

Managing Development Aid for Greater Effectiveness*

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As the representatives of the government and their external partners in development meet as Nepal Development Forum for the first time in the country, I must begin by congratulating all concerned institutions and actors for initiating this critical shift in the institutional balance of HMG-Donor relationship. This shift in the locale of the meeting – from the glamorous French capital to the strife-torn environs of the recipient partner -- may appear only symbolic at this stage. But such symbols have a tendency to assimilate substance when they are inspired by a vision of the change we seek and when we have the courage to pursue the process even in adverse circumstances.

Indeed, it is difficult to imagine a more adverse situation than what we face in Nepal today, especially from the point of view of those who value human life and human dignity, are wedded to the principle and practice of peaceful, democratic development, and seek global partnership to that end. The finance minister has the additional worry, of course, of a fiscal nature and faces the challenge of meeting the demands of development even as the imperatives of maintaining some semblance of security in the land threaten to put government finances in disarray. The minister has my sympathy, and if it is any consolation to him, I can also say this – no one should envy his job at present.

As I say this, I am obviously thinking of the Maoist insurgency and the compulsions of a government that is forced to discharge its responsibilities and rule under the emergency provisions of the Constitution. But I am also referring to the cumulative impact of what I call failed development. Not any one government or any particular leader or a group of leaders can be held solely and exclusively responsible for our predicament. It is painful nevertheless to find oneself, professionally or otherwise, in an environment where major political actors are still struggling to find their bearings to be able to work smoothly and purposefully in a democratic dispensation made possible, ironically, by their decades of sacrifices. When the Nepali people struggle to find an enduring commitment of the government to its policies and programmes and a semblance of organizational coherence to accomplish the designated task, one can understand the frustrations in the donors' camp. First, they carry with them the burden of the well-known debilities in their own systems (or in the international aid system in general) that can be a pain especially for the more conscientious among them. Second, they are not at all helped by the inhospitable political and social domain we offer them to help produce the goods, services and institutions generally understood as outcomes of development.

The government has its own problems. We like to imagine it as a monolithic agent driven by a "rational" purpose and a sense of accountability to the people it claims to represent. At this time and hour, Dr. Mahat symbolizes that government. We expect him to lead the process surrounding the concerns, hopes and objectives generated by this forum. But we also cannot forget what the reality around him and around us is like. Any government is swamped by the conflicting interests and demands of competing groups, on the one hand, and the challenge of reconciling short-term imperatives with the long-term desirables on the other. In the struggling democracy in a land which is increasingly – and multi-dimensionally -- polarized, this is especially so. There are contradictions everywhere, the way we view national interest, the way we manage democracy, the way our politicians, public officials and civic leaders pursue self-interest and the way even many ordinary citizens display their own predatory tendencies. We also talk about a common purpose but rarely pursue it seriously. An endemically weak political leadership that is prone more to self-seeking and petty squabbling than honestly reasoning together in the interest of public good and personal image and credibility of the leaders concerned does not help the process.

Now, one can be critical of this reality; one can even curse it, but we cannot wish it away. We have to work with what we have got, and try to make the best of it, keeping the interest of the poor people of the country and the future of this nation uppermost in mind. When we try to do so – by we, I mean the donors and the committed institutions and agents in the civil society – we have to be mindful of one primary responsibility. If the reality is such that smooth and sustainable development or disciplined utilization of resources for that purpose is likely to be a slow process, care should be taken to ensure that our enthusiasm does not worsen

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the institutional condition in the country. It has been our belief, at least since 1990, that the rules of the game as established under a democratic constitution are the best way of managing the difficult condition and conflicts and advancing the cause of development in the country as in most other human societies. And, unfortunately, this is where we have been faltering the most. Our political and public conduct has adversely affected not only development but also peace and security in the land. In addition, there is a constant threat of ill-reasoned impatience and obscurantist pursuits getting the better of good sense and torpedoing what is left of our hopes for democratic development.

The sincere efforts and hard work that have gone into this forum have to prove valuable in this reality – a reality, as I said, we cannot wish away. When I say we have to work with what we have got, I do not mean that we nurture the dysfunctional processes and perverse interests inimical to development. The political leaders must understand that any kind of complacency on the part of the state, an untenable faith in status quo and the hopeless hope that aid will keep flowing into the country as a matter of course no matter what will be disastrous for Nepal and, therefore, for them. We all know that aid volumes are shrinking in the world, and the number of claimants is rising. I see that some donors have reduced their aid levels already, even as, in some cases, commitments in the past have yet to be fulfilled. Importantly, *not many people are cursing the concerned donors for doing so*. Cynical or otherwise, the section of the public opinion in Nepal that protests that, in our condition, development aid as used in many areas may be doing more harm than good is growing steadily. The challenge that Nepal faces is, thus, a moral challenge. Our leaders must command the moral authority to tell the international community and, indeed, their own citizens that Nepal remains a deserving candidate because it is truly and visibly working for the people, and, of course, the poor people at that.

A time of crisis is also the opportune time for responsible leaders, in the government and in opposition, to demonstrate that at least from now on they mean business when they talk about development and to show some appreciation of the reality that unless they contribute to reducing corruption, injustices of various kinds and poverty their own political future is in jeopardy. They cannot keep arguing, in particular, that corruption is a part of politics or political competition and expect the taxpayers in the donor countries to foot the bill under the guise of helping the poor in this country. The leaders have to show that they are above board at least when it comes to personal integrity. If that were to happen, I for one would believe firmly that sympathy and support the government needs from their partners would not be denied to it.

If that is not likely to happen, I myself do not know what to say to this audience. I have plenty to suggest to the donors about the cleaning up that they need to do in their own backyards and front-yards. I have been doing so, in fact, for many years now. But I do not know what good will that do if we ourselves are not morally, politically, and professionally ready to take charge of our destiny.

I feel highly privileged, obviously, to be invited today to speak to this assembly of policymakers and development practitioners who are engaged in a critical dialogue seeking to make their collaborative effort more fruitful than in the past. I thank you all, especially the Honourable Finance Minister, for this honour. My enthusiasm is tempered only by this realization that, other things remaining the same, I may have little to contribute. What can I add to your knowledge about our current situation and the challenges we face ahead in the country? There is no lack of information or insights needed for planning and prioritizing development, especially now in the background of the comprehensive preparatory work done for this meeting. On the issue of donor-HMG relations, too, there is the report of the Review Team on Partnership in which I also had some role to play. And now HMG has prepared its Foreign Aid Policy that deserves serious attention and support of the donors.

It is futile to deny that important achievements have been made in the past with our own resources and with the help of the donors in some specific domains of specific sectors in our society. We can build on them if our leaders wake up finally to their historic responsibilities, as I have been saying. The unanimous emphasis on poverty reduction by the government and the entire donor community alike is a source of encouragement. If we perform in policies and actions, as we promise in words, to bring the poor into the mainstream of development, to harness the wisdom, the sensitivities and the capacities of women for development and to include all other excluded sections of the population in the process, we would indeed

have made a new beginning for a great future. But this is not likely to happen, unless we take care of another type of poverty we suffer from.

We now appear like a nation that is not sure of its future, and we have become a people addicted to aid and afraid of what might happen should there be a withdrawal or reversal in its flows. I am not talking about the day to day issue of managing government finances and the legitimate quest of the finance minister for external resources in that context. I have been a finance minister. I know how it is to sit where Dr. Mahat sits in Haribhavan in Kathmandu. He deserves full support of this forum and also some sympathy, especially since the changes that are necessary in the governance culture of the country are beyond the reach of one ministry. I for one will be satisfied if he keeps the finance ministry clean and its officials professionally motivated, at least in the Foreign Aid Division.

But I am trying to make one critical point here. *It is one thing to depend upon foreign aid for development finance, and another to depend upon foreign aid for development itself.* More aid does not necessarily translate into greater external dependence. It becomes so when aid does not lead to a corresponding enhancement of the development capacity of the recipient nation, and leads to some erosion in it instead, and *when it develops a tendency to fuel the greed of some in the name of the need of many.* The risk becomes critical when important messages concerning the value of sustainability, accountability and performance have to come through foreign aid also. At the moment there is a danger that as a nation, we may be losing our intellectual, professional, and human capacity for development, even if finances do not become a major constraint. We are losing our capacity to think for ourselves, to analyze problems and look for solutions that work for our diverse people.

Suddenly, we have every organs of the state including the parliament and the judiciary and now the prime minister's office linked to foreign aid. I do not understand why a code of conduct for our members of parliament has to be devised with foreign aid. Our judiciary feels impoverished if it does not have some foreign aid projects. And our bureaucracy needs foreign aid to do routine things like drafting simple legislation. Foreign aid is not looked upon as a resource; it is just an easy way of getting some extra-budgetary allocation useful to the concerned offices and the officials. Without foreign aid, many public offices are now unable to do the simple things that they have been doing all along. I am immensely distressed that in the name of decentralization, we might now be making the local bodies also dependent on foreign aid.

I say all this not as a criticism. How can I when I am a sinner myself, depending on foreign aid in Transparency International Nepal to fight corruption, among other things? I am only indicating here the capacity erosion that is taking place in national institutions in spite of the good intention of the donors who support such causes. Similarly, with the attempt of the donor community to bring the civil society into the mainstream of development partnership and harness its faculty for development, the syndrome of aid dependence has now affected the non-state societal actors as well. We are losing fast whatever values we held about social service, voluntarism, public spirit, personal sacrifice, professional fidelity and so on in the service of foreign-aided projects. No nation has been built and no economy developed in this manner, no matter how handy the access to financial resources might have been for some of them.

What I have been sharing with you is what I consider the foundational issues in development partnership. Now I wish to touch on some aspects of aid coordination and the distribution of responsibilities among various actors. Before I do that, I do want to say a few additional words about aid mobilization.

Aid Mobilization

I am tempted here to recall the genesis of the consultative process back in 1976. I was then heading the Foreign Aid Division in the Ministry of Finance. As a civil servant and the chief negotiator, if you like, of an aid-dependent least developed country, I must confess that I personally looked at the value of this forum as a vehicle for mobilizing additional aid rather than an instrument for attaining greater aid effectiveness. So much so that we had a tiff of some kind with the World Bank on the eve of the inaugural meeting in Tokyo. The Bank wanted to call our forum Nepal Aid Coordination Group. We were for the more attractive nomenclature used at the time for some other countries in South Asia, the Aid Clubs, which predicated a consortium type of arrangement that would translate into firm aid pledges in these meetings. As a sinner

from the past, I can say now that the World Bank was right. Then, as now, the principal problem in our development was coordination and effectiveness of aid, not necessarily the paucity of aid resources as such.

The consultative group has now graduated to become a full-fledged Nepal Development Forum enabling it to address the issues of aid effectiveness comprehensively and collectively in a spirit of partnership between the government, the donors and the civil society. The finance minister would still be interested in how much fresh commitments he can secure and I cannot blame him for that. As I said, I have been a finance minister too, and not in as critical a time as now. Dr. Mahat and his colleagues deserve a special hearing, as they face an unprecedented challenge of finding money for security even as the people hope that development programmes will not be sacrificed for lack of funds.

While I wish the minister my very best, I must also say that ultimately what matters is how and where and with what integrity we use the resources we have. When our own people are not happy with the way aid has been utilized and when the donors constantly face the accusations of being partners in sin, it is understandable – even welcome – if they want to be more cautious now. I must say, I am afraid that the long and noisy run up to these meetings – the media coverage, in particular -- may have unrealistically raised the expectations of the people, not just the ordinary people, but responsible leaders as well. Yet, at the end of the day, even the ordinary citizens, who are watching these proceedings with interest, may be more interested in learning about the agreements reached for making aid more relevant for the country's problems and needs than anything else. They would want to know what reforms they can expect on donor behaviour, too. They would want to know what mechanism for self-discipline and mutual accountability have been agreed upon between the donors and the government to make the future substantially different from the past. *One does not have to be an economist to know that more effective aid will automatically translate into more aid in real terms.*

With or without additional aid, the people in the country want to know from their government what austerity measures are being introduced to stave off the looming fiscal crisis. If political constraints require us to match our bloated bureaucracy with the equally bloated cabinet, we have to face the fact that our case for additional aid, even in these difficult days, will lose a good deal of its credibility. On the revenue side, the introduction and outcomes of the voluntary income declaration scheme seems to have helped generate some additional revenue. Without a systemic change in the income tax administration to add to the potentially positive outcome of VAT, however, such one-off gain will not mean much even in the medium term. Now that the finance minister is satisfied with the outcome of his scheme of voluntary declaration, maybe he should also initiate some study on the annual revenue losses incurred on account of tax avoidance, tax evasion and corruption.

Policy Coordination

Allow me to go back again to 1976. For all the preference we seemed to show then for additional aid, one of the major reasons that the then finance minister mentioned for seeking the establishment of the forum coincided with the motives the World Bank and other major donors had in initiating the process. Here is what the finance minister had to say on this subject at the first meeting of Nepal Aid Group. " ... happy though we are at the increasing interest of international community in Nepal's economic development efforts, and at the growing awareness of Nepal's unique problems and constraints of development, our primary concern is one of using available resources in the most effective manner. Nepal, therefore, seeks to ensure that the development programmes undertaken with external financial and technical assistance are properly coordinated among themselves. In addition, it is also important that such programmes are consistent with Nepal's development objectives and priorities and, to that end, form an integral part of Nepal's national development efforts. Not that we think that coordination of international aid has become an unmanageable problem. But with the growing complexity and magnitude of the tasks of development on the one hand, and increasing number of donors who do not necessarily specialize in separate priority areas on the other hand, it has now become essential that, whenever possible, donors' interests are discussed and identified collectively, and in an organized manner."

The authorities in the finance ministry at present like to say that HMG has formulated its "foreign aid policy" for the first time. This may be true and the officials who have worked hard on this deserve full congratulations. They should nevertheless get some comfort from the fact that their current concern has an

echo that goes back at least 25 years in time. We, in Nepal, are never found wanting in saying the right things; we just have to learn to do the right things as well.

The problems of development management have multiplied since 1976, so have our concerns and anxieties about aid effectiveness. But there is one comforting thing. The problem of policy coordination between the government and the donors does not arise from differences in perceptions and priorities about what policies are good for the country. There is substantial agreement among the donors about the problems the country faces and the policies that might be adopted for their resolution. And, as far as I can tell, HMG too has rarely contested the sound advice or even conditionalities coming from the donors' side. If there are mixed signals emanating from the government on occasions, it is not because of a lack of appreciation of the value of the policies in place, but because of the pulls and pressures of the real world and accommodation that ministers have to make for their political survival. Similarly, if there are still protests from some sections of the civil society against economic reforms and privatization, much of that has to do with the lack of results about promised economic efficiency while the adverse impact of the so-called reform measures can already be seen at the household level. And privatization, too, would generate less public protest if the process were to be more transparent and the public could be reassured that no compromise was made in the interest of cronyism and corrupt elements or in the name of "democratic politics."

The issue of policy coordination became critical when with the emergence of the structural adjustment agenda on a global scale followed by initiatives for comprehensive reforms in favour of market economy, the donors enjoyed a good deal of say and influence on what policies are adopted by the government. Now that the enthusiasm for market has been tempered once again by basic urges and sensitivities as captured by the themes of human development and poverty reduction, the arguments over policies have lost much of their fervour. Even as the mainstream interest in the potential of the rules of the market remains, one happily sees a reversal of sort. Downsizing the government no longer means downplaying the role of the government. The government is now to be enabled' not belittled. And on the substantive side of the issue, poverty reduction is now an objective that the International Monetary Fund, too, has to consider sacrosanct.

The critical issue for now is about how we pursue the process of aid management that makes the policies followed at the national level internally consistent and effective. The whole argument and the accusations about the donor-driven nature of aid funded programmes are also about the same process, by and large, not the substance of what the donors say and wish to do, even though there may be some ground for a debate on that issue too. I have called this the issue of distribution of responsibilities and I will return to this point shortly. There is a related point to which I want to draw the attention of this gathering at this juncture.

I refer to the need and the possibilities for some donor specialization. Economists argue that in a competitive market, price mechanism plays the coordinating role in production and exchange and that this is made possible by division of labour and specialization that goes with it. In aid policies and programmes, too, the need for coordination is likely to be a less serious issue if there were to be some specialization among the donors. Of the many fair and unfair criticisms that the donors have to face in Nepal and elsewhere, there is one that may deserve special attention. The bandwagon syndrome or what some unkind critics call the "flavour of the month" attraction that the donors seem unable to avoid has done much harm in my view to the cause of aid effectiveness. That every donor wants to do "the right thing" may mean that the intentions are in right places. But unfortunately, the outcome can be different from what is expected.

There may be something to learn from past mistakes. The 1970s was an era of integrated rural development projects (IRDPs). God knows we needed them, and, I believe, we need them even now. But why did nearly every donor have to join in, in the campaign for rural development, I would never know. Why, above all, did the World Bank and the Asian Development Bank, for that matter, think that this is where their comparative advantages lay? Why did they think that some young consultants from the western countries were experts on our rural life and the complexities of our rural formations and challenges? This requires some pondering. Now we have governance, including anti-corruption programmes and what not that no donor finds, in its wisdom, a field that it can leave alone if it were to help Nepal. Is this at all necessary? Of course, governance is a serious problem in the country and every donor has a right to be concerned and demand that the government does something about it. But this does not mean that every donor has to have a project in this area to prove its interest in the issue. In fact, I have some firm views

about the efficacy of donor-financed governance efforts. I do not want to get into the details here. I will only say this. Governance is not something that we can always projectize and finance for physical improvement as we do for the energy sector or agriculture, for example. Most gaps we see in governance in Nepal is more a cultural problem than technical. If I may plagiarize Ms. Nishimizu, our leaders need to learn to imagine, dream, and see visions of Nepal they want to build. Tools, instruments or legislation that the donors may help us with can be useful to a degree. But they will not work without a change in our values, and a commitment on the part of all concerned that they will play according to the agreed rules of the game and habitually match their words with deeds.

Our partners in development with special experience and appreciation of their own country's historical developments can probably help us in this area even without being "donors", that is, without spending any money. In their interactions with our political and bureaucratic leaders formally and informally, they can just be friends and share with them their experiences in their own societies about governance, politics, democracy, interest groups and so on. This is a job for civic leaders, experienced public servants, states(wo)men and diplomats, not consultants. As a governance effort, it would be nice to see, for example, the representatives of British government sharing with our rulers their wisdom and insights accumulated over centuries of experience in running a parliamentary democracy or a constitutional monarchy. The Americans can similarly educate our leaders about the harm done to their public service when spoils system was in its zenith and inspire them to initiate reforms for their own good. Friends from Japan have similarly much to offer by way of wisdom and advice on what I call the "culture of development".

I am aware that the bandwagon syndrome is not Nepal-specific, but global. And that it cannot be addressed by any one donor working alone. It has to be done collectively and at the policymaking level in donor capitals. And, obviously, the donors can accomplish little on their own without the full appreciation of the problem and a serious commitment to do something about it by the government. I commend the donor community for taking some significant steps in recent years in creating fresh mechanisms for donor coordination and harmonizing their efforts. A consultative process among the donors has been in existence here for some time. And now there are also sub-groups of donors working together, including the various thematic groups or the like minded groups, if you like, that are doing their best to share ideas and experiences and minimize duplication, overlapping and conflicts of one kind or another. I am now hoping that maybe the donors can now take that one additional step of formally agreeing to specialize according to the needs of the country and their respective comparative advantages.

If the issues and schemes of governance reform are looked after by one donor or a group of donors, other donors can concentrate in other areas of their interest and competence. Even within governance, some donors may feel that their support may be more critical in the modernization of the private sector than the state institutions. Within civil society, there are professional bodies in legal, accounting and auditing and engineering professions and many other who may be assisted in establishing links in appropriate countries to help upgrade their performance standards. Then there are the traditional sectors including energy, infrastructure, agriculture, education and health and many others that have a direct bearing on the success of poverty reduction strategy. It will be a nice to have a group of donors "gang up" on the government to expedite the implementation of the Agricultural Perspective Plan, for example.

Distribution of Responsibilities

If I have learned anything from my observations and experience, in and out of government, in aid and development in Nepal, it is that aid effectiveness may depend more on how we do things than what we do and with what volume of external resources. In our circumstances, the process of aid management is more critical to the outcome than the policies. In a way, there is some realization about it all around, within the government and in the donor community. The issues of ownership, partnership, accountability and even governance are about processes, not the substance of what we sometimes try to do with projects under these banners, including the fungible money that become handy.

From the early days of international aid, it has been a practice globally to rightly emphasize that the ultimate responsibility for development resides with the recipient partners. The developing countries that took the message seriously have in fact made remarkable progress in the last couple of decades. Those who did not do so have grown increasingly dependent on aid and buried in debt. But then there is a paradox that

can be observed, at least, here in Nepal. *The more we falter in governance, the more the donors try to do our job for us.* Wheels are reinvented in the name of innovative projects, even as the flow of domestic energy necessary to move them around stagnates, and our own social capital degenerates. A critical challenge for the donors in Nepal is to ensure that in their much-appreciable desire to assist their counterparts, they do not end up doing their jobs for them making the whole process unviable and unsustainable in the long run.

As for the government, if it wants partnership and ownership, it should take its responsibility seriously and claim ownership of development and associated policies and programmes as its natural right, and not wait for it to be offered by the donors. When this does not happen, we create illusions of partnership, not its functional expression. I should also say, in passing, that the two approaches, ownership and partnership can be mutually supportive but they can also be internally inconsistent if we are not careful about the details of how we go about the process. If ownership means country ownership rather than mere government ownership, the partnership idea requires a framework where all responsible national actors have a forum to debate and arrive at a consensus on the national vision and the mission. In a well functioning democracy, the existing institutions and processes ensure that this happens as a matter of routine. The government representing the nation would claim ownership of policies through their actions on the ground and be answerable to its national “partners” under a pre-defined accountability framework.

Partnership, in our context, also means an appreciation of the legitimate role of the donors in policymaking. If so, in order to be consistent with the principle of country ownership, it should also imply the government taking the lead in framing strategies and policies following a process just mentioned. A representative, responsible government would produce a strategic plan to which the donors would add value by providing constructive inputs in exercising their partnership. Because such ideal situation rarely exists in a developing country and even less so in present day Nepal, notwithstanding the laudable attempts made in the context of this forum, both concepts, ownership and partnership, are plagued by ambiguity and controversy in reality. I earnestly hope that the foreign aid policy of the government will emerge as *the* document that sets the rule of the game for everybody. I also hope that a day will come soon when donors will not be constrained to come up with their own individual country strategy papers periodically and can rely on the policy framework produced by the government with their support.

With some donors working directly with the local government institutions and the civil society, the domain of policymaking has now extended beyond the state apparatus and the framework of negotiations between the government and its external partners. In a way, this is a natural outcome of conditions where the government is ineffective and the donors feel constrained to look for other avenues to do their job. Taking the agenda of development to the grassroots, as it were, they may also create some possibility of enriching its substantive content in favour of the poor and other excluded sections of the community. However there is also the danger that such shift in what I would call the culture of development cooperation can have adverse effect on the political process and the fragile state institutions of the country. For example, if an elected government does not represent the public interest, in our perceptions, the civil society cannot fill that void by presuming to act on behalf of the people, especially in our condition. An enduring and constructive relationship between the state and the civil society cannot be developed in a situation where the purpose of the donor-civil society engagements may look like a coalition for cutting the state to its size and putting it in its place as it were.

While I am on the subject of the “culture” of development cooperation, I also want to say a word or two about the working style of some donor representatives. This may appear like a trivial matter, but, believe me, it has a critical relevance to aid effectiveness. We know that vast amount of resources have gone into technical cooperation over the years, without producing corresponding results in enhancing the domestic institutional capacity for development. With emphasis on governance reforms and related activities, the donors may end up spending even more resources for this purpose in the coming years. Here I want to point out a practice or two that the donor representatives might consider adopting in their day to day work in Kathmandu that might contribute towards the enhancement of the competence and confidence of concerned public officials without designing and financing any technical assistance project whatsoever.

Many civil servants working at critical positions today lack a sense of self-confidence, self-respect and self-reliance more than they lack competence or even integrity. A significant part of the problem obviously has to do with the conduct and culture of our political leaders about which the donors can do little on their own directly. But there is some reason to believe that the donor style may also have something to do with the declining morale, motivation and, to some extent, competence of public servants critical to the success of development. When donor representatives, big and small or high and low, are enamoured by their access to top level public officials, including ministers and the prime minister, and develop a habit of getting sanctions for “their” programmes from them, one can forget about the possibility of developing a professional civil service. This practice puts even the pursuit of transparency and democratic governance at risk. Policy commitments that are not subjected to professional scrutiny by the civil servants cannot inspire their willing participation in their execution. In fact, slowly, they lose all interests in their work. On the other hand, if all donor representatives were to work more closely and in a professional relationship with their real counterparts in the government, they would be providing some unintended but helpful technical assistance to them on a regular basis. This is not to suggest that in urgent matters of high priority the donor representatives should not have access to the political level. But if such access is to be used in a routine manner for bureaucratic purposes or for self-aggrandisement, it will be difficult to help reform civil service or build an effective bureaucracy championed by competent and motivated officials. If the ministers including the planners are to make decisions on the basis of formal and informal chats they have with donor representatives, there is in fact no need of a professional civil service. This is a matter that needs the attention of our ministers and other leaders as well.

Before I end my presentation, I would like to, if I may, put on my Transparency International hat and share with you a few additional thoughts on corruption as it relates to aid. The emphasis by major donors on transparency and some other elements of the anti-corruption agenda is a welcome development in recent years. In addition, there is a growing awareness among them that the call for transparency in aid has much logic and reasoning behind it and that more should be done by them in this respect.

Even if there is no incidence or evidence of corruption, it does not appear right from the standpoint of democracy and the principle of parliamentary supremacy that a significant chunk of public resources, albeit provided by our partners, does not go through the budgeting, accounting and auditing process of the country. Happily again, some progress is being made in this respect also.

With regard to the control of corruption itself, there are four things that the donors can consider doing unilaterally, even when the government’s behaviour is as frustrating as we have experienced. First, some attention should go to limiting possible leakage at the conceptualization and design phase of the project. There is a good deal of suspicion that the primary objectives of many projects could be achieved at lesser costs than what is programmed and allocated in many aid agreements. The huge technical assistance component, in particular, and the big remuneration paid to expatriate and national experts give ground for arguments that such practices not only proximate corruption but also has a demoralizing effect on many national institutions. Sometimes, it becomes difficult to distinguish if consultants are made for projects, or the projects for consultants.

Second, many donor representatives are known to short-circuit the government’s system and provide extra-legal, extra-budget payments in cash or kind to public officials for services rendered. This is justified as an incentive payment in a country where government salaries are proverbially low. This practice is not only wrong but may also defeat the purpose. A public servant receiving incentives in cash or in kind from the donors can lose self-respect, self-confidence and even loyalty to his government. This cannot be a good omen for sound professional performance. Third, there is the age-old problem of corruption in procurement for projects financed by aid. There is now the OECD convention that criminalizes bribery of public officials in the importing countries. This Convention is being taken seriously globally and mechanisms have been put in place at various levels for monitoring of its implementation. The donor representatives in Nepal acting together with the government may consider informing and educating the business houses and monitoring their transactions pertaining to this country’s imports to make sure that there is full compliance of the Convention. Finally, there is this tool also related to public procurement devised by Transparency International, called Integrity Pact. The basic idea is to make the process transparently competitive in such a way that there can be a room for peer monitoring by the competing suppliers themselves so that they can

be free the shackles of what economists call the prisoners' dilemma. To my understanding the World Bank and some other donors are working together with the government and the Transparency International following this process for some projects in some South American countries. In South Asia, this tool is being applied in respect of one water supply project in Karachi financed by donors. There may be a scope for benefiting from the application of this tool in Nepal as well. One could at least try it in one or two selected projects and see how it works.

In concluding, let me state the basic dilemma that, at least, I see in this country. The responsible people seem to know what the problem is, seem to agree on what needs to be done and yet, very little gets done to change the basic status quo. What we have is not a fiscal crisis, this is not a crisis of aid management, and, in a way, this might not even be a governance crisis. They are tendencies on the surface. What we face is more likely a condition of moral crisis. To get out of this situation, voluminous papers, reports and new five year plans alone will not do, though one must welcome the effort to synchronize the tenth plan with poverty reduction strategy and the objectives of the National Development Forum process. The plans in any country are written by technicians, what we lack is vision grounded on moral authority or perhaps even a capacity to "imagine" as Vice President Nishimizu was exhorting us to do in the inaugural session in Kathmandu.

We have two Co-Chairs here in this forum. But we do not have two countries – one imagined by the vice president and the other narrated by the finance minister. We have one country and we need one vision that, among other things reflects the hopes and aspirations of a new generation, the youth of this country whose energy is waiting to be tapped. If our leaders and administrators give us the reason to be hopeful in this respect and to be proud of who we are as a nation, sympathy and support from friends should not be denied to us. And I also dare to hope that when the political, economic and social leaders understand the value of integrity and discipline, they will also be able to enforce these norms in the partnership relations where we sometimes find them lacking. Accusations will give way to mutual accountability. Nepal will start developing in such a way that the authorities in the country will not only be on the driver's seat, they will also have a roadmap of where they want to go. Eventually, they would also be able to fill in the tank with their own resources. I pray that such a vision and such a compact emerges from this meeting.

Thank you.