

Making Foreign Aid Effective Nepal's Success Stories Underscore the Criticality of Empowerment at the Grassroots

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Abstract

The rationale supporting foreign aid has been that it enhances the investment capabilities of poor countries to achieve accelerated national development. But Nepal's experiences suggest that there is more to it than that. Foreign aid can be effectively delivered only if sufficient institutional preconditions are put in place in the country.

Background

Foreign aid made its debut in Nepal in the form of the then Point Four Program Agreement with the United States some three-quarter centuries ago in January 1951 during the dying days of the Rana rule (Pandey, 2017). While it has been a subject of sustained controversy and criticism ever since its inception, it is also credited with the ability it conferred on post-Rana governments in the country to project their benign image to the people. The point was made by a US Aid Advisor John Cool in a report to the then minister for development in Nepal that the US-funded Village Development Service was the very first initiative in the country to project its "non-taxing, non-repressive, non-punitive manifestation of the national government in large areas of the country" (Cool, John, 1962). As things stand today, just about every single field of administration and development both in the government and non-government sectors has come under its sway. Foreign aid was seen as a necessary complement to domestic resource capabilities to promote accelerated national development in underdeveloped parts of the world. Given such a rationale foreign aid had a major role in Nepal's development planning since its very inception, periodic development plans mostly depended on it. For instance, while the total development outlay of Rs. 383 million of Nepal's First Five Year Plan (1956-61) was wholly (100%) met by foreign aid, it accounted for 77.8% in the Second Plan (1962-65), 56.1% in the Third Plan (1965-70), 45.0% in the Fourth Plan (1970-75), 48.1% in the Fifth Plan (1975-80) and 61.0% of the total planned

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outlay of Rs.13260 million of the Sixth Plan (1980-85) (Panday, D.R. 1983:275). This dependence continues unabated in the country.

Foreign aid has also been historically crucial for Nepal for keeping its balance of payments in the black, particularly during the decades when remittance, unlike today, did not figure prominently in the economy. Nepal's import bill has always exceeded its export earnings by a wide margin and it was this structural compulsion that made it necessary for Nepal to welcome foreign aid in any form. It was, however, a paradox of sorts. While the donor agencies were interested in the possible development outcomes from their aid dollars, Nepal, for its part, was more intent on those greenbacks. As a result, during the days of the Seventies in particular, when project negotiations were held between teams of donors and Nepal government officials in connection with various rural development projects, the finance ministry representative in the Nepali team always tried to make sure that the discussion did not get protracted causing possible delay to the flow of aid dollars. It then seemed that the de facto motto of our foreign aid division was that foreign aid money coming into Nepal in any form could not be good for the country.

Landmark Review of Foreign aid in 1983 and Scandalous Takeaways

By the early Eighties of the last century, foreign aid had become a subject of immense controversy in Nepal as much as internationally. In 1983, the then-academic non-profit, Integrated Development Systems (IDS), then under Dr. Devendra Raj Panday, a former finance secretary (also head of the foreign aid division for many years previously) organized a landmark seminar to examine the relationship between foreign aid and development in Nepal, introducing the intent of the seminar it lamented that "development defined in terms of increase in productivity, as one must for a country as poor as Nepal, continues to be elusive. While there has been significant progress in infrastructure, the quality of life judged in terms of social indicators e.g., adult literacy, infant mortality, and so on is far from satisfactory." The seminar was thus intended "to influence the machination and mechanics of international aid to Nepal in a manner which makes them more responsive to the socio-economic reality of the country" (Panday, 1983).

The takeaway from the seminar was largely the scathing of foreign aid in Nepal. In course of delivering his concluding overview of the seminar, Dr. Panday had gone on to paint a dismal picture of the performance of foreign aid in Nepal. While observing that foreign aid to Nepal was "for the socio-economic upliftment of its people" its poor performance made it seem like "only an instrument of collusion between the urban elites and their rural counterparts and the country's ruling class and the donors." He had then gone on to his bombshell conclusion that "from the

point of view of the needs and the problems of the Nepali people, such aid might as well be stopped altogether." (Ibid:303-4).

What was particularly ironic then was that this negative prescription had come from a professional who had worked almost his entire career in the government managing foreign aid. This position was later repudiated by someone anonymous claiming to be a "'silent' participant' in the seminar, most possibly an expatriate. In a post-seminar letter to Dr. Panday, he had written that "Your plea demanding that foreign assistance to Nepal should be stopped for at least some time...had a stunning effect on the participants of the seminar, I fear, and most participants may have tried to comfort themselves by dismissing it as an unreal and impractical proposition. Your plea, in its true implications, is tantamount to a call for revolution couched in the technical language of economics and foreign aid" (Silentparticipant", 1983).

Similarly, another subject examined in the seminar was the possible impact of foreign technical assistance--that invariably accompanied foreign-aided projects--on the growth of administrative capability in Nepal. In this regard, it was observed that most donor officials felt that "their Nepalese counterparts' and other officials' understanding (of the subject matter), commitment, and diligence leave much to be desired. Most donors react to this situation by having their people take control (or try to take control) of the project and do the things that Nepalese should have been doing. In bilateral aid programs, it is still worse. A large contingent of 'advisors' representing a whole range of important sectors, including management and accounting is brought in to help a project, with the consequence that because of their superior training and experience and effective control over the flow of funds, they virtually tend to take over the project and run it as an enclave administration." (Shrestha, 1983, pp. 214-5).

Given such a state of foreign aid in Nepal, it has, by and large, failed to make a significant dent in the lives of the people over the decades. While some countries galloped to prosperity (e.g. South Korea, Malaysia, etc.) during the time, Nepal continued to remain "least developed" in international ranking and one of the poorest in the world.

Nepal's Search for Solution: Empowering the users at the Grassroots

However, during the Seventies when King Birendra had been routinely traveling in the countryside, there was a compulsion generating in the country to make rural development more effective, and the pressure was more so on donor-funded projects due to the vast sums of resources involved. The WB-funded IRD project in Rasuwa and Nuwakot districts, in some sense, played a catalytic role in this regard. Like elsewhere, the benefits from this high-value project were not getting

to the villages. There was a clear need to empower the people themselves at the grassroots to manage their development programs and to demand accountability and delivery from the generally corrupt and non-performing government bureaucracy and elected political officialdom and the insular donor management system. It was obvious that the intended beneficiaries of the project at the grassroots should be empowered so that they could demand accountability from those project officials in the two districts. The idea was to organize those intended beneficiaries into formally empowered User Groups.

The idea of user groups itself came from an ethnographic study of 1971 that had hit upon a perfectly functioning hundreds of years old traditional irrigation system called *JachauriKulo*--or the canal that belonged to the local Thakuris of Jachauri clan-- in the HaadSinja village of Jumla district. The canal was managed by the local landowners themselves with every drop of water put to proper use and its locally recruited operators were compensated by the landowners in post-harvest grain based on the size of the land owned. There was no external support of any kind, no government or donor grants, or external technical support of any kind. For all practical purposes, the canal was a relic of the ancient Karnali civilization and a testimony to its capacity for creativity and ingenuity as well as for organizing itself for collective survival and prosperity.

In a way, it was an accident of history that the ethnographer who studied the village happened to be a government official too who went on to take charge of the local development component of the RasuwaNuwakot Rural Development Project in 1976 and introduced the learning from the *JachauriKulo* into the policy regime governing the project. The new policy required that project-specific user groups, composed exclusively of the direct user of the proposed project, should be organized in advance and that the project funds must flow exclusively through such groups only. While it bypassed the corrupt bureaucracy and politicians, this newfound power at the grassroots also put the former into a position of having to respond to the demands emanating from the grassroots.

Once it became evident that this was a more effective way to bring developmental benefits to the villages, it became a sustained agenda on the part of the anthropologist-official to integrate it with the larger policy regime of the state. Following the announcement of the national referendum by King Birendra in 1979, a new Local Development Ministry came into being the same year, and the anthropologist-official, by now a Joint Secretary, took charge of writing its mandate for cabinet approval that included the institution of user groups as the institutional vehicle for local development nationwide.

But inter-agency rivalry and intolerance between various development ministries stood in the way of the local user groups being recognized as the universal institutional mechanism for development at the grassroots. Therefore, to overcome this inter-ministerial hostility towards this user-owned and user-managed institution at the grassroots, it became necessary that the institution be made legally mandatory through legislative statute.

After some dogged effort, that opportunity too came to pass. Using the routine royal address to the nation on Poush 1, the Constitution Day in 2038 BS in which King Birendra had referred to the need for devolving authority down to the village communities, the anthropologist official was able to persuade the newly formed high-powered Panchayat *Niti Janchbujh Samiti* (Panchayat Policy and Investigation Committee), the putative politburo of the Panchayat System and chaired by the Speaker of the then legislature, the Rashtriya Panchayat, to undertake a field study for devolution of authority as exhorted by the King. And the anthropologist-official found himself appointed as the member-secretary of the new Decentralization Subcommittee constituted under a former foreign minister and composed of Panchayat politicians with known inclinations for decentralization. It was the report of this Sub-Committee that had led to the enactment of the Decentralization Act of 1982 by the Rastriya Panchayat that incorporated the institution of User Groups, or *Upabhokta Samuhain Nepali*, as the legally mandatory institutional mainstay for local development in the communities (Ministry of Panchayat and Local Development, 2039 BS). Following the formulation of Implementation Bylaws, the Act was formally promulgated across the country. The fact that today all government and non-government agencies almost habitually go on to form *Upabhokta Samuhas* for executing any local development project all over Nepal owes its origin to the Decentralization Act of 1982.

Two Immense Success Stories in which Multiple Donors Played Coordinated and Crucial Roles

While Nepal remains an unflattering example of corruption, impoverishment, and backwardness on the world stage, the country has made a great name for itself when it comes to its achievements in community forestry and mother and child health. Both these successes come from the empowerment of the users themselves at the grassroots, the forest user groups (FUG) in the case of community forestry and the mothers' groups (MG), and their own female community health volunteers (FCHV) in local healthcare. They now number around 22,000 and 52,000 respectively and saturate the country.

Nepal's forests had come under severe stress after its nationalization in 1957 which led to its sustained destruction over the decades that followed. While the World Bank had come to Nepal's aid in 1978 with its multimillion-dollar Community Forest Project, it did not achieve much because the locally elected politicians, *Panchas* were put in charge of managing what was then called *Panchayat forests* and *Panchayat-protected forests*, and not the real users themselves. For the corrupt forestry organization of the government, it was business as usual. Even after the promulgation of the Decentralization Act should have forced them to go for FUGs. But they had dithered and evaded it under the alibi that they had their own Forestry Act and Forestry Rules that allowed them to control the forests down to the villages. However, in around 1987, there was a godsend World Bank mission for Structural Adjustment Loan in town, and the anthropologist-official, now in the National Planning Commission, I was able to persuade it to use the introduction of FUGs in forestry as one conditionality for the proposed massive loan. It clicked. Once the Finance Ministry went after the Forest Ministry, they relented and the amended Forestry Rules inducted the FUGs in April 1988.

The impact was dramatic. While it had taken some three decades for Nepal to near destroy its forest following the 1957 nationalization, it took Nepal only about a decade to rejuvenate its forest wealth, because all the users all across the country had taken to protecting and conserving them. While Nepal benefitted strategically from the World Bank intervention in one of its biggest success stories, the comical irony was that it did not cost the Bank even one American cent. It should give the Bank a pause for thought on how to help its borrowers more effectively and cost-effectively.

Nepal's forestry success has been widely applauded around the world. For instance, while the World Future Council based in Hamburg, Germany recognized Nepal's forest policy as "one of the best in the world" in 2011, the Nepal government itself had officially offered to "share its successful experience and expertise in community forest management" with the rest of the countries in South Asia in the 2016 Mini SAARC Summit held in Nepal (Giri and Sharma, 2016). Today, the FUGs have established themselves as also rich local institutions that fund many local development activities including those for poverty reduction in their communities.

Similar has been the success of Mothers' Groups, the health sector version of User Groups, and their FCHVs in mother and child health. While Nepal's health indicators had been one of the worst in the world up until the mid-Eighties, the situation was completely transformed following the introduction in 1988 of the Mothers' Groups at the grassroots including the assignment of one of their members as Female Community Health Volunteer (FCHV). They are trained by the government health system to equip them with some basic health skills and are vested with the authority

to access health services from the government health post in their locality. The advent of the MGs and FCHV on the scene ensured the expanded access of village women and children to necessary health services. Following these institutional reforms, the country's health indicators improved dramatically. The infant mortality rate that had stood at 111 per 1000 live births in 1988 has since declined to 23 deaths per 1000 live births in 2023. The Under-5 mortality rate too plunged from 180 per 1000 live births in 1980 to just 29 (male) and 26 (female) in 2023.

In December 2009, four donor agencies namely, UNICEF, Save the Children, WHO, and Australian Aid put out a joint media statement to compliment Nepal for its health achievements. It said, "In an international partners' forum meeting convened in Hanoi on 18-20 November 2009 Nepal and Vietnam were the only two among the seventy-two developing countries to receive awards for the significant progress made in the area of child survival. In Nepal, infant mortality has declined by 41% over the past 15 years, and under-five mortality has declined by 48%. Nepal is only one of the seven developing countries on track to achieve MDG 4 and the only country that is ahead of schedule for meeting its target before 2015" (Kantipur, 2009). Again, it bears mentioning that it was the same anthropologist-official who in 1988 was an Additional Secretary in charge of the Primary Healthcare Program in the Ministry of Health who had spearheaded this initiative based on the principle of user empowerment.

Conclusion

The first conclusion of this analysis is that left to themselves the foreign aid projects--that are invariably designed by expatriate experts--would most likely fail to relate with the socio-economic realities of the host system and would eventually dissipate with little positive effect left behind. However, as shown by the success stories in forestry and healthcare, foreign aid can be made very meaningful and effective if it were to be dovetailed with necessary policy and institutional reforms in the host system. For instance, there were some eight different bilateral, multilateral, and INGO donors involved in the primary healthcare sector in 1988, each of them doing their bidding in mutually separate compartments even as the health indicators of the host nation remained dismal. The same has been the story with forestry too in which many major bilateral and multilateral donor agencies were engaged.

Second, amidst widespread corruptibility and lack of sense of accountability among political leaders and government officials in Nepal, the only method that delivers would be to tie up the donors with the empowered users at the grassroots who get to manage their affairs even as the donor and government officials are structurally required to be responsive to the former. In sum, the supremacy of the beneficiaries must be the catchword.

Third, change-making in a system that is still feudalistic in character as in Nepal is a difficult proposition. A person must remain alert all the time on the lookout for opportunities to make a difference at the first possible instance and try to institute the intended change that makes professional sense. Professionalism, therefore, remains a crucial element for change-making in government and society but is most often in very short supply in the government as well as in society. Building professional competencies in the government must be one of the priority donor concerns in Nepal. They must help the government institute personnel policies that place a high premium on professional capabilities on the part of government officials.

Finally, there must be a strong congruence between donor and host system priorities in Nepal. In both the success stories of forestry and healthcare discussed above, empowerment of users at the grassroots through devolution of necessary authority has been a subject of priority for the concerned donors as well as for the intended beneficiaries of a given development project and not the corrupt politicians and bureaucrats at higher levels. For instance, the concerned donors never objected to the policy of forming and empowering user groups at the grassroots. In other words, the donor community and the professionals in the host system must constantly work together to make sure that their projects deliver.

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