

## Book Review

**Does Foreign Aid Help ? Birla Institute of Scientific Research, New Delhi:  
Allied Publishers, 1981, Pages 120.**

The question does foreign aid help ?—Is of crucial significance not only to India but also to many other less developed countries heavily dependent on foreign aid for bridging up the resource gap generally encountered in the process of development. As such, the title of the book appears to have a wide appeal for what may be true in India regarding the impact of foreign aid may be more true in other smaller developing countries which are weaker than India both in terms of economic as well as political power. But this wider implication is somewhat restricted because the book fails to analyze the issue on a serious analytical plane. Indeed, the book suffers from the lack of adequate empirical basis, absence of analytical framework and generalizations. Despite these deficiencies, the book, by posing the weak performance of the Indian economy in terms of raising the growth rate and building up a dynamic export base vis-a-vis increasing inflow of aid during the last three decades, sides with the growing apprehension against foreign aid that aid is a big incipient factor inhibiting growth and initiative.

The book consists of six chapters which are neither balanced nor well produced. The Introduction Chapter which is confined to 10 pages only deals with the conceptual and definitional issues of foreign aid to India and asserts that India is gripped by the problem of aid-psychosis, whereby a compulsion is felt to go asking for more foreign aid. But the data provided in Table 1.1 ]Page 9 [does not indicate an alarmingly growing dependence on aid. Compared to the annual plans the percentage share of net foreign aid in the public and total outlay declined from 34.6 percent and 24.6 percent respectively to 12.3 percent and 8.3 percent in the Fourth Plan, and registered a nominal increase by 1.6 and 1.3 percentage points in the Fifth Plan.

The Second Chapter identifies the motivations behind granting of aid by the donors

and the economic compulsions for receiving aid. Various objectives such as concern for humanity, narrowing down the rich-poor gap, support to inter-dependencies between the rich and poor nations and promotion of exports are explained. However, in reality it appears that though humanitarian concern is always invoked in the provision of aid, the real motive is to serve the donors' political, strategic, trading and economic interests. As regards the compulsion for receiving aid, the resource gap—either a saving or a foreign exchange gap—is identified as the chief factor. The scenario presented shows that India's compulsion for receiving aid would grow further because a large proportion of export earnings is continually used to pay for the imports of oil, leaving a small amount for other imports. The phenomenal increase in the price of oil and India's failure to develop alternative sources of revenue on the one hand, and restrictive practices followed by the developed countries on the other, appear to have contributed to this outcome.

The Third-Chapter-The Mechanisms—examines the mechanism of aid inflow in terms of selection of projects, centre-state financial relations, allocation of aid between public and private sectors, gap between authorized aid disbursement, and programme vs. project assistance. The analysis of such complex issues is confined to meagre 9 pages and the data base is provided only for the allocation of aid between the public and private sectors. The rest of the issues are dealt in a general way, conveying the generally held views that foreign aid may tempt the government to select projects which conform more to the qualification of aid rather than to national needs and to look at aid as a budgetary prop, there exists a wide gap between the authorization and disbursement, and that aid is heavily biased in favour of the public sector (of the total utilized aid till March 1980 the public sector accounted for 68 percent). A peculiar mechanism in India is that foreign aid has served as a tool to the Centre for exploiting the States. According to Indian constitution, States are not allowed to borrow from foreign countries and hence the necessary foreign exchange required by the States is procured by the Centre and is lent to the states at a higher interest rate and shorter duration than that of the parent foreign loan.

The Fourth Chapter gives the details of quantum, sources, purposes and utilization of aid. Of the 31 pages devoted to this chapter 21 pages contain tables most of which could have been easily summarized in a readable form or else appended. Because of inadequate and sloppy

inter-pretation of data, the analysis part has suffered a great deal; and what else could be more disappointing when the reader himself has to calculate certain basic ratios such as, the proportion of grant and loan in total aid, the proportion of aid to various sectors, the share of major donors in total aid, etc. After performing one such calculation it is found that of the total aid inflow till March 1980 [Rs. 257592 million] the largest chunk—76.2 percent—consisted of loans which also revealed a higher rate of utilization compared to grants—97.6 percent as against 69.8 percent.

The Fifth Chapter is devoted to examining the performance of the Indian economy and conveying that aid has done more harm than good to India. On the basis of the weak economic performance—a meagre 1.1 percent increase in per capital income during the 70's, dismal record of agricultural growth, excess of imports over exports, etc., a serious doubt is raised on the effectiveness of aid in improving the economic condition of the country. As for example, the food and commodity aid from USA is said to have dampened the initiative in achieving self-sufficiency in food. Similarly, the technology import invariably tied with the aid appears to have distorted the priorities demanded by the country's factor endowment and pushed the economy into greater dependence upon maintenance imports. All such adverse consequences are attributed to India's its own weaknesses.

In the Conclusion Chapter some suggestion for getting out of the quagmire of aid dependence are discussed. Acceleration of growth, strengthening of public sector undertakings, improvement in agricultural production, optimum use of infrastructure facilities, reduction in unnecessary imports and promotion of endogenous technologies are spelled out as some of the measures to avert the impasse India is heading towards.

On the whole, the book, despite its failure to explain the adverse repercussions of aid in a more detailed basis supported by adequate empirical frame does convey that the utility of foreign aid in strengthening the economic capability of a poor recipient country is rather lower. This is inconformity with the experience of many other LDCs, which irrespective of the large

aid inflow are still gripped by the basic problems of poverty. Though it is hard to say whether the situation would have been better had there been no aid, it is true that a lot depends upon the strength and capability of the government—how foreign aid is viewed and utilized.

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