshop held in Nepal

In these events, the Southern CSOs were able to register their issues and concerns on the prevailing aid regime and their issues and concerns on aid effectiveness and the Paris Declaration.

The consultations proved that Southern CSOs had a relatively limited understanding of the Paris Declaration; however, despite this, it cannot be denied that they have a strong and broad sense of aid effectiveness. The Paris Declaration, according to Southern CSOs, is welcomed as a step toward aid effectiveness although lacking strength with provisions of delivering aid effectively.

In the proposition of Southern CSOs, the central issue that should be pursued towards aid effectiveness is the strengthening of Democratic Ownership, Rights-based Development, National Development and Gender Equality.

The Paris Declaration focused on the policies which are narrowly

shaped from donor-government perspectives. It discounted the recipients of aid which are those belonging in the grassroots and the marginalized, sectors and it did not provide proper acknowledgment to the role of civil society organizations which play crucial role as development actors.

The Paris Declaration is weak on not setting explicit mechanisms on how accountability shall be imposed on donors and government. Democratic ownership also posed a large issue on the part of the CSOs as they expressed their experiences with the donor led aid policies and programs. The genuine purpose of aid is not being fully recognized because this is being hampered by donor serving interests.

Aid management was also questioned in the Paris Declaration as it did not provide strong commitment on the part of donor and government particularly on the issue of untying of aid. The Paris

Declaration even has no target to eliminate or reduce economic policy conditionality.

CSOs contend that for the Paris Declaration to be applicable in its purpose of aid effectiveness, it should first recognize CSOs' role not only as development actors but moreso within the context of governance and the explicit social representation of different sectors of society from grassroots and all marginalized sectors.

CSOs also reiterated that donors and government should also acknowledge the crucial role of CSOs as effective component in the delivery of service to the poor and their role in social transformation.

These critical and important points will be deliberated by the AG and will be proposed to the Working Party to address CSOs and Aid Effectiveness at the High Level Forum in Accra and in the succeeding processes.

# Uncertainty rules as financial volatility spreads worldwide

Global financial markets are in a state of turmoil as a result of a mortgage loan crisis originating from the US. Uncertainty prevails as no one knows how massive the losses in the US housing market will be and how extensively it has affected (and will affect) financial institutions across the globe. It remains to be seen how this financial crisis will play out and whether it will trigger a global economic downturn.

**Martin Khor**  
Third World Network

**U**NCERTAINTY and volatility in financial markets across the world appears likely to persist as more news emerges on banks and funds hit by the losses and the mess originating from the 'sub-prime' mortgage market in the United States.

The uncertainty arises from lack of information on which institutions are affected, and thus on where it is safe or unsafe to invest in.

A major problem is that the effects have spread far beyond the institutions that are directly hit by losses caused by the US sub-prime mortgage markets. Since investors do not know which institutions are in trouble, there is a general loss of confidence and a rising demand to redeem their investments in equity and hedge funds, including in those that were not directly hit by the sub-prime mortgage crisis.

As the funds face higher redemption demands in their home countries, they have to pull their money back from investments they have made abroad, for example in stock markets in Asia.

## The 'carry trade'

Another complication is the 'unwinding' of the 'carry trade', in which funds have borrowed heavily in Japanese yen (that carries low interest rates) to invest or lend in assets in countries with higher interest rates.

The current crisis has increased the value of the yen, thus reducing or wiping out the advantage gained in the difference in interest rates by the 'carry traders', since more of the currencies invested in has to be spent when buying back yen to repay the yen-denominated loans.

The hedge funds and others involved in the carry trade have started 'unwinding', by selling off their assets in countries with high interest rates, and returning their yen-denominated loans.

'The carry trade, particularly using the low-yield yen, has been a huge source of funding for speculative trades across asset classes,' according to a Financial Times article. But now the yen is surging as traders take bets off the table. 'All of a sudden, the



PHOTO: REDUWHT/Flickr.COM

carry trade is frightening and a big sell,' it quoted a financial analyst.

As the yen carry trade unwinds, and more yen is in demand to pay back the loans, this sends the Japanese currency's value even higher, which in turn makes it more urgent for more 'unwinding' to take place.

These two factors – higher redemption demand and the unwinding of the carry trade – may account significantly for the shares selloff in at least some of the Asian stock markets.

An article in the International Herald Tribune on 18 August said that 'the market volatility created by the unwinding of carry trades, which has ripped through all kinds of assets, is something most people can do without. And it feeds on itself: volatility in exchange rates makes cheap-yen borrowing increasingly risky, necessitating more unwinding...

'Many of the market declines are the result of forced selling by fund

managers. As investors lose money, they begin to cash in their holdings in funds, forcing managers to sell stocks even if they do not believe it is wise to do so.

'Falling asset prices compel many brokers to ask investors to deposit more cash, which forces more investors to sell their holdings to raise cash. All this selling exacerbates the pace of declines, creating a vicious cycle in which more selling begets even more selling.'

The financial volatility originating from the United States' mortgage market has widened and spread across the world, hitting more sectors like stock markets and investment funds operated by banks.

Central banks in Europe, the United States and Asia have taken action to pump hundreds of billions of dollars into their banking systems, in an attempt to prevent the conversion of a liquidity shortage into a full-scale credit crunch and, eventually, an

economic recession. The US Federal Reserve also cut its discount rate (the rate at which it lends to banks) by 0.5 points to 5.75%. However, there will most likely be more turbulence in the days and weeks ahead, as evidence of the damage caused to more financial institutions by the market turmoil emerges.

The intervention by a conservative institution like the European Central Bank (ECB) was so unexpected and stunning that a Financial Times columnist wondered whether 'there is something truly nasty lurking out there in relation to credit losses that only the ECB knows about.'

The actions showed up the seriousness of the situation, as more financial institutions showed signs of being hit by the crisis that started in the sub-prime house mortgage sector in the US. Banks and funds that lent or invested in that sector have suffered losses, and other institutions that are linked to these have also suffered secondary effects.

“Investors are finding it hard to deal with two big uncertainties. No one knows how big the losses from US housing will eventually turn out to be, or who will suffer them.”

One of the biggest shocks has been the announcement on 9 August that the big French bank BNP Paribas had stopped withdrawals from three of its investment funds, which were exposed to the US sub-prime mortgage market.

The crisis has thus now affected the investing public, which is unable to redeem their investments from the affected funds.

The bank said that the freeze on the funds was due to the ‘complete evaporation of liquidity’ in certain market segments in the US (meaning that there were no buyers). The combined value of the three funds was 1.6 billion euros, down from 2 billion euros on 27 July.

Other investment funds have also been hit, according to the Financial Times. The North American Equity Opportunities fund run by Goldman Sachs fell 12% in July and another 12% in August so far. The big hedge fund Renaissance Technologies is also reported to be experiencing difficulties.

The Dutch investment bank NIBC on 9 August also reported 2007

first-half losses due to exposure to the sub-prime market. In early May, the Swiss bank UBS announced that its affiliated fund Dillon Read had lost 150 million Swiss francs on US sub-prime investments.

The most publicised European institution hit by the sub-prime crisis is the German bank IKB, whose affiliate Rhineland Funding had bought 14 billion euros of bonds in the US, some backed by US sub-prime mortgages.

Massive losses from its operations led to a German government-organised rescue including a 3.5 billion euro bailout plus 14.6 billion euros in liquidity guarantees, to be shouldered by other German banks. The chief German financial regulator said that there was risk of the worst financial crisis since the 1930s.

The irony is that IKB had earned the praise of the rating agency Moody’s in December 2006, for successfully diversifying its business activities outside Germany.

In the US, the bank Bear Stearns in early July closed two hedge funds after nearly total losses on bets on the sub-prime market worth over \$20 billion.

Other institutions to have been hard hit included the US’ biggest mortgage lender Countrywide Financial, which was reported by a rating agency as facing possible bankruptcy; the KKR financial firm disclosed it may lose up to \$250 million due to the mortgage crisis; a Goldman Sachs hedge fund lost \$1.8 billion and required an internal rescue; Canadian bank CIBC had to write off C\$290 million; and an Australian hedge fund (Basis Capital) with \$1 billion revealed it had lost 80% of its value.

The turmoil of the last few weeks has led to uncertainties as to what lies ahead, and how the crisis will play out.

‘Investors are finding it hard to deal with two big uncertainties,’ said a Wall Street Journal column. ‘No one knows how big the losses from US housing will eventually turn out to be, or who will suffer them.’

The economist Paul Krugman in his New York Times column on 10 August gave his view on how the drying up of liquidity can produce a chain reaction of defaults.

‘Financial institution A can’t sell its mortgage-backed securities, so it can’t raise enough cash to make the payment it owes to institution B, which then doesn’t have the cash to pay institution C – and those who do have cash sit on it, because they don’t trust anyone else to repay a loan, which makes things even worse.’

The most scary thing about liquidity crises, said Krugman, is that it is very hard for policymakers to do anything about them. The central banks can respond by cutting interest rates or lending money to banks that are short of cash.

‘But when liquidity dries up, the normal tools of policy lose much of their effectiveness,’ said Krugman. ‘Reducing the cost of money doesn’t do much for borrowers if nobody is willing to make loans. Ensuring that banks have plenty of cash doesn’t do much if the cash stays in the banks’ vaults.’

In such an environment, most analysts believe the problems are so serious that central bank measures such as pumping funds into the system and reducing interest rates may calm the

markets for a few days, but the fears will return to spook the markets.

Central bankers in Asian countries have tried to calm their markets by downplaying the effects that the US sub-prime crisis will have on their economies.

The South Korean finance ministry on 13 August said that it will supply funds to the banking system if there is a liquidity shortage. It said that Korean institutions had invested \$850 million in the US sub-prime market.

In Malaysia, the central bank governor said that Malaysian institutions were not exposed to the sub-prime market, that there was adequate liquidity in the system, and there was no need for any intervention.

**“We should demand criminal penalties for the profiteers who started out to enrich themselves and seem to have ended up destroying the very system they misused.”**



PHOTO: BUSINESSWEEK.COM

said that it is a matter of time before the sub-prime credit crunch is seen for what it is: ‘a sub-prime Ponzi scheme in which millions of people are losing their homes because of criminal and fraudulent tactics used by financial institutions that pose as respectable players in a highly rigged casino-like market system.’

However, news has since emerged that three Asian banks have been heavily exposed to the US sub-prime sector, raising fears that banks from the region are more vulnerable to the crisis than initially thought.

In any case, given the high degree of interdependence between different types of markets, and between different financial institutions and companies, linked through many layers of exposure, many types of financial instruments, and through many leveraged and speculative funds, Asia cannot expect to be spared the adverse effects of the crisis. The roller-coaster ride in the financial markets thus looks set to continue into the foreseeable future.

**Criminal tactics**

Meanwhile, calls are being made to the financial authorities not only to act to stem the crisis but to investigate the parties responsible and to punish them.

Danny Schechter, editor of MediaChannel.org, and director of the new film, *In Debt We Trust: America Before the Bubble Bursts*,

According to Schechter, companies

suspended their usual ‘standards’ and ‘rules’ and self-styled ‘due diligence’ and knowingly sucked money out of people with poor credit records. These companies are themselves imploding and collapsing worldwide.

‘This was done deliberately, with forethought and malice, a well orchestrated plan to create armies of “suckers” and steal – yes, I said it – their monies to leverage even bigger deals. Their greed had no limits, until the scheme collapsed.

‘Behind it all were the so-called “Masters of the Universe”, the wise men of Wall Street who worked behind the scenes to turn mortgage brokers and small lenders into part of what will one day be seen as a criminal network worthy of prosecution under the conspiracy laws.’

‘We should demand criminal penalties for the profiteers who started out to enrich themselves and seem to have ended up destroying the very system they misused.’ **Resurgence # 204/204**

*Martin Khor is Director of the Third World Network.*

## Global hunger still on the rise, says UN rights expert

Despite commitments made by governments at international summits to reduce global hunger, more and more people still suffer from the lack of food and the number is increasing.

**Kanaga Raja**  
Third World Network

**G**lobal levels of hunger continue to rise, with the number of people suffering from hunger increasing to 854 million people and has been rising every year since 1996, Jean Ziegler, according to the United Nations Special Rapporteur on the right to food.

In a report (A/62/289) to be presented in the third week of October to the sixty-second session of the UN General Assembly in New York, the rights expert said that virtually no progress has been made on reducing hunger, despite the commitments made by governments in 1996 at the first World Food Summit and again at the Millennium Summit in 2000.

More than 6 million children still die every year from hunger and hunger-related causes before their fifth birthday, he said, pointing out that “this is unacceptable.”

“All human beings have the right to live in dignity, free from hunger. The right to food is a human right,” he stressed.

In an address at a media briefing in advance of World Food Day on 16 October, Ziegler regretted that after seven years of his tenure as UN Special Rapporteur on the right to food, he was unable to report a reduction in the number of persons suffering from violations of the right to food.

On the contrary, he said, despite real advances in different countries, such as China, India, South Africa, and several Latin American and Caribbean countries, there has been little overall progress in reducing the number of victims of hunger and malnutrition around the world.

Yet, hunger and famine are not inevitable, the rights expert said, adding that according to the Food and Agriculture Organization (FAO), the world already produces enough food to feed every child, woman and man, and could feed 12 billion people, double the current world population.

“Our world is richer than ever before, so how can we accept that 6 million children under five are killed every year by malnutrition and related diseases,” he asked.

In his report, the Special Rapporteur called the attention of the General Assembly to situations of special concern relating to the right to food, as well as to positive initiatives of governments to combat hunger.

He also called the attention of the General Assembly to two emerging issues: first, the issue of the potentially grave negative impact of biofuels (or agrofuels) on the right to food; the second, the urgent need to improve protection for people who are fleeing from hunger, famine and starvation in their countries of origin and face numerous human rights violations if they try to cross borders into developed countries.

In his conclusions and recommendations, the rights expert said that all States should take immediate action to realize the human right to food of all their people. All States should also ensure that their international political and economic policies, including international trade agreements, do not have a negative impact on the right to food in other countries.

In this context, said Ziegler, European Union (EU) governments must ensure that economic partnership agreements with African, Caribbean and Pacific

countries do not negatively affect the progressive realization of the right to food in those countries and include safeguard mechanisms to allow appropriate responses to any resulting food insecurity and hunger.

The Special Rapporteur's report to the General Assembly highlighted some recent positive developments with respect to the right to food.

He welcomed the initiative of six African governments and the United Nations to establish a road map to tackle the root causes of rising hunger across the Horn of Africa. The multiple causes of food insecurity in the region will be addressed through initiatives to improve food security and increase protection of the right to food of the populations there.

During his official mission to Bolivia from 29 April to 6 May 2007, the Special Rapporteur observed important positive developments with respect to the realization of the right to food. The government is taking action to address malnutrition. One quarter of all Bolivian children, mostly

indigenous children, are gravely undernourished.

He said that the government's Zero Malnutrition programme could serve as an example to the rest of the world. Resources gained from increasing taxes on the exploitation of Bolivia's oil and gas reserves will go directly towards the Zero Malnutrition programme.

Ziegler also welcomed the dynamism of the Latin American and Caribbean region in general, and particularly the adoption of the regional initiative to eradicate hunger and guarantee food security under the "Iniciativa America Latina y Caribe sin Hambre". This initiative makes the realization of the right to adequate food for all and at all levels a key priority in the region.

On the other hand, the rights expert expressed deep concerns over the food crises that currently threaten the lives of millions of people across southern Africa. In Lesotho, over 400,000 of the country's population of 1.9 million people face food shortages and are struggling to meet their basic food

needs owing to the country's most severe drought in 30 years.

In Swaziland, one third of the population is without food after the worst annual maize harvest on record, due to an extended dry spell and high temperatures. This has led to surges in maize prices and reductions in the availability of food, which have affected people's access to food, particularly among the poorest of the poor who live on less than \$1 per day.

The Special Rapporteur was also very concerned about the terms of new agreements being negotiated by the European Union under new economic partnership agreements with the African, Caribbean and Pacific (ACP) countries. He drew the urgent attention of all States, particularly members of the EU, to the implications that this may have on the right to food of poor farmers in the developing world.

He was particularly concerned about the potential negative impact of greater trade liberalization on peasant farmers in the ACP countries, especially given unfair competition with highly subsidized EU production.

He said that in these countries, where up to 80% of the population can be involved in peasant agriculture, unfair competition may push millions of ACP peoples out of agriculture, when there are few other employment options.

In addition, the new economic partnership agreements are likely to lead to loss of substantial revenue for ACP governments, which are mostly heavily dependent on import taxes to raise government revenue.

Ziegler cited the World Bank, which estimates that in sub-Saharan Africa, tariff revenues

PHOTO: JAMIE MARTIN/WORLD BANK



average between 7% and 10% of government revenue.

Eliminating tariffs on EU imports would lower tariff revenues considerably, forcing these countries to cut fiscal expenditure and therefore putting social programmes at risk and affecting governments' ability to meet their obligations towards economic, social and cultural rights, including the right to food.

The Special Rapporteur also expressed grave concern that biofuels will bring hunger in their wake. The rights expert was requested to examine urgently the impact of agrofuels on the realization of the right to food during his dialogue with governments at the session of the Human Rights Council in June 2007.

In his present report, Ziegler said that rushing to turn food crops - maize, wheat, sugar, palm oil - into fuel for cars, without first examining the impact on global hunger is a recipe for disaster. It is estimated that to fill one car tank with biofuel (about 50 litres) would require about 200 kg of maize - enough to feed one person for one year.

He noted that increasingly unconvinced of the positive net impact of the production of agrofuels on carbon dioxide emissions, non-governmental organizations have started to call for a global moratorium on the expansion of agrofuels until the potential social, environmental and human rights impacts can be fully examined and appropriate regulatory structures put in place to prevent or mitigate any negative impacts.

The report said that global consumption of agrofuels (the two

main types of agrofuel are bioethanol and biodiesel) is low, but will rise rapidly under targets set in the EU, the United States and Latin America. The EU has set targets requiring that agrofuels provide up to 10% of transport fuels by 2020. The United States has also set targets to increase the use of agrofuel.

But the target objectives cannot be met by agricultural production in the industrialized countries. Therefore, the industrialized countries of the North are very interested in the production of the countries of the southern hemisphere to meet these needs.

While increasing the production of biofuels could bring positive benefits for climate change and for farmers in developing countries, including by improving food security, if the benefits trickle down, the rights expert said that it is also important to examine the potential of biofuels to threaten the realization of the right to food.

"The greatest risk is that dependence on the agro-industrial model of production will fail to benefit poor peasant farmers and will generate violations of the right to food."

Among the concerns that Ziegler highlighted are that the prices of basic staple foods are likely to increase, threatening economic access to sufficient food, particularly for the poorest who already spend a high proportion of their incomes on food.

It is estimated that there could be a rise of 20% in the international price of maize between now and 2010, and 41% by 2020. The prices of vegetable oil crops, especially soya and sunflower seeds could increase by 26% by 2010 and 76% by 2020, and wheat

prices could increase by 11% and then by 30%.

Although increasing food prices should theoretically benefit millions of people working as peasant farmers in developing countries, this is not always the case. Many farming families are net buyers of staple foods, as they do not have enough land to be self-sufficient, and will therefore be affected by rising consumer prices, said Ziegler.

The Special Rapporteur called for a five-year moratorium on biofuel production using current methods, to allow time for technologies to be devised and regulatory structures to be put in place to protect against negative environmental, social and human rights impacts.

Many measures can be put in place during such a moratorium to ensure that biofuel production can have positive impacts and respect the right to adequate food.

These measures include promoting the need to reduce overall energy consumption and maintaining focus on all other methods of improving energy efficiency; moving immediately to "second generation" technologies for producing biofuels, which would reduce the competition between food and fuel - agricultural wastes and crop residues could be used; adopting technologies that use non-food crops, particularly crops that can be grown in semi-arid and arid regions; and ensuring that biofuel production is based on family agriculture, rather than industrial models of agriculture, in order to ensure more employment and rural development that provides opportunities, rather than competition, to poor peasant farmers. **Third World Network Features**

# MUSHARRAF and his collaborators

S Akbar Zaidi  
Economic Political Weekly

PHOTO: DOD/PINGNEWS.COM



Pakistan President  
and General Pervez  
Musharraf

**T**he emergency in Pakistan has revealed the truth not just about Musharraf's moderate enlightenment, but also about the country's liberal elite and the collaborationist political leaders, especially of the Pakistan People's Party. So much for president-general Pervez Musharraf's policy of moderate enlightenment. Or was it, enlightened moderation? One forgets. Whatever it was, it is probably buried under the events of the last few days following the announcement of the emergency/martial law in Pakistan. It is not just that an emergency has been enforced in Pakistan which is of importance, but its nature and form are also of considerable interest.

The fact that the Supreme Court has been attacked by Pervez Musharraf, and the judges removed and/or asked to take a new oath, was perhaps the most expected response to any potential extra-constitutional move to be taken by the general. With the Court expected to rule on whether Musharraf was

eligible to contest the election for president of Pakistan (after he had actually done so, one must add), there was growing speculation that it could rule against him. There are few people if any, laypersons or analysts, who believe that Musharraf has imposed the emergency for any "national interest", as he proclaimed, and there is agreement that this step was taken exclusively to save his own skin and uniform.

### Harsh restraints

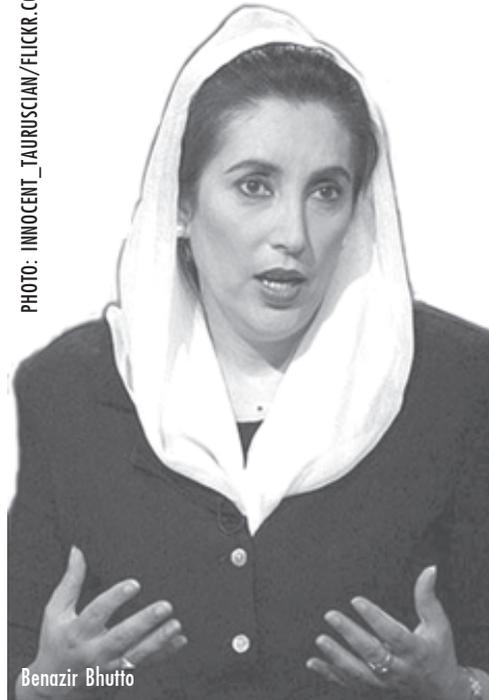
The fact that the lawyers, who have become the vanguard in a popular struggle against Musharraf, would be targeted, was also probably expected. After March 9, this year when the chief justice of Pakistan was first removed, the main opposition in the streets of Pakistan came from the lawyers all across Pakistan. That movement from March to September was a popular protest against the interference of the president-general in the affairs of the highest judiciary. The lawyers first protested the removal of the chief justice, and occasionally the movement began to

verbally attack the military as well. Importantly, political parties did not play a role of any significance in the lawyers' protests, and hence their movement always remained popular rather than political.

Occasionally, in the protests this year, the heavy-handed arm of the military state also fell upon the media, particularly the electronic media which was reporting live, almost every public event of the chief justice and all his meetings. Media persons were roughed up and some television stations were ransacked by the police, all captured live on television. All forms of protest in the country were being beamed live for all to participate in. The current clampdown has this major difference, that for at least the first eight days, all private television channels, including those broadcasting news and analysis, sports, music, and even food programmes, were completely banned. Even international news channels have been blocked.

This attack on the media by the president-general affirms two things. Firstly, that this is an intolerant, dictatorial, repressive regime, which has no patience with dissent, and for whom moderate enlightenment has very different meanings than it does for most people. And, secondly, the recognition that the media now plays a major role in reporting events, and perhaps even forming public opinion. The electronic media has certainly arrived, and plays a critical role in the public sphere in Pakistan. Hence, it too must now be controlled. How it emerges from the stringent fetters being imposed on it, will be one of the many interesting sites of struggle that will mark the immediate future of Pakistan.

PHOTO: INNOCENT\_TAURUSCIAM/FLICIKR.COM



### The liberal elite

The last eight years, certainly till March this year, had made many well-intentioned Pakistanis forget that president Pervez Musharraf was actually a general who is the chief of army staff and that Pakistan was ruled by the army. Musharraf's demeanour and his clever posturing, both at home and particularly abroad, as the champion at the frontline state in the war against terrorism, resulted in the so-called Pakistani liberal elites supporting a president in uniform. They were quick to put aside the fact that Pakistan was ruled by an anti-democratic military general, on the grounds that he was a "liberal", and was a westernised and enlightened man. In October 1999, when Musharraf overthrew a democratically elected prime minister, many of Pakistan's "civil society" representatives rushed to welcome him with open arms, and many even collaborated and joined his cabinet. Following 9/11, all

contradictions for civil society in supporting a military general were quickly replaced by his so-called liberal credentials in the fight against Talibanisation and fundamentalism, both on Pakistan's border, but importantly, also at home.

The present crisis in Pakistan's politics, and it is indeed quite severe and on multiple fronts, has not been caused by the military or by general Musharraf alone. One expects the military to behave undemocratically and dictatorially. It does not represent civil society nor does it have any ambition or need to bring about a real democratic transition. That is the task of civil society, liberals, and most importantly, political actors and

parties. Pakistan's civil society and its liberal elite have been concerned only with Musharraf's "lifestyle" liberal policies, and in the process, have ignored his anti-democratic, highly politically illiberal, stance. The choice for them has been "liberalism", where their lifestyles are protected at the cost of democracy. This large, articulate and influential segment has been a key constituency in support of general Musharraf for much of these last seven years and a key factor in his largely untroubled longevity.

The emergency has revealed the truth not just about Musharraf's moderate enlightenment, but also about Pakistan's liberal elite, as much as it has about the collaborationist and political leaders of Pakistan, most importantly, the anti-democratic leaders of the most popular political party, the Pakistan People's Party (PPP). At a time when general Musharraf's regime was on its knees during the lawyers' movement earlier this

year, the leader of the PPP, Benazir Bhutto, was cutting deals with general Musharraf in order to ensure her political future and fortune, a deal which was supposed to have rescued assets worth \$ 1.5 billion through a "reconciliation" ordinance promulgated by Musharraf. The popular lawyers movement failed to become political precisely because Bhutto preferred to enter the political arena through the back door.

### Long road ahead

At a moment when the Musharraf regime is again weak and vulnerable, this time with criticism from western countries as well, the one person who can rescue him and his regime is Benazir Bhutto. So far, Bhutto has moved rather softly in her criticism against Musharraf. She has made the right kind of noises against the imposition of the emergency, but one week into it, nothing confrontational against Musharraf. Their earlier deal, now probably with higher stakes, required the general to give up his military post if Benazir would become his prime minister. Beyond repeating that demand, she has gone no further. There

has been nothing said against the military or the state, nothing against a retired Musharraf as president. Benazir Bhutto is the only politician of any stature who is free in Pakistan today, with all minor and important politicians

detained. All roads are still open for a deal between the two, the military general, preferably retired, and a so-called democratic politician. Pakistan's politics and its society is about collaboration, not confrontation.

### Waiting game

It is clear that both the general and the prime ministerial aspirant, are playing the waiting game, hoping that one gives in before the other, raising their own stakes. With parliament to be dissolved and the Supreme Court to give its decisions about the presidential elections, events will decide who plays what game. Ironically, despite collaborating with Musharraf over the last few months and despite the antidemocratic stand taken by her, the choice rests more with Bhutto than it does with Musharraf. Bhutto can agree to save Musharraf's political future

Musharraf and against military rule. However, whatever option she, or anyone else, chooses, Pakistan's present political crisis is unlikely to be addressed in the short term.

The emergency/martial law is a temporary measure, the presence of the army, a permanent problem. What is sad is that most Pakistanis have now come to accept the state of military rule in Pakistan. Since 1999, things have moved comfortably for Musharraf, and only earlier this year, did he make his first big mistake. Prior to his sacking of the chief justice, there was virtually no opposition to Musharraf or his military government. Musharraf could not have survived in his tenure so smoothly without a large number of collaborators.

The crisis of Pakistan is not its emergency or martial law, neither is it that a military man in uniform has ruled Pakistan in comfortable

authoritarianism without much protest or opposition. The tragedy of Pakistan is that its supposedly liberal and enlightened classes and even its political classes are collaborators. For the liberals their concern is more with a lifestyle liberalism, which Musharraf has promoted,

by agreeing to cut another, better, deal with him and perpetuate military rule under a new arrangement. Or, she can, quite out of character, lead a truly democratic struggle, not just against the emergency, but against

rather than with a political liberalism. And for supposedly democratic, political actors, what matters is that somehow they get access to power. How they get there is irrelevant. **Economic Political Weekly**

PHOTO: LAHORE-METBLOGS.COM



Pakistani lawyers chant anti government slogans as they march with the vehicle of ousted Chief Justice Iftikhar Mohammed Chaudhry.

## WI-FI Technology: Safety Unproven

# Are We Victims of the Wireless Age?

**A**n ever more popular technology used to wirelessly connect computers to networks is now the in-thing in homes, offices and public places around the world. This liberating new technology is Wi-fi (wireless fidelity), or “wireless”, as it is sometimes called.

### The Good

Most people are familiar with wired networks where physical wires are run under the street or across street poles, through building structures, and from the wall to your PC. But with Wi-fi, you can connect computers anywhere in your home or office without the need for wires.

Wi-fi allows you to connect to the net at broadband speeds without cables, as long as you have the right equipment and, in most cases, a regular Internet service provider and a Wi-fi account.

The computers connect to the network using radio signals, and computers can be from 100 feet to 10 miles depending on the equipment configuration.

Besides simplicity, Wi-fi also allows you to use your computer, PDA (personal digital assistants – handheld computers), or other device to connect to the Internet from just about anywhere: while you lie in bed at home, sit at a restaurant, in a hotel room while you are on a business trip or on vacation, or any other Wi-fi “hotspots” throughout the world.

This is accomplished by using a technology very similar to the technology used in cordless phones. The



Wi-fi products (such as your laptop or PDA) connect to the Wi-fi networks by sending and receiving data anywhere within range of the Wi-fi networks.

Devices, called Wi-fi access points, act as the centre of a particular Wi-fi network and depending on what type of Wi-fi antennae is being used to transmit the signal, the Wi-fi range in a typical indoor environment is about 100 feet although that can extend to 500 feet or more if there is little interference in the way of walls and other 2.4Ghz interference.

With Wi-fi, you can work on your laptop or check e-mail from anywhere in your home; you can connect to your office network from an airport or coffee shop; you can retrieve files or presentations from the corporate network and cruise the Internet or send instant messages to co-workers- all from a conference room or the company cafeteria.

How convenient! Yes, indeed, Wi-fi networking is said to be one of the most liberating technologies to have come out of the hi-tech revolution. But that's just the good part.

**The Bad**

In recent years, much anxiety has surfaced over Wi-fi. In Britain, where millions of subscribers and entire cities have gone Wi-fi, the groundswell of concern is mounting – and for good reason. Wi-fi systems essentially take small versions of mobile phone masts into buildings, emitting the same kind of electromagnetic radiation.

Mobile phone masts or stations are associated with a number of health symptoms: headaches, fatigue, sleep disorders, memory impairments – collectively known as microwave sickness syndrome, or electrohypersensitivity.

Microwaves at current exposure levels are linked to brain damage, brain tumors, cancers, microwave sickness, impairment of cognitive functions, impairment of reproduction and fertility, affecting not only humans, but also rodents, birds and bees.

Some symptoms reported by sensitive individuals include loss of concentration, headaches, fatigue, and memory and behavioral problems.

Some experts believe children are more vulnerable to the radiation because of their thinner skulls and the fact that their brains and nervous systems are still developing.

It is feared that Wi-fi, like mobile phone technology, may also be storing disease catastrophe for the future.

What is alarming is that not enough research has been done over long enough periods on the effects of various levels of exposure on different populations to draw any firm conclusions



about the dangers of wireless networks.

There has been very little research on the effects of Wi-fi because it hasn't been around long enough, so health experts look at technology that is similar – namely mobile phone and mobile phone base stations, which studies have proven emit radiation and cause adverse health effects – to give us the answers as to how concerned we should be about the effects of this technology.

As with mobile phones, we first embrace the liberating new technology and only later ask the awkward questions.

According to world renowned geneticist and biophysicist Dr. Mae-Wan Ho, evidence is emerging that the health hazards associated with wireless microwave are at least comparable to, if not worse than, those associated with cigarette smoking. Unlike cigarette smoking, passive involuntary exposure to microwaves, which produce electromagnetic radiation, is hard to avoid if Wi-fi becomes common everywhere.

**The Ugly**

Up to 2003, an estimated 30 million Wi-fi networks had been installed worldwide, according to the Wi-Fi Alliance, which certifies wireless products. Today, there are more than 250,000 public hotspots for Wi-fi worldwide (*Science in Society*, Issue 34, Summer 2007).

Wi-fi is now in millions of homes, corporations and university campuses worldwide. It's in hotels, schools, airport departure lounges, and entire cities. "According to one estimate, Wi-fi use has increased 74% in the UK between the first and second half of 2006. Birmingham is to have Britain's first city-wide wireless communication by early 2007, and Manchester is planning the largest European Wi-fi zone covering 400 square miles." (*Science in Society*)

What will the current scenario bring? An American report has a disturbing hypothesis: "The wireless age is shortening our lives and endangering the planet." (*Idaho Observer*, April 2006)

We shall all be submerged in a sea of microwaves and be exposed to its health risks, whether we choose to go wireless or not, the *London Times* recently warned. – **Utusan Konsumer**

# Call to Norwegian and Ecuadorian governments for a task force on illegitimate debt

European Network on Debt and Development (EURODAD)

The Annual Eurodad Conference meeting in Oslo had the privilege to welcome Minister Ricardo Patiño of Ecuador and a senior representative of the Norwegian Minister Erik Solheim.

As participants to this conference, we congratulate both governments for their active involvement in the issue of illegitimate debt. The Ecuadorian government has created a debt audit commission. The Norwegian government cancelled shipping export debts and recognised lender co-responsibility, and also commissioned official studies on odious debt. We also note the Soria Moria declaration call for the definition and then cancellation of illegitimate debt.

Recently, by working together, a few governments have successfully put important but much debated issues on the agenda of the international community. This happened on the issue of innovative finance with the creation of a quadripartite group in 2004 and again with the launch, by the Norwegian government, of the international task force on capital flight. These initiatives are already beginning to have an impact on international policy making.

Illegitimate debt is a similarly urgent issue. Civil society organisations, academics and others have been providing evidence of this problem for many years. Although international institutions and governments have joined this discussion, there is wide recognition that many issues need further clarification and research. In particular, the multi-stakeholder consultation on debt held in 2005 under the auspices of the UN agreed on the need to *“examine such issues as a code of conduct for sovereign debtors and their creditors [and] operationalization of the doctrine of ‘odious debt’”*[1].

Thus we are calling on the governments of Norway and Ecuador to launch an international task force on illegitimate debt. This task force would bring together other interested governments, parliamentarians, international institutions, academics and civil society representatives from South and North. It would examine and contribute to clarifying the concepts of illegitimate and odious debt and how they would be applied. It would also feed into the Financing for Development process leading to Doha and other relevant initiatives and fora.

**Official proposals submitted to the Government of Norway by Ricardo Patiño Aroca, President of CAIC (Ecuador’s debt audit commission), Secretary of the Coast – Ecuador, Franklin Canelos Castillo, Vice – president of CAIC and Patricia Dávila Aveiga Executive Coordinator of CAIC**

1. We recognize as our duty towards Norway, to clarify the facts definitively as they relate to the credit granted by the Government of Norway to Ecuador. Given the important expression of unilateral recognition of co-responsibilities by Norway, this supports the historical memory of our nations and helps ensure that within bilateral relationships this never happens again. For such a reason, we would like to request from Norway – in order to support the deepening of the research process on debt that Ecuador held with Norway for the purchase of ships – that the government deepen its research into the ship export campaign on issues such as for example who benefited from these transactions, what happened to the ships and how such an unfortunate outcome came about. The Norwegian Campaign for debt cancellation (SLUG) jointly with the Ecuadorian national debt group should be in charge of such studies.
2. To support the constitution of an international working commission conformed by Norwegian and Ecuadorian government delegates, EURODAD and international civil societies, which will promote research and debate about the illegitimacy of debt and the construction of a new international financial

# Lost revenues from corruption 'scandalous' amid worsening state of poor families

PHOTO: BAGWIS



**L**atest results of the Family Income and Expenditure Survey (FIES) indicate that Filipino families are getting poorer. But while this could be partially compensated by increasing public expenditures for social services, resources are being diverted to debt servicing or lost to corruption.

According to IBON executive editor Rosario Bella Guzman, corruption results in loss of government revenues going to private pockets that could have been used to provide the poor of basic social services.

The ZTE's reported of US\$130 million-overprice (roughly P5.9 billion), for example, could have been used to increase the subsidy of government hospitals catering to indigent patients. Guzman said that the overprice is enough to provide for the operating costs of the Philippine General Hospital (PGH) for five years, serving 70,000 indigent outpatients per year.

She added that the amount can also hire 2,889 public school teachers and pay for their salary for one year. The Department of Education estimated the backlog of teachers at 2,733.

Guzman said the unabated corruption allegations against the Arroyo administration are made even more

scandalous because of the worsening poverty and income inequality in the country. Based from the 2006 FIES and government's family living wage, poverty increased to 86% in 2006 from 82% in 2003.

architecture. This initiative has been presented by Norwegian and Ecuadorian civil society, EURODAD and supported by the international debt movement.

3. To support, with the cooperation of the Governments of Norway, Ecuador and other countries of Latin America and Europe, the submission of an Advisory Opinion to the International Court of Justice of the Hague and/or the Inter American Court of Human Rights on the co-responsibility of creditor states and debtors within the processes of indebtedness and their effects on the effective exercise of Economic, Social, Cultural and Environmental Rights. This presupposes that, besides the important political back-up, a high level team, specialized in International Law, Human Rights and Social Sciences be constituted, so that it formulates the corresponding application and will follow the corresponding steps.

