

Matching Democracy And Development Policymaking in an Aid-Dependent Country: An Illustration From Nepal

By Devendra Raj Panday

Dr. Devendra Raj Panday is a former Finance Minister of Nepal. This essay highlights the increasing depoliticization of development policy-making in a developing country with a long history of aid dependence and unsuccessful development. It hopefully offers a lesson for the "global society" that purports to encourage democratization in the world through an interventionist posture in the name of "governance." The paradoxical condition born of donor activism in a faltering democracy can be crippling. The more active the donors become, the more they get drawn into the murky and, often, perverse rules of the game that they wish to change. In the end, their activism may help neither the integrity of the democratic process nor the substance of the reform measures that the national institutions are encouraged to implement.

The Issue

Development is about policies, as is, increasingly, international aid. Democracy in a developing country with ever-sharpening social polarization is also, to a significant extent, about articulating policies for development. International aid, on the other hand, is driven by forces that generally find political competition in the host country inhospitable for the policies that it considers sound. This is so even as the donors, mostly representing what may broadly be called "western democracies," profess to see democracy strengthened in the countries they support financially. In Nepal, one of the poorest countries of the world, development policymaking is thus governed by two contradictory processes—the democratic process and the imperatives of foreign aid. The first requires development policies to be mandated by the people of Nepal; this is what the constitution of the land says. The latter is governed by the demands of the aid system as it operates domestically and internationally. The two processes are in conflict, causing many other contradictions and incongruities to emerge in the host country and aggravating progress in development management. In short, policies and programs are not implemented in a sustained manner, resources are not used effectively and efficiently, and corruption spreads.

The issue is not a new one. It has remained pertinent from the beginning of the country's development campaign in the early 1950s, the period in which the country also had its first tryst with democracy. With or without the structures of democratic regime in place, Nepal has been a recipient of substantial aid from its external benefactors, and the latter inevitably exercise a degree of influence on which policies and programs are adopted. In the past, however, the context and the contradictions were less complex. Policies came from abroad in the form of advice even when they were linked to conditional aid. The donors took care to highlight the fact that the policies adopted were not of their making, but those of the government. Even the International Monetary Fund (IMF) adopted this line. Officials closely guarded the secret that the policy framework paper or some such memorandum signed by the finance minister on behalf of a member country in need of IMF resources was actually the IMF's draft. The present situation has critical implications not only for the issue of ownership of policies but for Nepal's fledgling democracy.

The policy context became complex with the emergence of structural adjustment interventions in the 1980s and the growing prominence of the economic liberalization and related reform measures in the aid agenda. The donor intrusion in policymaking has become further intensified in degree as well as in substantive coverage with the more recent emphasis on governance. In addition, many donors now feel free to ignore the state when they find it necessary to do so, drawing support, as it were, from the incompetence and corruption of the government of the day and the inefficiency of its policies. Similarly, the donors now can transcend the state in policy decisions in the name of engaging civil society and grassroots communities.

Ostensibly, the governance agenda incorporates issues and programs for enabling the state as well as selected civil society actors. However, the legitimacy of the state as an embodiment of representative institutions in

charge of the country's constitutional mandate suffers on both counts. First, for the state, donors are now more than mere providers of aid. They are "partners," who can autonomously take initiatives for reforming the host institutions within the recipient society. The institutions to be reformed may include anything from the parliament, the judiciary, and the political parties at the center to the elected local bodies in the districts and villages. On policies, the tendency of major donors to promote homogenized thinking and standard practices irrespective of the stage of development of a country makes this situation more critical for the host institutions. When this happens, politics, as one might expect to find, exercised as a principal mechanism for articulating and aggregating policies in a democratic society, surrenders itself to the exigencies of the aid process. The political actors substantively interact with and depend more upon the donors than their domestic constituency - the people of Nepal - for not only policy inputs but also their political legitimacy and sustenance.

In the second case, too, where the donors, not the state, become the principal interlocutor of the civil society, the state may become disabled, especially as it may be placed in an inherently adversarial rather than complementary role vis-à-vis the civil society. Some rethinking regarding the domain of public policymaking is obviously necessary at a time when public policies have to address issues ranging from matters of local to global concerns. At the same time, however, the ensuing contradictions, especially in the context of legitimacy and accountability of a democratic regime, also need to be acknowledged. Civil society, drawing its sustenance increasingly from foreign aid, is also handicapped psychologically and morally and forced to make effective contributions as an independent judge and watchdog.

Nepal's aid dependence

For decades, aid has flowed into Nepal from every quarter, without discrimination on ideological or strategic grounds. Until the 1970s, India and China, Nepal's two powerful and populous neighbors, were the principal donors. Since then, the World Bank and the Asian Development Bank have emerged as donors of critical importance. If the United States was an early and important source of aid, the then Soviet Union was also in the race for some years. At a time when most third world countries shunned and snubbed Israel in international transactions, Nepal not only established diplomatic relations with Israel but also received aid in fields in which Israel was known to have special expertise. Switzerland became a donor together with the United States, demonstrating that a "neutral" country with no foreign policy or strategic interest in Nepal was still interested in Nepal's development.

For reasons that are still being explored, Nepal failed to take advantage of these opportunities. The country now suffers from under-development and growing inequities. Aid dependence has become more critical now than ever before, as evidenced by the statistics in the attached table. Nepal is the only country in South Asia with the ignominy of registering a fall in the domestic savings rate since 1980. Again, Nepal is the only country whose resource gap has increased in this period, doubling in a period of seventeen years. In the same period, another less developed country of the region, Bangladesh, has been able to reduce the resource gap from 13% of GDP to 8%.

Resource Gap in South Asia: 1980 and 1997									
Bangladesh		India		Nepal		Pakistan		Sri Lanka	
1980	1997	1980	1997	1980	1997	1980	1997	1980	1997
Per Capita Aid									
17	10	3	2	24	18	12	7	52	27
Aid as Percentage of GNP									
8	3.9	11	6	12	8.9	3	1.4	10	3.6
Gross Domestic Investment as a Percentage of GNP									

15	17	21	25	18	22	18	19	34	27
Gross Domestic Savings as a percentage of GNP									
2	10	17	22	11	8	7	14	11	18
Resource Balance (Difference Between GDI and GDS)									
-13	-8	-4	-3	-7	-14	-12	-4	-23	-9
Source: World Development Report 1998/99									

As stated, the dependence moves from the fiscal or economic domain to the political. No Nepalese government now feels that it can survive without increased level of aid from abroad. This is so not merely because of the economic value of aid, but also due to the fact that political adversaries will be quick to pounce on any sign of possible relaxation in aid flows. In this sense, aid provides not just financial wherewithal but political legitimacy for the government. Senior political leaders lobby with the donors, not their government or political colleagues, for projects that are of interest to them or their constituencies.

Constitutional mandate and depoliticization of policymaking

Nepal's current debate regarding policymaking has to supercede the debate on policies. Ten years since the end of the authoritarian Panchayat regime and the introduction of a democratic political order in the country, Nepal is still hovering around in the dark in search of an agreement on the fundamental rule of the game concerning policymaking. The usual discourse on the respective roles of the state, the private sector, and civil society actors is confounded by the role the donors now seek in policy discourses and decisions as politically equal and active participants. As a result, who is responsible for policymaking in the country and who is held accountable are questions that seem to have no answers at present.

There are, of course, constitutional arrangements defining such roles and relationships. There is also a separate chapter in the constitution on the Directive Principles and Policies of the State, which the government as well as the opposition is expected to accept as a national mandate. However, the constitution, promulgated in 1990, has so far been working only in one respect: electing people to the parliament and forming a government it may support. The provisions of the constitution have yet to be effective when it comes to making the state competent to process people's aspirations, articulate diverse interests and frame policies with enforceable accountability.

A lack of vision and poor conduct within the political leadership are largely to blame for the present predicament. As a result, the policymaking process has been depoliticized to such a degree that there are important sections in the society that not only welcome this development but also wish to see a further unlinking of policymaking from politics. As the strange argument may go, for rational policymaking we can have democracy, but not politics! How are the political parties to compete then with one another for state power, and on what basis are questions to be answered?

A depoliticized policymaking process in Nepal is inherently prone to excessive exogenous influence. Depoliticization means, among other things, freedom from the inconvenience of having to submit development policies and programs to the scrutiny of the people, the majority of whom are poor and likely to be demanding. The principal actors, internal as well as external, do not have to listen to the people, their "impractical" aspirations, and the demand that might be made upon one's conscience to give up some of the comforts the policymakers are used to. Rightly or wrongly, technocrats, technologists, consultants, and advisors without the burden of an ideology are considered among the best of the depoliticized development actors. It so happens that they are also the best conduits of exogenous ideas, concepts, formats and methods.

Democracy, on the other hand, may not thrive or even survive in Nepal unless an environment and a framework are created that permit endogenous processing of development policies. A given political party may very well adopt "globalization" as a principal plank of its political platform. But, if Nepal is a democracy, the policy should

be a product of that party's considered wisdom, with the party being responsible to its constituency for that policy. There can be scarcely any other basis of genuine political competition in Nepal at the present time.

Endogenizing policymaking for ownership and accountability

Democracy does not become meaningful in a system where the influence of endogenous actors and processes in policymaking are weak. Endogenization of policymaking should not ordinarily be in conflict with aid management. As an issue and in substantive terms, it is inextricably linked with the principle of ownership of policies and programs that the donors, too, emphasize. Perceptions of ownership can, however, vary. This happens when interests of the concerned actors differ. We may couch these interests in a variety of euphemisms, but when many of the donors think of ownership, most of the time they are after gaining legitimacy for their programs. When ownership is sought for legitimization purposes, the process can subvert the very substance of the policy, not to mention causing adverse effects on the transparency and accountability of such policies.

Endogenization is basically about two processes related to policymaking. First, it is about inputs and institutions: What are the domestic institutions that are charged with the responsibility of sanctioning and legitimizing policies that are to be implemented? What other domestic actors participate in the process as sources of information and analysis and as stakeholders? Second, endogenization is also about accountability. If the policy succeeds, who gets the credit, and what institutional mechanisms are available for storing the information in domestic institutional memory? If the policy fails, who is held accountable? And who is charged with insuring that similar error in judgement or contradictions in action are not repeated in future?

Often a policy or program that is exogenously driven and yet claims to be enjoying "local ownership" is found wanting in clarity and specificity about the above. This is the case even more when policies and programs presented as something that is domestically owned are not even subjected to proper civic and political scrutiny within the country. A more difficult problem arises, of course, when, without such scrutiny, the domestic power centers give their approval to a set of policies for reasons that may transcend the intrinsic value of the policy. This situation has only led to mutual accusations by the three principal development actors - the government, the donor community, and civil society on whom the major shortcomings lay. In Nepal, there are cases when an important minister of government makes a statement denying not only responsibility but also an understanding of a policy initiative taken by his government. Such initiatives may be anything from the policy of privatization to the introduction of a Value Added Tax. When something goes wrong or controversy sharpens, the problem is generally thrown upon the donors' laps. The ordinary citizens are thus subjected to further psychological harassment. It is one thing to be disappointed by the lack of progress in development. It is more distressing, however, not to know whom to hold accountable for this condition.

Donors' Legitimate Domain

The donors are partners in Nepal's development. Many of them have not only developmental but also humanitarian concerns. It is necessary to make the distinction to emphasize that many of the donors mean well and wish to see the welfare of the people enhanced. The donors do not provide only money for the cause. They also bring with them, or mobilize within the country, trained and experienced personnel in the hope that they may contribute to development policies and programs relevant for the people. One cannot, therefore, deny them their intellectual and professional rights and responsibilities to contribute to the process. They need a domain to work for this purpose.

Besides, we live in a world with increasingly interdependent states and peoples. We have friends near and far wishing to help Nepal in its development campaign. The social, political and economic leaders of Nepal have to learn from them where they can, and make the collaboration fruitful for all parties. Some degree of exogenous influence in policymaking will, therefore, always be there. At times, the two domains, exogenous and endogenous, may even overlap. As an example, one can think of a campaign for the promotion of what may be perceived by domestic and international actors as policies emanating from universally accepted human values. Democracy and fundamental civic and political rights may be one. Gender equality, right and welfare of the children and environment may be another. One should have no problem with the origin of such ideas, as there would be none if social equity and promotion of economic justice were also to be taken as "universally accepted human values." But then there are also forces embedded in the larger domestic and international context that

have influenced the less welcoming trends and processes encroaching on the autonomy and priorities in policymaking and on efficiency in the use of resources.

In this context, donor accountability, too, becomes important. The reality of an aid-dependent country is such that the donors are likely to exercise huge influence in policymaking for a long time, irrespective of anyone's opinion on the subject. It is only natural that any such influence should be accompanied by a sense of accountability. In principle, the donors are obviously accountable to their taxpayers whose contributions they manage. This system perhaps worked relatively well at a time when the donors were not as proactive as they are today in the social and political domains of the host country. Now that the donors are effectively in the business of addressing all issues and problems located not only in international and national but also the local and community spheres, the accountability system should also be enforced at all levels, including the local level. This requires submission of development policies and programs to civic and political scrutiny in the host country, as it is done for the same reason nationally and internationally in the donor headquarters. At least, this process will help transform the relation of mutual accusations at present to a more constructive system of mutual accountability.

In Conclusion

At the close of the second millennium, democracy is now generally accepted as a universally valid and valuable idea for organizing human societies and advancing their welfare. How this idea is to be transformed into structures and the structures made to produce the outcomes associated with the idea is, however, an unsettled question to this day. This is more so in Nepal where a democratic regime is expected to do more than promote and guarantee civic and political rights of citizens or provide stability and order of some kind. Democracy becomes an incomplete notion if it cannot advance the economic and social development of the country for the benefit of all sections of the society including, in particular, the socially handicapped and the politically powerless. The implication of the growing Maoist movement in the Nepal is a case in point. A responsive policymaking process requires an understanding of the need and the direction of change on the part of the political actors and agents that are critical to the success of the democratic process. And this cannot come about without clarity on the onus of policies and associated concerns about transparency and accountability.

The contradictions involved are well known. They arise, in part, from the conflicts and tensions associated with interests and incentives that people need for participation in the process. In part, however, this is also related to the ideational ambiguity about how citizens who are presumed to be "sovereign" in a democracy can submit themselves to a centralized system of policymaking that cannot take into account concurrently the interests and aspirations of all the diverse sections of the society.

This paper has concentrated on a related but somewhat different kind of contradiction - contradiction arising from an untenable degree of aid dependence of a developing country with the demands of democratic process. In the past, the domain of recipient-donor interactions and engagements was limited to inter-state or governmental-international financial frameworks. Today, the rules of the game have undergone profound changes. The donors today take pride and satisfaction from their ability to work not only with the national government but also with the local communities in the districts and villages directly. Irrespective of the issue of the effectiveness of this approach, what happens to the integrity of the democratic process and competitive politics under such condition is a question that calls for further deliberation in due course.

In the end, one is tempted to submit a hypothesis about the political leadership, currently a critical issue in Nepal. The country is blessed with political leaders who have made big sacrifices for the better part of their adult life in the cause of development and democracy. This is so of the leaders in the younger generation as well. Their current performance has, however, been dismal. Much of the shine has gone from the images they carried until recently, and they now lack not only in social effectiveness but also in personal credibility. The leaders are not unintelligent individuals, nor are they devoid of some personal qualities of leadership. After all, they did successfully mobilize the people and galvanize the nation to help usher in democracy in the country in 1990. What is the real problem then? Is it possible that the leaders in Nepal basically suffer a collective loss of self-esteem and demoralization under the weight of a system where the country is excessively dependent upon aid, the donors are increasingly aggressive, and the elected leaders have little autonomy in making policy choices? These, too, are questions that beg some answers from the country's development fraternity, including the donors and civil society actors.