

# Nicaragua: a rude awakening for the Paris Declaration

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Less than a year before the Third High Level Forum on Aid Effectiveness is held in Accra (Ghana), efforts to implement the Paris Declaration (PD)<sup>1</sup> in Nicaragua are mired in a crisis following the refusal of the new Sandinista government to continue the process of constructive coordination with donors. The Sandinistas' interpretation of "ownership", and particularly the authoritarian tendencies that this has entailed, has caused a certain anxiety amongst those donors who are committed to the process of aid harmonisation and alignment in Nicaragua, which had been until 2006 a genuine test case for donor coordination. The withdrawal of aid from Sweden – the country that in many ways pioneered the aid effectiveness agenda in Central America – is a further element in the crisis, and has been met with a contemptuous response from the Managua political establishment. By analysing the stance of the Sandinista government and the meaning of Sweden's withdrawal, this paper seeks to delineate some preliminary lessons aimed at reconsidering and reconstructing the axioms of the aid effectiveness agenda, with one eye on the coming forum in Accra.

## Ortega's government: counterproductive ownership?

Eleven months on from the start of Daniel Ortega's Sandinista presidency, the aid harmonisation and alignment process in Nicaragua is suffering major setbacks that threaten to undermine the progress made during the liberal administration of Enrique Bolaños (2002-2007). From 2002 on, Nicaragua was a test case for the new development agenda, and hosted several pilot initiatives aimed at achieving greater coordination between donors and national leaders; in March 2005, these concepts were crystallised in the principles of the Paris Declaration (PD).

Thirty months on from the PD, the Nicaraguan wing of the Paris agenda is in deep crisis. Instead of consolidating its foundations, the former test case and aid laboratory - once presented to the world as proof that a new type of horizontal relationship between donors and governments could be established - is progressively being demolished. Ever since Bolaños and his aid coordination team left office on January 10, 2007, it appears that the great expectations surrounding the Nicaraguan government's leadership and ownership of the aid process have run into the ground, along with some of the central tenets of the PD.

The effectiveness agenda is now colliding with the limited feasibility of the ownership practices applied by the current government of the *Frente Sandinista de Liberación*

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<sup>1</sup> See, Paris Declaration on Aid Effectiveness.

## The Paris Declaration

The Paris Declaration encourages further effectiveness and transparency in international aid at the recipient level (partner countries). It has established the following commitments to this end:

**Ownership:** The partner country has effective leadership over its development policies and strategies (for instance, through the Poverty Reduction Strategies), and coordinates development actions, together with donors and other actors.

**Alignment:** Donors base their support on strategies, institutions and procedures that have been reinforced and reformed (for instance, public financial management and results frameworks).

**Harmonisation:** Donors harmonise their actions (for instance, joint arrangements, new modalities and missions) and seek greater complementarity and division of labour in order to reduce the administrative burden and duplication of work.

These concepts, which are measured through 12 indicators, are accompanied by commitments to result-based management strategies and a new cooperation philosophy based on mutual accountability (participation, information and joint assessment of progress).

*Nacional* (Sandinista National Liberation Front, or FSNL in its Spanish abbreviation). The principal challenge is that Sandinista leadership is based on principles that contravene the implicit ideals and values of harmonisation and alignment.

(1) Firstly, President Daniel Ortega's government has endeavoured to exert full control over the information flows and decisions of a half-paralysed public sector.<sup>2</sup> As part of these efforts, it has chosen to disfigure meetings with the donors grouped under the *Mesa Global de Cooperación* (Global Roundtable<sup>3</sup>) and the *Grupo de Apoyo Presupuestario* (Budget Support Group<sup>4</sup>). Despite the great importance of budget support in Nicaragua,<sup>5</sup> the government had only held one brief meeting with each of these two harmonisation and coordination fora by the end of September 2007. During these two meetings, the government laid out a series of general slogans focused on the fight against poverty, few of which fitted with the National Development Plan (PND, in its Spanish abbreviation) that had been designed under the Bolaños government to cover the period 2006-2010. In particular, the Sandinista government has refused to continue with political dialogue over governance, which it apparently perceives as an unacceptable intrusion into Nicaragua's sovereignty and independence.<sup>6</sup> In general, the government has shown no intention discussing the development

strategies that it intends to apply over the next five years, bringing its ownership model into clear conflict with the procedures and terms of references of the PND, as well as with those of the coordination fora.<sup>7</sup>

<sup>2</sup> In a circular dated 20 October 2007, the wife of Daniel Ortega explained that "only President Daniel can give orientation to the ministers, directors and other members of the cabinet of the government, in relation to international missions, their work, the negotiation of agreements and actions related to governments and cooperation bodies". See *El Nuevo Diario*, "Circular: Solo el comandante manda" (Circular: Only the Commandante rules), 29 October 2007..

<sup>3</sup> The Global Donor Roundtable is the most important forum in Nicaragua promoting dialogue and coordination. It meets with the government every two months, and is made up of the heads of aid agencies working in Nicaragua. It is managed through a five-member board model (World Bank, Canada, Japan, Sweden and the European Commission), which meets every two weeks. It is currently chaired by Canada, which succeeded Sweden in July 2007.

<sup>4</sup> The Budget Support Group was created in 2003 and serves as a discussion and coordination forum for donors working on budget support issues, including Germany, the Inter-American Development Bank, the World Bank, the European Commission, Finland, Norway, the Netherlands, the United Kingdom, Sweden and Switzerland. This group designed and signed in 2005 a Joint Funding Agreement to jointly channel budget support, oversee cross-cutting issues, such as gender, the environment, and the fight against AIDS, and measure the progress of development through a Performance Assessment Matrix (Annex II of the Joint Funding Agreement), which aims to justify the disbursements made.

<sup>5</sup> In 2005, 48 percent (\$256 million) of all international aid received by Nicaragua was used for programme based aid (that is, from "basket funds" to general budget support). Some 17 percent (\$93 million) was assigned to general budget support. For more information, see table 24.6 in: OCDE/CAD#2006 "Survey on Monitoring the Paris Declaration Country Chapter - Nicaragua".

<sup>6</sup> The fight against European interventionism formed part of the speech delivered by President Daniel Ortega in the turbulent Iberoamerican Summit in Santiago de Chile on 10 November 2007. See *Nicaragua Hoy*, "Discurso del mandatorio Daniel Ortega en Chile" (Daniel Ortega's speech in Chile), 11 November 2007.

<sup>7</sup> Even so, it is worth mentioning that the two strongest sector-based boards during the presidency of Enrique Bolaños - health and education - are still working quite effectively, which is in part due to the significant funding provided by international aid to the corresponding ministries (around 40 percent of the total budget).

(2) Secondly, one of the most alarming developments as regards the future of constructive coordination between the FSLN government and the donor community is the increasing absence of updated information and obstacles to its publication. Most of the web portals concerned with international aid have broken down or are currently obsolete, impeding access to government plans and strategies, as well as information on aid and the uses to which it has been put.<sup>8</sup> Until the beginning of 2007, the on-line availability of data made it possible for actors who were not directly involved in the negotiations and the decision-making process - such as those in civil society and research centres - to have permanent and almost immediate access to highly relevant information. The disappearance of this data is a serious setback for the culture of transparency and participation. As a result, the current trends in Nicaraguan aid ownership point towards greater exclusion and less dissemination, limiting the participation of actors, including that of civil society, members of parliament, and public control and auditing institutions.

The feasibility of ownership by the Sandinista government raises serious challenges for the donor community. Amongst these, its leadership is based on the following unfavourable dimensions for the aid effectiveness agenda:

- \* The refusal of the government to ensure the continuity of donor coordination, harmonization and alignment.
- \* The rapid deterioration of transparency and access to information regarding international aid.
- \* The authoritarian inclinations of the government in areas of great interest to the donor community.
- \* The political capitalization of the presence of "new donors", especially Iran and Venezuela.

(3) Thirdly, the political culture of Daniel Ortega's presidency casts serious doubt over the democratic institutions of the poorest country in Central America, as well as on the Sandinista government's respect for human rights. One of the most serious signs of the current government's authoritarian inclinations is the highly controversial criminalisation of therapeutic abortion, which began during the electoral campaign in 2006 and was ratified by Nicaragua's National Assembly in mid-September 2007. The legal reform penalises abortion with up to three years of prison, including in cases where pregnancy implies a risk to the mother's life, and/or is the result of rape. As such, it has stirred up considerable controversy at international level since it flies in the face of the fundamental rights of life and health,<sup>9</sup> and has a clear negative impact on Millennium Development Goal number 5, which seeks to improve maternal health and reduce mortality after childbirth. Another initiative that is difficult for donors to accept, particularly since they have invested tens of millions of euros in supporting and reinforcing an independent civil society in Nicaragua, is that of the *Consejos de Poder Ciudadano* (Citizen Power Councils, CPC in its Spanish abbreviation), which are a sort of community organisation modelled on a political party, bearing many similarities with the *Consejos Comunales* (Community Councils) in Venezuela. In practice, the CPC are often composed exclusively of representatives of the FSLN, and therefore tend to be the "civil" arm of the government. Organised civil society fears an openly partisan manipulation of citizen participation, and is very concerned about Sandinista attempts to question its own legitimacy.<sup>10</sup> In general, these initiatives clearly resemble other recent trends in South American re-foundational populism,<sup>11</sup> while the democratic

<sup>8</sup> Thus, the webpage of the Secretariat of Economic and Aid Relations of the Ministry of Foreign Affairs, which contained national harmonisation and alignment plans, as well as documentation regarding the sector-based boards, has not been updated since March 2006.

<sup>9</sup> See, Human Rights Watch: "Nicaragua: Blanket Ban on Abortion Harms Women", August 27, 2007.

<sup>10</sup> *El Nuevo Diario*, "Ortega denuncia conspiración de sus adversarios" (Ortega denounces plot by his rivals), May 20, 2007.

<sup>11</sup> For a discussion regarding South American populism and possible policy strategies by Europe, see Susanne Gratius: "The European Union and Southamerican Populism", FRIDE Comment, June 2007.

quality of the government's leadership has marked a shift away from the progress made towards the transformation of Nicaragua's political system, which inspired increased donor coordination in the aftermath of Hurricane Mitch in 1998.

(4) Fourthly, Nicaragua today provides a new stage for the profound changes in the international aid system and the diversification of its leading players. Following his tour of Venezuela, Algeria, Libya, Iran and Cuba in June 2007, Daniel Ortega has learned how to move amongst the so-called "new donors", particularly Venezuela and Iran. Despite the limited information available regarding quantities and future disbursements of Venezuelan and Iranian aid, it seems obvious that these countries will not fit easily into the Paris agenda. Nicaragua's relationship with Venezuela has so far grown in significance not only in foreign policy terms, but also in terms of international aid strategy, as shown through a major change in priorities. Since the start of 2007, Nicaragua has formed part of the *Alternativa Bolivariana para América Latina y El Caribe* (Bolivarian Alternative for Latin America and the Caribbean, ALBA in its Spanish abbreviation), the sixth meeting of which will take place in December in Managua. During the 14th Summit of the Non-Aligned Movement held in Havana in September 2006, ALBA attracted the interest of Iran's president, Mahmoud Ahmadinejad, who later attended Daniel Ortega's investiture as president. Ahmadinejad is intent on strengthening his links with ALBA's four members (besides Nicaragua, the group also includes Bolivia, Cuba and Venezuela), and has recently established diplomatic relations with the government of Evo Morales. The scenario for Nicaraguan ownership is thus no longer an aid architecture inspired by the commitments and principles of the effectiveness agenda, but is instead part of the "post-DAC" world, in which aid recipients aim to guarantee themselves enough independence to remodel the existing power structures of the aid system.

In short, donors committed to harmonisation and alignment are facing a critical moment as the Paris agenda runs into grave trouble in a country formerly regarded as a model for future policy. At the technical level, the agenda mainly depends on the initiative and degree of leadership of the government in terms of formulating policies and coordinating with donors. There is no doubt that the Sandinista government lacks interest<sup>12</sup> in and is generally passive towards donor expectations. Furthermore, it is strengthening authoritarian trends, and thereby deliberately taking advantage of the potential counterweights to its cooperation relationships with the donors of the Development Assistance Committees (DAC) of the Organisation for Economic Cooperation and Development (OECD) - namely the "new donors", especially Iran and Venezuela. Nicaragua has discovered the power of combative national leadership, which as a whole imperils the spirit of dialogue fostered by the PD. In the wake of this counterproductive ownership, the new aid architecture is going through an acid test in a country that, to date, has been considered a *donor darling*.

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<sup>12</sup> The government circular indicates its intention to "transform the vision and practise of Nicaraguan governments of the last 16 years, and thereby assure that all finance and programmes that come to this country benefit directly, and without any intermediary involvement, the Nicaraguan people". This amounts to a sharp break with established patterns up to this time. See *El Nuevo Diario*, "Circular: Sólo el comandante manda", 29 October 2007.

## The Swedish withdrawal: a cutting edge donor quits

Nicaragua's dismantling of the progress achieved in the Paris agenda has created a complex environment for the Swedish decision – announced at the end of August 2007 – to withdraw its aid to Nicaragua, a decision that came as part of a general review of all the country's aid.

Under its new Policy for Global Development, which was promoted by the previous government led by Göran Persson (1996-2006) of the Social Democratic party, and approved by the Swedish parliament in December 2003, Sweden is committed to a greater focus on the world's poorest countries, especially those in Africa.<sup>13</sup> In direct contrast to Sweden's traditionally wide geographical scope, the DAC *peer review* in 2005 invited Stockholm to continue identifying its priority countries for aid and make a better selection of sectors to support, tasks that the Swedish International Development Cooperation Agency (SIDA) has already begun identifying.<sup>14</sup> At the end of August 2007, the current Swedish government, led by the liberal-conservative Fredrik Reinfeldt, announced that cooperation funds will be allocated to a total of 33 countries (as opposed to its current 70), meaning that 37 countries will stop receiving aid from Sweden within the next two to four years.

Sweden is thus the first European country to advance towards a substantial concentration of aid in line with the EU Code of Conduct on Complementarity and Division of Labour.<sup>15</sup> Beyond the issue of in-country complementarity, Swedish cooperation is the first to seriously take into account the need for an increased geographical and sector-based focus for its aid work. However, this new focus is not without its contradictions, since in contrast to the provisions of the Code of Conduct no coordination or consultation has been carried out at the European level. In the medium term, this unilateral approach by Stockholm has established rather fragile foundations for multilateral complementarity with other donors.

The future recipients of Swedish aid will be Africa and Eastern Europe, where Swedish funding will concentrate on issues like peace and security, democracy and human rights.<sup>16</sup> This will unquestionably have an immediate effect on the future system of international aid, since it invites donors not only to reflect on their geographical and sector-based scope, but also to adopt unpopular decisions regarding the exclusion of some aid recipients.

Considering its long-standing presence in this Central American country, the inclusion of Nicaragua in the list of countries to phase out came as something of a surprise, and also seems to have puzzled the director general of SIDA.<sup>17</sup>

<sup>13</sup> See, "Shared Responsibility: Sweden's Policy for Global Development", 2003.

<sup>14</sup> See, "OECD/DAC Peer Review Sweden" 2005.

<sup>15</sup> See, EU Council: "Code of Conduct on Complementarity and Division of Labour" in Development Policy. For a deeper discussion on this new paradigm of aid effectiveness, see Nils-Sjard Schulz: "Division of labour among European donors: Allotting the pie or committing to effectiveness?", FRIDE Comment, March 2007.

<sup>16</sup> Sweden will focus its development aid on three groups of countries, which, besides the fight against poverty, feature other specific goals. Democratic institutions will be promoted in Burkina Faso, Ethiopia, Kenya, Mali, Mozambique, Rwanda, Tanzania, Uganda, Zambia, Bangladesh, Cambodia and Bolivia. Peace and post-conflict reconstruction will be the core of Swedish aid for Burundi, Democratic Republic of Congo, Liberia, Sierra Leone, Somalia, Afghanistan, Timor Leste, Iraq, the Gaza Strip and West Bank, Colombia and Guatemala. Institutional reforms for a more stable European environment will be supported in Eastern Europe, and more particularly, Albania, Bosnia-Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Serbia, Turkey and Ukraine. See, Swedish Ministry of Foreign Affairs: "The new development policy", August 27, 2007.

<sup>17</sup> SIDA In-depth information: "Regarding the Government's new development cooperation policy", August 27, 2007.

Yet the impact within the Nicaraguan political elite of the announcement of Sweden's withdrawal clearly reflects the abyss that currently separates Daniel Ortega's government and the donor community. Two MPs from the most important political parties in the National Assembly, including the president of the Commission of Economic Affairs (the most important parliamentary body dealing with new approaches towards aid), felt no compunction in offending the Swedish ambassador, Eva Zetterberg, responding rather undiplomatically to her statements in favour of therapeutic abortion.<sup>18</sup>

This belligerent reaction has a meaning beyond the fact that the bilateral relationship between Nicaragua and Sweden has lasted for 28 years, starting after Olof Palme became the first Western head of state to visit the country following the Sandinista revolution of 1979. In addition to its active support for the Esquipulas peace process in Central America, Sweden's commitment was also crucial during the post-Mitch reconstruction era. With the aim of spurring the political and social transformation of the region during reconstruction, Stockholm hosted the summit of the Consultative Group in May 1999 with the countries affected by the hurricane, including Nicaragua.<sup>19</sup> Aside from its role as the leading European donor in terms of funds disbursed in 2005,<sup>20</sup> Swedish aid was also fully committed to Nicaragua's efforts to conform to the new aid effectiveness agenda and the reconstruction of the international aid architecture. Sweden was the first country to provide general budget support to Nicaragua in 2003, opening the way for the rest of the donor community, which subsequently formed the Budget Support Group. The Swedish ambassador chaired the 5th Aid Coordination Forum held in October 2006, and acted as chairperson at the Global Donor Roundtable until July 2007. As a result, Swedish cooperation has been a benchmark of the progress made by donors in their bid to comply with the commitments of the PD in Nicaragua.

The Swedish withdrawal has relevance for the future dynamics of the harmonisation and alignment agenda, especially at a time of alarm over the meaning and ramifications of the ownership agenda pursued by the Nicaraguan government. Moreover, the hostile reactions voiced by the Nicaraguan political elite following this withdrawal are a warning to donors seeking to adopt more political stances on issues such as therapeutic abortion, support for civil society, or broader concern for a country's democracy and good governance.

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<sup>18</sup> MPs Alba Palacios (Sandinista Party) and Wilfredo Navarro (Liberal Constitutionalist Party) connected the Swedish withdrawal to the critical position of this Nordic country regarding the criminalisation of therapeutic abortion, accusing the ambassador of "meddling, blackmailing and promoting abortion". See *El Nuevo Diario*, "Diputados acusan a embajadora sueca", August 29, 2007.

<sup>19</sup> Substantial agreements were reached during this summit over an integral vision of physical, productive and political reconstruction, which were later compiled in several documents, amongst them, the Stockholm Declaration.

<sup>20</sup> See table 24.5 in: OCDE/CAD: "2006 Survey on Monitoring the Paris Declaration Country Chapter - Nicaragua".

## A test gone wrong: some preliminary lessons for Accra

Recent developments in Nicaragua point towards a need to rethink the Paris agenda, and particularly its optimistic approach towards commitments and processes that it treated as merely technical issues. Given the counterproductive ownership adopted by the Sandinista government, the response capacity of donors committed to aid harmonisation and alignment currently seems very limited.

The origins of this paralysis can be found in strategies that are poorly adapted to a highly volatile political environment, particularly one that is characterised by the extreme institutional weakness and limited rule of law found in Nicaragua's democracy. Another key issue is the over-confidence of the aid effectiveness discourse, born out of the ashes of the Washington Consensus, as regards the ownership exercised by governments of partner countries - an ownership which the PD defines as a technical result, rather than a political process. In countries with fragile democracies, this type of governmental ownership entails certain dangers for the continuity of harmonisation and alignment efforts. In practice, institutional instability may seriously undermine the use of new aid modalities, such as general budget support or the financing of sector policies. These risks are especially important when, as in the case of Daniel Ortega's presidency, the government: (a) is not willing to keep moving forward in accordance with the terms and philosophy agreed for the purposes of coordination, opting in an aggressive fashion for cooperation systems other than or even contrary to the DAC; and (b) shows authoritarian tendencies, with the subsequent risks for human rights and the democratisation process in general, and transparency, accountability and participation in a country's development in particular.

Considering the remarkable role played by Nicaragua in the design of the Paris agenda, the lessons deriving from the changes now underway in the country are fundamental to any future review of key Paris concepts. Within Europe, a broad debate has begun concerning the potential content and results of the Third High Level Forum on Aid Effectiveness in Accra (September 2008); this process should undoubtedly take into consideration the obstacles encountered in Nicaragua. The decline of what was once a test case and model for aid coordination points to a number of preliminary lessons ahead of the Accra meeting:

### - Government ownership may clash with the Paris philosophy

The PD defines ownership as a process whereby "partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions". Measuring ownership is mainly achieved by checking "national development strategies with have clear strategic priorities linked to a medium-term expenditure framework and reflected in annual budgets" (indicator 1). However, the example of Nicaragua shows that government ownership is a more complex process that may not only vary in time, but may also create serious conflicts with the philosophy of dialogue within the PD. Thus, the counterproductive ownership of the current Nicaraguan government casts doubt over the complete confidence donors have placed in the fulfilment of the technical benchmarks of the aid effectiveness agenda, since these fail to assess the political and institutional quality of ownership. The current Nicaraguan leadership, which is characterised by certain destructive and negative traits (namely, its authoritarian tendencies and lack of interest in coordination), makes it difficult to rely on the sort of good intentions that the PD generally attributes to partner governments.

It is therefore advisable that the Paris agenda get rid of an unrealistic model, in which the governments of the South are perceived as generally good, and which fails to provide valid options for donors when the coordination process deteriorates due to bad but effective leadership on the part of partner government. As will be explained in the following sections, the concept of good ownership may be a solution to this dilemma.

**- In the medium term, ownership tends to be weak if it is not shared by all stakeholders in the partner country**

Although the PD encourages consultation in the design of Poverty Reduction Strategies (PRS), as well as civil society participation in donor coordination, it fails to make any specifications about the degree of legitimacy of ownership in relation to the participation of all stakeholders. In general, the precise role of institutions other than the government, such as civil society, the private sector and other state powers (parliament and horizontal control institutions, among others) is not stipulated by the PD. Their presence in this process is rather precarious, as opposed to that of governments, which can sometimes adopt decisions based on questionable standards of governance. In countries that depend to a high degree on aid and are affected by serious institutional weakness, the exclusively governmental nature of ownership jeopardises its feasibility and continuity in the medium term. In the case of Nicaragua, the change of government has gravely distorted the quality of ownership: the new administration's main reference is no longer the PRS agreed on by the previous government (in this case, the PND), nor the agreements with the Budget Support Group, or the sector-based boards. This unilateral modification of the rules of coordination and cooperation has met with no response from other Nicaraguan actors, simply because citizens in general and civil society in particular do not consider themselves owners of or relevant participants in these strategies. In light of the extreme fragility of the consensus on development strategies, a process of reflection must urgently be set in motion in order to define "ownership" in the aid effectiveness agenda. One of the lessons learned in Nicaragua is that development is not a product of government, but a process which should be based on a constructive relationship between the state and citizens. This relationship represents a great challenge for Nicaragua, a country whose sharp political polarisation impedes broad social consensus, thus making good analytical capacities and long-term strategies vital for development (see below). Broad participation and a search for consensus amongst all actors regarding development strategies are basic and essential ingredients for *good ownership*, namely ownership that is sustainable in time and resistant to the political cycles of developing countries.

**- The Paris agenda needs to embrace strategies oriented towards democratisation and the defence of human rights**

*Good ownership* as a principle would make it possible to overcome the indifference of the Paris agenda towards the political challenges represented by harmonisation and alignment. Drawing on a debate that has only just begun, we may say that *good ownership* is based on a broad social consensus on development goals (as a "national public good") and a high degree of institutional legitimacy, respect for human rights and democratic governance, for which donors must identify the "red lines" or thresholds linked to the maintenance of aid.<sup>21</sup> As shown in the case of Vietnam,<sup>22</sup> a less democratic environment may be tempting for donors, since it seems to ensure the effective implementation of government decisions. However, in contexts of fragile

<sup>21</sup>Think Piece 1 – "Ownership", in: Marta Foresti, David Booth and Tammie O'Neill: *Aid Effectiveness and Human Rights: Strengthening the Implementation of the Paris Declaration*, October 2006.

<sup>22</sup> María Delfina Alcaide and Silvia Sanz-Ramos: "Vietnam's Laboratory on Aid: Donor Harmonisation", country survey in *Donor harmonisation: Between effectiveness and democratisation*, FRIDE Working Paper 42, September 2007.



governance this type of ownership appears to be transient and entails major risks in the medium term, such as those which have been observed since January 2007 in the aid coordination process in Nicaragua. Following on from wide-ranging discussions in the European Commission,<sup>23</sup> a greater concern for democratisation and a commitment towards human rights would enable donors to identify possible engagement strategies for the long term. Far from having neutral effects, the action of donors in the political economy of development may be a key factor in encouraging or weakening substantial, inclusive and rights-based participation by citizens, on which a real social contract may be based.<sup>24</sup> By re-introducing a political dimension to inter-governmental cooperation, this commitment would also help structure coordinated responses from donors (instead of the “operational” paralysis of coordination spaces) to human rights violations and government leadership with clear authoritarian tendencies.

**- The feasibility of the aid effectiveness agenda requires improved institutional capacity in cooperation agencies**

The current paralysis of the harmonisation and alignment structures in Nicaragua shows an alarming level of donor dependence on the initiatives of a government that, in contrast to the *soft* philosophy of Paris, is playing *tough* with international cooperation. Furthermore, an excessively cautious response by the donor community to the institutional and democratic deterioration of a country may be construed as weakness, thus hindering an appropriate reaction to new political challenges. An example of this apparent uncertainty is evident in the ongoing silence of donors as regards the aggressive approach of the Nicaraguan political class to international aid in general, and to the representatives of Swedish aid in particular. The Nicaraguan case shows that aid agencies have an ample margin to review and enhance political dialogue capacities in changing and complex circumstances. These capacities affect, in the first place, the degree of consistency within the donor community, such as the ability to adopt a united front in face of the combative remarks directed at the Swedish embassy by the Nicaraguan political class. In the second place, political dialogue with the administration, through the use of coordinated negotiation strategies, should lead to a thaw in relations with the government, which in the best-case scenario would be supported by diplomatic representatives. Another important lesson lies in the need for increased capacities for political economy analysis, which should serve to decipher the context in which partner country governments act. As an example, the change in the political balance between different Nicaraguan actors, mainly in terms of the relationship between government and civil society, has entailed damaging effects on accounting, participation, transparency and, in the final analysis, the nation's democratic life. This analysis should encourage an optimisation of the use of the menu of aid modalities which, in critical situations, takes into account the multiplying effect of budget support on the dominant role of government over other actors. In other words, there are multiple “mixes” of possible modalities that could help redirect the impact of aid on governmental actions, for instance, in terms of democratic governance. Thus, on the basis of careful political analysis, the donor community in Nicaragua could easily develop coordinated mitigation measures, ensuring that the position of organised civil society is not excessively weakened after the huge investments of recent years. Lastly, given the demolition of the Nicaraguan test case, donors involved in the implementation of the PD have an emerging responsibility to ensure the continuity of the process in a more autonomous fashion, using analytic and strategic capacities to understand the complex political economy of development in partner countries.

<sup>23</sup> European Commission: “Communication on Governance and Development” (COM 615/2003), October 2003.

<sup>24</sup> Stefan Meyer and Nils-Sjard Schulz: “Donor harmonisation: Between effectiveness and democratisation. Analytical framework and methodologies for country case studies”, FRIDE Working Paper 41, September 2007.

**- The new architecture of aid cannot be built by ignoring the “new donors”**

The changing constellation of the international aid system is clearly observed in the cooperation currently provided to Nicaragua. Of the three groups of bilateral donors currently acting in the Central American republic, only the so-called like-minded group, which includes some European countries and Canada, operates in line with the goals of the PD. Distinct criteria, although not necessarily contradictory ones, are applied by donors that have traditionally been less enthusiastic about aid coordination and new modalities (mainly Spain, Japan and the United States). A counterweight to the philosophy of Paris is the diverse set of “new donors”, some of which are not signatories of the PD, and for whom the consensus reached within the OECD is neither relevant nor particularly interesting. Among such donors are countries that base their cooperation on geo-strategic interests (such as Venezuela and Iran), or on the search for diplomatic recognition (Taiwan). Other recent forms of cooperation have stemmed from South-South solidarity and bids for regional cohesion, such as the Latin American and the Caribbean Group of Countries (GRULAC, in its Spanish abbreviation), in which Brazil and Venezuela have assumed leadership.

There is no doubt that the international aid context is more heterogeneous today than it was when the route to Paris began, and that it responds to interests and values that are becoming less convergent. One of the first effects of this diversification in the community of donors is the increasing dominance of the Sandinista government, which cleverly uses the fractures between different donors to lever more political and financial benefits.<sup>25</sup> Another potential effect is chronic “unfair competition” between different donors within the funding market, entailing a progressive dumping of minimum aid requirements. These tendencies underline the urgent need to rethink the legitimacy and feasibility of the aid effectiveness regime, and particularly its most appropriate platform. Today, the DAC excludes some donors, and labels some others as recipients only. It does not, for instance, offer a viable solution for countries with a double face - in other words, those that may be recipients and donors. It fails to provide an appropriate response to the wishes of regional powers, such as India, Brazil and South Africa (IBSA)<sup>26</sup>, and it also fails to create a viable scenario for new trilateral cooperation schemes with these new donors.<sup>27</sup> This reinforces the vital need for a real balance in the relationship between donors and partner countries, which is being actively discussed especially in relation to mutual responsibility.

In terms of the Accra Forum, many actors are calling for the aid effectiveness agenda to be moved from the OECD to the United Nations, perhaps within the framework of the new Development Cooperation Forum of the UN Economic and Social Council<sup>28</sup> or through a UN Aid Commissioner.<sup>29</sup> The experience of Nicaragua teaches DAC donors that

<sup>25</sup> As an example, the Nicaraguan Government has been able to make wise use of its ambiguity regarding its relations with China and Taiwan, which are in principle mutually exclusive. See, *El Nuevo Diario*: “Ortega quiere tener relaciones con China y Taiwán” [Ortega would like to establish relations with China and Taiwan], July 3, 2007. Afraid of losing its diplomatic presence in Nicaragua due to Chinese advances in the region, Taiwan has pledged to fund the construction of a power plant that would directly benefit the government, which is facing a serious energy crisis. See EFE: “Taiwán dona a Nicaragua 30 millones de dólares para comprar planta de energía” [Taiwan gives 30 million dollars to purchase a power plant], July 12, 2007.

<sup>26</sup> For a detailed discussion of the role of these countries in new international relations, see Sarah-Lea John de Sousa: India, Brazil, “South Africa (IBSA): New inter-regional multilateralism in the South?”, FRIDE Comment, April 2007.

<sup>27</sup> For an analysis of tri-lateral cooperation opportunities, see Tilman Altenburg and Jochen Weikert: “Trilateral Development Cooperation with ‘New Donors’”, German Development Institute, Briefing Paper 5/2007.

<sup>28</sup> In March 2007, the UN Economic and Social Council requested that “a forum be organised on development cooperation, with the participation of developing countries, to establish a political supervision of aid effectiveness”, since “the current management of international aid is unequal and recipient countries do not have enough voice in this activity”. See Consistency, coordination and cooperation in the context of the implementation of the Monterrey Consensus (note E/2007/10). This forum was established in July 2007.

<sup>29</sup> See recommendation 6 of Action Aid: “Making aid accountable and effective: A 10-point plan for real aid reform”, June 2007.

the weight of “new donors” must be taken into account in the balance of the new aid architecture. In this sense, an interesting idea suggested by the donor community in Managua is that a representative of the GRULAC should replace Sweden as a member of the Global Donor Roundtable, despite the fact that most of its members have not signed the PD. This is a practical example showing the need for a gradual adaptation of the Paris agenda to the growing complexity of relationships in the international aid system, which appears to have caught traditional donors unawares only one year before the Accra Forum takes place.

## Conclusions

The basic changes that have occurred in the reality of aid effectiveness underscore the need for critical reflection on the PD dogma, which places excessive trust in procedures, schemes and instruments, rather than on the complex political context of partner countries. After losing its dynamism as a pilot initiative and a model, Nicaragua has become an acid test for the validity and viability of technocratic concepts that ignore political and institutional settings. The events of the last year in Nicaragua raise serious doubts over the sort of evidently unrealistic political analysis that is blind to the interests of Southern governments, for whom international cooperation is a central part of foreign relations rather than a mere act of benevolence from abroad aimed at effectiveness in the fight against poverty. On the road towards the Third High Level Forum of Accra, the preliminary recommendations derived from the situation in Nicaragua, which doubtless deserves a more detailed study, may prove useful in certain key areas. Amongst these are the goal of good ownership, the improvement of the capacities of aid agencies and the identification of a more appropriate scenario, beyond the OECD, for an international aid system that is suffering an ongoing metamorphosis due to the increasing influence of “new donors”. In conclusion, without sensible and pragmatic responses to these challenges, the traditional donor community will endanger the solidity of the new aid architecture now being built on rough terrain, where a growing number of actors are claiming their own space to defend their increasingly divergent interests.

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