

International Economic Cooperation and Public Values: Where the Country is heading?

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Foreign Aid: The Development Assistance Debate

- **Conceptual and measurement problems**
- **Amounts and allocations: public aid**
- **From Transfer to effectiveness**
- **Why donors give aid?**
- **Why LDC recipients accept aid?**
- **The growing role of nongovernmental organizations (NGOs)**
- **The effects of aid-does this help to achieve high growth?**

Recipient's Expectations

- **Supplementary Resources for Development Funding**
- **Resources for the Poor**
- **Growth Imperative/Linking development**
- **Receiving Technology and Skills**

Donor's Perspective

- **Assisting poor and marginalized community**
- **Help to augment Growth and Development**
- **Capacity Building**
- **Prudent use of Resources**
- **Supply of Technology and Knowledge**

Gaps

- **Read between the lines**
- **Donors' think that Resource provided as their own(Ownership Issue)**
- **Donors' sometimes work on their own Development Thinking(Parallel Design)**
- **Impose Caveats**
- **Hidden Motives**
- **Attempt to Drive on their style**
- **High cost to Development**

Donor's Nit-pick

- **Weak Institutions**
- **Equivocal Statements from different Institutions**
- **Frail capacity of Bureaucracy**
- **No fixed political determination**
- **Frequent shifts in priority**
- **Delay**
- **Corruption**

Toward a New View of Foreign Aid

- **Dissatisfaction among donors and recipients may create the possibility for new aid arrangements**
- **Future aid is likely to be linked to market reforms and institutional capacity-building**
- **Donors and Recipients both might agree on investing in national priorities**
- **Resolve effectiveness issue**
- **Focus on "International Clarion Calls"**

Why Foreign Aid ?

- Aid augments savings, finances investment in needy areas and promotes growth
- Aid increases worker productivity through investment in Health and Education
- Aid promotes the transfer of technology or knowledge from North to South
- The Government of Nepal (GoN) receives foreign aid to fill the resource gap in the country

Critic of Foreign Aid

- Aid finances corruption and waste
- Aid instigates a culture of dependency
- Aid perpetuates poor economic policies and postpones reforms
- Limited absorptive capacity reduces the effectiveness of Aid

Challenge of Aid Management

- To bridge the fracture- economic and social
- Not to invite ideological and social divide
- Overcome hard public expenditure choices and help making prudent public choices in public finances
- Attain respectable broad based growth
- Achieve in poverty reduction

Features of Aid in Nepal

- Aid on ad hoc basis since 1952
- First 5-year Plan (1956-60) was entirely funded by Foreign Aid
- Till early '80s 75% of Development Expenditure was covered by Foreign Aid
- No Guiding Principles till 2003
- Acceptance on Donors' priority
- Project Based Funding till 2002
- No situation analysis till 2000
- Solely based on WB analysis
- FA accounts around 25% of Development Budget

Foreign Aid Policy – formulated and implemented in 2003.

Development Cooperation Policy – Implemented since June 2014

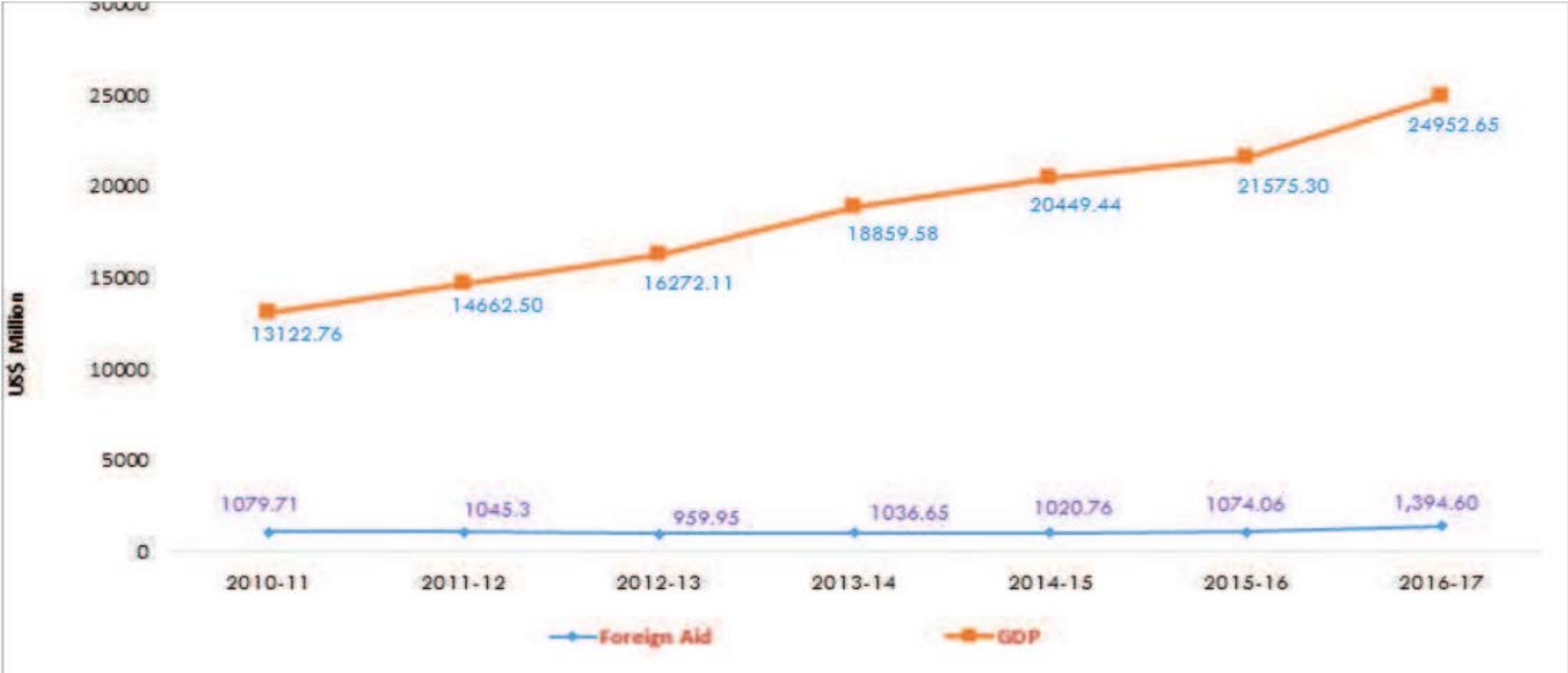
Aid Structure

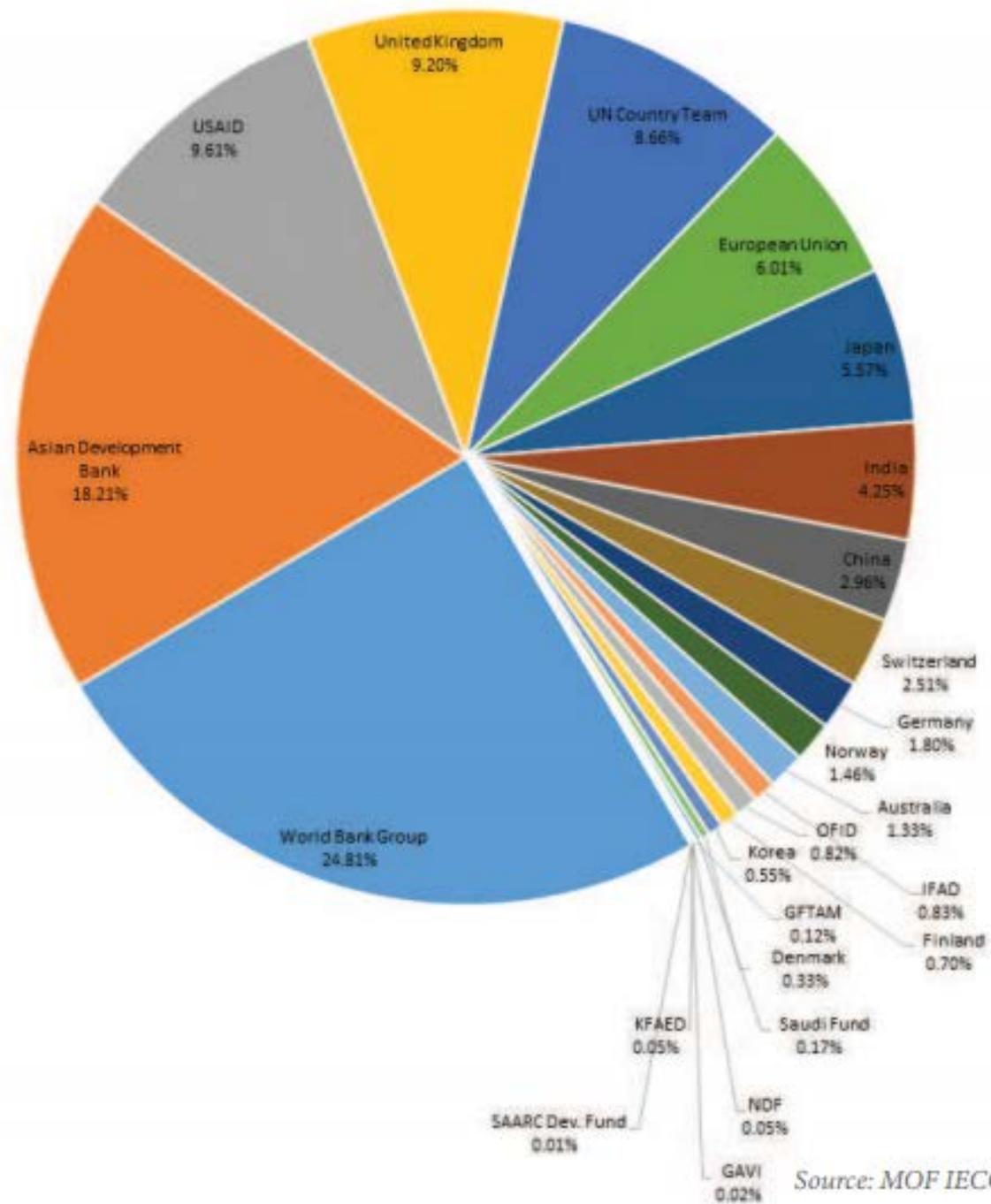
- **58% - Multilateral Source**
- **36%- OECD Bilateral Source**
- **6% - South-South Cooperation**

Bilateral Source : UK, Japan, India, US, China and Norway

Multilateral Source : WB, AsDB, EU, UNDP

Trend of ODA Disbursement





Source: MOF IECCD AMP (generated on 16 Oct 2017)

Foreign Aid Policy-2003

- **Preference to Grants**
- **Allocation on National Priorities**
- **All forms of Assistance should be included in Budget**
- **National Auditing**
- **Government Control**
- **Donor coordination for duplication control**
- **Donor Harmonization**

Aid Conditionality and Motives of Bilateral

- **WB/IMF assessment- Neutral assessment for aid commitment and release**
- **Bilateral- rely on WB/IMF assessment**
- **WB/ADB put conditions for loans**
 - _ **Before implementation**
 - _ **During implementation**
 - _ **Governance**

Caveats – Barrier or Triggering Factor ?

- **Mostly Project Tied Aid**
 - **Nation Tied Aid comes in Package with Conditions**
- Issue of Alignment, Ownership and Harmonization**
- Pressurizing Recipients for unnecessary conditions**

New Arrangements

- **The Article 59 (6) of the Constitution mandates the Government of Nepal to leverage the foreign resources in order to maintain macro-economic stability in the country. The Constitution also has clear provisions on the role of Federal and State Government in foreign aid mobilization. Though the LGs are not allowed to mobilize any kind of foreign aid on their own, the SGs can receive foreign grants and assistance with the permission from the Federal Government (FG). The Federal Government can receive all kinds of foreign aid, be it the grants or the loans.**

International Commitments

High Level Forums

Rome (2003): High Level Forum on Harmonization

Paris (2005): High Level Forum on Aid Effectiveness

Accra (2008) : Aid Effectiveness

Busan (2011): Aid Effectiveness

Mexico (2014) : Overall Aid Financing

56 commitments and 12 measurable indicators developed in Paris.

International Commitments

- **The declarations of the Fifth Biennial High-Level Meeting of the Development Cooperation Forum, New York (2016)**
- **Second High-level Meeting of the Global Partnership for Effective Development Cooperation Forum, Nairobi (2016)**

Five Principles Agreed for Assistance

- **Ownership**
- **Alignment**
- **Harmonization**
- **Managing for Results**
- **Mutual Accountability**

DCP-2014

- **The DCP, 2014 introduced after repealing the Foreign Aid Policy (FAP), 2003 is the prime policy guideline for the administration of foreign aid. This policy has endorsed all the declarations of foreign aid mobilization starting from Rome(2003) to Mexico (2014) and is widely recognized as something well suited for the unitary system.**
- **This policy subjectively has accepted the need of foreign aid and the same provision will probably continue to remain in practice for some more decades to come.**

DCP - 2014 Objectives

- **The objective of this policy is to support (a) realization of development objectives incorporated in the periodic development plans through mobilization of external resources, (b) expansion of development cooperation efficiently and effectively to mark off from LDCs by 2022, and (c) obtain real value of resources spent from external sources**

Aid Modality

- **Un-earmarked budgetary support shall be the most preferred arrangement for the Government, as the use of received resources under this modality can be better aligned with national priorities and results framework;**
- **Sector budgetary support shall be the Government's second most preferred modality, and shall be approved under the condition that it is fully aligned and does not create major distortions in resource allocation across sectors;**
- **Stand-alone projects shall be accepted if they are included in the national planning framework, are subject to low transaction costs, with innovative and sustainable factors incorporated.**

Aid Modality

- **Development partners shall be encouraged to pool their resources in case of smaller stand-alone projects, to reduce unnecessary transaction costs due to fragmentation and processing delays;**
- **Stand-alone projects which aim to pilot innovative approaches shall be acceptable, but they should include clear plans for sustainability and scaling-up within national frameworks if the pilot is successful;**
- **In case of Program-Based Approaches (PBA) or Sector Wide Approaches (SWAp) in any sector, all modalities of aid should be integrated in the planning, budgeting and monitoring frameworks of the PBA or SWAp in that sector, even though implementation modalities may vary**

Grants

- **Grants of a value below USD 5 million per project/program shall not be accepted with few exceptions, such as pooled funding including SWAps, environment and climate change related grants, small grants schemes under separate umbrella agreements for community support, co-financing arrangements, humanitarian activities and technical assistance**

Concessional Loans

- **GoN shall expect the loans from development partners to be highly concessional, consistent with the national framework for the management of external debt and consistent with the policies on "alignment" and "preferred aid modalities".**
- **Concessional loans shall be accepted for priority programs and projects, primarily that help infrastructure development, energy development, agriculture, employment generation and high return productive sectors, as well as sectors with potential to enhance foreign exchange earnings;**

Concessional Loans

- **Concessional loans of a value below USD 10 million per project/program shall not be mobilized with exception in pool funding including SWAP, Nepal Common Development Fund and co financing arrangements. However, if the loan is of high knowledge value, the government shall accept such loan.**
- **To the extent possible, the Government shall promote loan agreements and their periodic servicing denominated in local currency, and uses other monetary instruments to manage foreign exchange risk;**

Non-concessional Loans

- **The Government intends to mobilize non-concessional or hard term loans, including loans from Export-Import Banks, in the following sectors:**
 - **Hydropower including transmission lines,**
 - **Highways, strategic road networks and bridges,**
 - **Railways,**
 - **Airports,**
 - **Dry-ports, and**
 - **Large irrigation projects.**
- **The Government shall not mobilize non-concessional or hard term loans, including Exim Bank's loans, below the value of USD 20 million per project/program.**

Technical Assistance

- **Technical assistance projects shall ensure the development of national capacities, both at the individual (skills, knowledge, innovation and entrepreneurship) and organizational (systems, procedures, technology) levels. Technical assistance projects shall adhere to the provisions mentioned in the section on "Choices for aid arrangements". Placing augmentation of absorptive capacity at the center stage, all TA resources shall be mobilized. TA shall be designed on the basis of needs of recipient and DPs shall support the need. Reporting of technical assistance projects shall be carried out in a transparent manner through the Government's Aid Management Platform (AMP**

Joint Implementation Mechanism

- **Nepal Development Forum**
- **Local Development Partners' Meeting**
- **Nepal Portfolio Performance Review**
- **Joint Sectoral Review**
- **Joint Local Level Review**

Way Forward

- **Economic and Institutional Reforms should be at the center stage**
- **Absorptive capacity must be increased by enhancing the capacity of bureaucracy**
- **Priority should be based on our potential and need**
- **Government must attempt to be in Driver's seat**

Way Forward

- **Aid must be linked with sustainable growth and poverty reduction**
- **Overall environment for aid request, aid coordination and harmonization and development output and outcomes must be closely linked**

Aid is not bad but aid must be effectively utilized to attain national objectives

Public Value and Aid

- **A Country like Nepal with the greatest need of Foreign Aid is also the one most troubled by weak institutions and political upheavals.**
- **Recipient needs effective government and credible leadership. It fuels aid in state strengthening.**
- **Institutional weakness is a major barrier to aid effectiveness.**
- **Donor--recipient exchanges can be considered strategic results of co-operative bargaining games. Acceptable outcomes for players are aid arrangements within each player's win set, varying according to which side pulls the other closest to its preferred position.**

Public Value and Aid

- **Welfarism became the dominant economic policy of the Donors.**
- **Strategic political considerations were the major force shaping aid allocations, at least bilateral ones.**
- **The decline in foreign aid occurred for six reasons. First, the end of the cold war made it less important. Second, globalization attenuated aid tied to colonial interests. Third, growing budget pressures squeezed donor resources. Fourth, disappointment with the effectiveness of aid weakened popular support. Fifth, donor country special interest coalitions supporting aid unravelled. Finally, neo-liberal philosophies challenged some of the intellectual foundations of aid.**

Thank You