

Bishwambher Pyakuryal, Dadhi Adhikari and Deependra Purush Dhakal. 2008 [2002]. *Is Foreign Aid Working? An Analysis of Aid Effectiveness and Growth* (revised edition). Kathmandu: Mandala Book Point.

In its annual economic review released at the end of 2008, the World Bank concluded that the food and fuel price increases of the previous twelve months had pushed an estimated 130–155 million additional people into poverty – mostly in the developing world (World Bank 2008). What is more, the global financial crisis had significantly diminished the short-term economic prospects for developing countries, it said, making necessary new World Bank aid commitments of up to \$100 billion over the next three years. Also in 2008, the Government of Nepal re-emphasized the role of foreign aid in building a post-conflict, new Nepal when it hosted the Nepal Donor Consultation Meeting (NDCM) in February (Government of Nepal 2008). In light of these events, it would appear that the issue of foreign aid — around the world and in Nepal — continues to be an important one and one that is worthy of investigation. But what is the quality of ongoing investigation on foreign aid, particularly work that is coming out of Nepal? Here I review one publication entitled “Is Foreign Aid Working? An Analysis of Aid Effectiveness and Growth” by Bishwambher Pyakuryal, Dadhi Adhikari and Deependra Purush Dhakal, a book first published in 2002 and recently released in a revised edition, on the basis of which I try to derive some general conclusions on the current state of foreign aid research in Nepal.

Low levels of resource generation due to low growth, a declining savings rate, rising expenditure, and poor public sector management have made foreign aid necessary for Nepal. The book considers data from 1950/51, when Nepal first utilized foreign assistance, to 2004/05, to find that on average, the share of foreign aid in total national expenditure has been 27 percent during this time – a much higher proportion in the case of development expenditure. While the country’s first donors provided aid in the form of grants, the globally shrinking stock of assistance available resulted in an increasing proportion of aid coming in as low-interest loans until the early 2000s, after which the proportion of loans in total aid fell again (possibly due to low levels of internal resource mobilization). This has meant that debt servicing, compounded by a gradual depreciation of the value of the Nepali rupee against the American dollar, has used up significant amounts of finances which could otherwise have been invested

in development. The book reviews donor assistance between 1990 and 1998 to find that aid was more frequently channeled into agriculture, forestry and fisheries, energy and transport, social development and health during this time.

According to the authors, aid should not be considered to be intrinsically good or bad. Briefly touching on the global experience so far, they note that the empirical evidence regarding aid effectiveness is mixed. While the common argument is that external capital is necessary in low-income countries in order to close the gap between investment and domestic savings in order to generate growth, much does, in fact, depend on the local context. According to the World Bank, development assistance tends to be more productive in countries with sound policy environments and institutional structures. In Nepal, the authors consider aid to have been successful overall since it has contributed to economic growth. Aid has been less able to facilitate economic policy autonomy, though, and poverty reduction has not been commensurate with aid inflows.

The book goes on to consider the major reasons why in spite of its many achievements, aid has not performed better. Globally, while donors claim to be contributing to prosperity, democracy and peace, in practice they are not making enough funds available to be able to do so. Aid in real terms has in fact been declining to the poorest countries, alongside rising military spending worldwide. The book also claims that “aid has been politicized for (the) last couple of years than it was historically so” (p. 2).

In Nepal, aid flows are marked by wide disparities between commitments and disbursements, both on the part of bi- and multi-lateral donors. Between 2002 and 2005, for instance, total aid disbursement was 44.3 percent less than the total commitment of foreign assistance (which comprised of shortfalls of 40 percent and 50.7 percent, respectively, in grants and loans).¹ This makes planning difficult. Donors undertake inadequate homework in the design of projects, often duplicating activities and inappropriately prioritizing goals and objectives. Sometimes, they impose impossible conditionalities. Donors also indulge in the “extravagant extraction of project money...in consultancy and

1 Aid flows are significantly more volatile than one would expect them to be. According to one recent global estimate, aid is five times more volatile than GDP for the average developing country, and three times more volatile than exports (Kharas and Linn 2008).

advisory fees” (p. 56) and since they do not always record their aid in the government budget, channeling some of it through NGOs, the government is not always aware of what is going on.

But the problem is not just one-sided. Donors in Nepal are confronted with inadequate leadership on the part of the government, weakly functioning institutions, an underpaid civil service and unsatisfactory public expenditure management and data recording systems, even at the National Planning Commission and Finance Ministry, though recent donor-supported initiatives, including Poverty Reduction Strategy Papers (PRSPs) and Medium Term Expenditure Frameworks (MTEFs), have ameliorated the situation somewhat. And yet, “corruption is suspect in several stages of project implementation” (p. 62).

Since this assessment was commissioned by United Nations Development Program (UNDP) to form the basis of Nepal’s first Foreign Aid Policy, it is not surprising that the book devotes an entire chapter to recommendations. Amongst others, it calls on donors to increasingly invest their resources in Nepal’s priority sectors as identified by Nepal, help create an enabling environment for attracting foreign direct investment and private capital inflow, particularly in energy and tourism, and promote knowledge and technology transfer with a view to promoting self-reliance and sustainability. The book also recommends for joint programming and trust funds, more effective project planning and implementation, for which both the government and donors should be responsible, as well as decentralized decision-making in aid planning and administration. On corruption, it calls on the government to strengthen financial transparency.

Given that some of the book’s recommendations went on to influence the government’s foreign aid policy in 2002 (and may also have contributed to the revised policy of 2008), it appears to have made a difference. But in general, the book lacks depth. Published in 2008 but presenting data only up to 2004/05, its analysis is outdated. Nepal’s foreign aid landscape is so vastly different now than it was in 2002 that it is not clear why the authors did not choose to write a new book rather than update the previous edition. Nor does the book devote much attention to the Paris Principles on Aid Effectiveness of 2005, considered to personify the world’s post-Cold War aid framework, with important (and in my view, very positive) implications for Nepal.² When the authors

2 The Paris Principles on Aid Effectiveness, enshrined in the Paris Declaration of 2 March 2005, is an international agreement between developed and

recommend for improved impact assessment of foreign aid, they fail to draw on the rich literature that already exists on the issue.³ And when they recommend for the imposition of user fees in community managed projects to promote sustainability, they do not appear to be aware that a number of development agencies have been pointing out the potential hazards of such a move for some time now.⁴ Having eliminated user fees in health in January 2008, though, the Government of Nepal, now led by the CPN-Maoists, does not appear to be inclined to pursue this particular suggestion for the time being.⁵

In relation to other developing countries, the amount of foreign aid Nepal receives is, in fact, relatively small. Moreover, Nepal's poor absorptive capacity means that it is only able to use up about a half of the aid that donors make available. Nonetheless, development assistance is likely to play a role in building a New Nepal which is why it is important that there is more research on the issue in the days ahead. Having compared the contents of this particular book with other recent publications on foreign aid in Nepal, it seems that future research will be more useful if it focuses on more specific issues within the overall area of foreign aid (e.g., Tiwari 2007), while retaining financial autonomy from those donors whose performance is being assessed (e.g., Khanal and Acharya 2008).

Since the causes of aid ineffectiveness are multiple, it will also be important to move beyond purely economic analysis to take into account other dimensions of the problem. Saubhagya Shah's recent anthropological assessment of the incentive structures and values that

developing countries to increase aid harmonization, alignment and management for results with a set of monitorable actions and indicators.

- 3 See for instance, Savedoff et al. (2006).
- 4 For instance, research conducted by Oxfam in South Asia has found that user fees often exclude poor people from access to essential services (Narayan 2006).
- 5 According to Pyakuryal, Adhikari and Dhakal "there are basically no major differences among the political parties with regard to the policy regime and overall development of the country" (p. 42). They thereby imply that Nepal's financial constraints serve to dilute the ideological differences that exist between the parties when they deal with the donor community. To some extent, this is what must happen in any donor-dependant country. But in Nepal's present context, this view may be exaggerating the extent to which the major parties are willing (and able) to accommodate one another's' standpoints on development issues.

guide development assistance goes some way in this direction (Shah 2008). But while Pyarkuryal, Adhikari and Dhakal predict a bright future for aid “into the next millennium” (p. 42), Shah’s outlook is significantly more pessimistic, lamenting how aid “erode(s) the dignity and credibility of Nepali norms, institutions, and leaders” (p. 38). So which one is it: more aid for Nepal from now on, or not?

Some might say, it depends on the circumstances. Similarly, it is by no means essential that everyone always agrees with each other on issues of aid and development. But these apparently contradictory perspectives on the future of aid is, in my view, also a reflection of the disciplinary divide that exists within the Nepal’s foreign aid research community, between economists and non-economists, who are not conversing very much with one another.⁶ This is connected to another divide, namely that which separates development practitioners, who tend to feel constrained to defend a country’s development record, from development academics, who may be more inclined to criticize it.⁷ Robert Chambers terms this a cultural divide and calls for a “third culture” which places the people at the heart of the investigative process. I agree. It seems to me, therefore, that only if we start producing third culture research on foreign aid (that is at once independent, well-informed and up-to-date) will we begin to come up with clearer answers on the future of aid in Nepal.

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6 This is a common problem in the field of development studies, on which much has been written (e.g., Kanbur 2002).

7 Devendra Raj Panday refers to this thought when discussing the reasons for Nepal’s failed development (Panday 1999).

410 Studies in Nepali History and Society 13(2), 2008

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Shizu Upadhya
Kathmandu