

TRANSPARENCY IN DEVELOPMENT AID

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This Workshop or for that matter, international concern on its theme, would not be necessary if development aid had been transparent. The antithesis of transparency or accountability is corruption. Therefore, I was puzzled when Dr. Devendra Pandey conscripted me to speak at this Workshop. Why me? The rationalisation I conjured up is simple: my association with corruption scandals both as beneficiary and victim. Here is the sequence in brief. In December 1975, there was a consultancy bid for a vegetable ghee factory (the industry is still on). The then Industry Minister opted for the agent with access to lesser power and was peremptorily sacked. And I was kicked upstairs from Vice-Chairman of Planning to Industry Minister. Three years later, December 1978, came my own denouement with the carpet scandal. The charge sheet of Commission for Prevention of Authority Abuse against me was my policy decision to 'encourage carpet export'. After months of court proceedings, I was acquitted but resigned from the Rastriya Panchayat on moral ground. Although I faced political limbo ever since, it is heartening to reflect that carpet industry to-day constitutes the jugular vein of Nepal's export economy.

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The theme of this Workshop is the lack of transparency or accountability in aid transaction. In order to enquire why it is so, we need to consider two aspects: that corruption is the antithesis of transparency and concede limitations of aid intervention. I will commence with the corruption aspect by quoting King Prithvinarayan (1743-1775):

Justice is distorted by bribe-giver and bribe-taker.
There is no sin in taking their life,
they are great enemies of the king.

The above edict in **Dibya Upadesh** (Divine Message) evidences that corruption in Nepal is as old as the country's foundation. The Nepalese even have a native term, **ghiu-khane** (butter- eating), which can be equated with palm-greasing or grease-the-wheel. The quotation has two observations. First, corruption pertains not only to the abuse of power but also the activity of the bribers. Second, corruption can be a threat to the regime.

Corruption has been long prevalent in most societies and continues as an issue of public debate. But it remained a taboo theme in development discussion until very recently. Gunnar Myrdal was perhaps the pioneer to relate corruption with political economy of 'soft states'¹

¹ Gunnar Myrdal, "Corruption-its causes and effects, Asian Drama: An Enquiry into the Poverty of Nations, London, 1968, Vol. II, pp. 837-958.

The significance of corruption in Asia is highlighted by the fact that wherever a political regime has crumbled ... a major and often decisive cause has been the prevalence of official misconduct among politicians and administrators, and the concomitant spread of unlawful practices among business mass and the general public.

It would be banal to say that corruption has persisted under various forms of regime and successive governments in Nepal. In fact, the culture of corruption has deepened its roots and expanded its tentacles. According to the Auditor-General's reports, irregular cases of government transactions are multiplying every year. "In monetary terms, the total outstanding irregularities amounts to an astronomical figure of Rs. 17,000 million. It is estimated that 15 percent of the total government transaction is either unlawful or unauthorised transfer of money, or uncleared advances, or intentional loss to the government".² Cases of corruption cited in **Bleeding Mountains of Nepal**³ and **Bigreko Bato** (The Distorted Way)⁴ are only a sample of wider malady. Despite existence of anti-corruption laws and agencies, corruption is rampant as the perpetrators remain free from punishment.⁵

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The above digression into corruption was deliberate in order to portray the lack of accountability in Nepal. It is a case where corruption has made its transition from lubricant (reduce friction) to substance (for aggrandisement). The same scenario also constitutes the environment in which development aid has to operate. At the outset, I referred to the limitations of aid intervention. I could be wrong in the case of such intervention with negative connotation. Nepal is a poor country with meagre domestic resources. The corollary would be scope for miniscule corruption without outside resources. It does not need complicated statistical analysis to observe that the temporal magnitude of ascending corruption parallels the flow path of aid volume. This is not to insinuate an intrinsic nexus between corruption and aid. The simple truth is that development aid has widened the scope for corruption in Nepal.

There is another dimension why aid cannot determine transparency. Aid agreements are basically an expression of rapport between the donor and established regime to assist in the latter's agenda and not to destabilize. The cooperative stance of major donors have remained the same, be it autocratic or democratic Nepal. When donors deal with a regime, they also validate its operative mechanisms. If the regime is corrupt, donor etiquette is to ignore and acquiesce. For example, of the total grant aid received, 26.8 percent or Rs. 1987 million pertaining to 11 ministries was not available for auditing.⁶ In such a situation, development aid becomes both abetment and sustenance of corruption.

² Goraksha B.N. Pradhan, P.L. Shrestha & Gopal Joshi. "Administrative and financial accountability in Nepal", Administrative and Financial Accountability: The ASEAN-SAARC Experience edited by S.H. Salleh and A. Kar, Kuala Lumpur: APDC, 1995, pp. 390-415.

³ Aditya Man Shrestha, Bleeding Mountains of Nepal, Kathmandu: Ekta Books, 1999.

⁴ HCMAL Assn. Bigreko Bato (Investigating Report on Corruption), Kathmandu: 1999/2000.

⁵ The Assia Foundation, Impunity in Nepal: An exploratory study, Kathmandu, 1999.

⁶ Annual Report of the Auditor-General, 1999/2000, p. 15.

I do not agree with the view that global ideological contest has shifted from politics to economics since the demise of the Second World. The agenda of major donors remains both political (democratisation) and economic (liberalisation). This is evident from their advocacy of good governance that encompasses liberal democracy, privatisation and clean government. The first two may be contested based on ideological inclination, but no one will quarrel about a government free of corruption. The basic premise of foreign aid was to help poor countries become self-reliant, or towards a condition that requires no aid. It happened to be too ambitious an idea. Nepal's experience since Point Four Agreement of 23 January 1951 has been one of increasing dependence. This had two implications. One is the proliferation of donor agencies and plethora of projects. According to an UNDP inventory for 1977, Nepal had 65 donors that disbursed US \$ 401 million for 648 projects.⁷ Multi-lateral agencies contributed 50.8 percent, bilateral countries 43.8 percent and INGO share was 5.5 percent (Annex I-A). More than half of total disbursement was in investment project assistance while free-standing technical cooperation assistance accounted for 28.9 percent (Annex I-B). The 648 on-going projects in 1997 represented 16 sectors (Annex II). Health, human resources development and social development led in number of projects while energy and transport sectors together accounted for 29.5 percent of total disbursement. One glaring aspect of projects is their haphazard pattern of spatial distribution without consideration to the development level of districts or interlinkage among projects (Map).⁸ Nepal's over-dependence is obvious from the fact that donors have to take initiative in aid coordination including sectoral ones instead of the Government that negotiated for them. The problem of aid management in Nepal becomes evident when the host government plays a secondary role.

The second fall-out of over-dependence on aid is the increasing clout of donors on aid conditionality. These relate not only to project management but on policy aspects. While the good governance portfolio of multi-lateral financial institutions (MFI) impinge on the the state's regulatory functions, UNDP and some bilateral donors are more explicit in their governance agenda with incursions in political area such as empowerment and human rights⁹ The irony is that more involvement of donors has not improved the situation either in aid management nor in curbing corruption.

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How to go about improving transparency and accountability in development aid. I will dwell on two: suggestion related to the immediate area of foreign aid and observations on the broader regime of corruption. Suggestion on the former is motivated by the anarchy in foreign aid management evident from an official draft.¹⁰

⁷ UNDP. Development Cooperation: Nepal, 1997 Report, Kathmandu, no dte, pp. 103-114.

⁸ Harka Gurung: Area Planning in Nepal: Review of Experiences. Report submitted to ICIMOD, December 1999, Fig.7.

⁹ Harka Gurung. "Good governance and Nepalese context" Governance in Doldrum by SAP, Kathmandu, 2000, pp. 123-28.

¹⁰ Finance Ministry. Foreign Aid Policy: Discussion Draft, July 2000, 16 pages.

Of the litany of problems relating to foreign aid, half are in the nature of 'beggars cannot choose'. These refer to being donor driven, aid in low priority area, too many projects, conditionalities, and increasing loan burden. In terms of category, four are donor oriented, three due to over-dependence, two of inherent weakness and two, admission of incapacity (Table 1). The most intriguing of the problems is "the absence of definite policies and guidelines" as if all these years, aid was an ad hoc arena. Given the lack of clarity in problem diagnosis, policy and strategy prescriptions have not much of substance.

Table 1: Problems Relating to Foreign Aid*

<u>S.N</u>	<u>Problem by Category</u>	<u>Remedy (What to do)</u>
	A. <u>Over-dependence</u>	A. <u>Pursue Self-Reliance</u>
1	Donor-driven	Minimise
6	Excessive number of projects	Prioritise
11	Increase in loan liability	Don't borrow
	B. <u>Inherent Weakness</u>	B. <u>Capacity Building</u>
2	Poor project management	Improve
7	Poor implementation capacity	Improve
	C. <u>Policy Lacunae</u>	C. <u>Fill-In</u>
3	Lack of aid coordination	Better management
9	Absence of policy/guidelines	Define realistic policy
	D. <u>Donor Propensity</u>	D. <u>Negotiate</u>
4	Excessive technical assistance	Prioritise
5	NGO funding	Monitor
8	Conditionality	Manuever
10	Aid not reflected in budget	Insist on accountability

* Adapted from Foreign Aid Policy: Discussion Draft, July 2000

The precondition to effective development cooperation is better aid management. This would also subsume aspects of its transparency. The measure I suggest is not radical but one of organizational re-alignment. Initially, Foreign Aid Division was under the Ministry of Planning and Economic Affairs. After the creation of National Planning Commission (NPC) in May 1968, the Division was shifted to Ministry of Finance. The glamour of foreign aid has overshadowed the basic function of Finance Ministry which is domestic resource mobilisation. Therefore, Foreign Aid Division should be relocated under the NPC secretariate. This shift of aid coordination function to the NPC would be logical since bulk of the development activities are externally funded.

Finally, about initiatives towards transparency and accountability. Corruption through aid has become an established fact.¹¹ Therefore, donors and international agencies are taking corruption control as one of their key concerns under the rubric of 'good governance'.¹² Since 1993, Transparency International (TI) has assumed

¹¹ Brain Cooksey, Corruption in Aid: An Issue Paper. Transparency International, 28-30 Sept. 2000, Ottawa.

¹² The World Bank Helping Countries Cumbat Corruption, Washington D.C., 2000.

the lead advocacy role to combat corruption.¹³ The operational model of TI is coalition building among international agencies, governments, civil society and private sector to combat and control corruption. Of these, the first two with pelf and power have the primary responsibility. Whatever the preventive and curative measures against corruption, it is the government and international agencies that have the authority to pursue and implement. Development aid has also been taken as a 'partnership' enterprise. Despite this, the increasing intervention of donors vis-a-vis suppliant recipients, there has been little break through in the campaign for transparency. Yet, much onus lies on the recipient governments. If aid flow to Nepal has multiplied, so has corruption become pervasive and endemic. Aid might have facilitated new technology and avenue to corruption but it is also the domestic environment that sustain the malady. The notion of 'donor-driven' is an expression of dependency syndrome. If Nepal is to-day enmeshed in aid-induced corruption, the host government is also party to it, by doing nothing.

Corruption is emerging as a scourge in contemporary Nepal. So is the slow tide of public opinion against it. When things get worse, there are ripples of reaction. The three anti-corruption bills recently introduced in the Parliament is one of these. Anti-corruption agenda as one of the Eight-Point commitment of the Prime Minister might be taken as another. The third one should be the resurrection of the Mallik Report (1990) whose no-implementation has fostered innpunity and spawned widespread corruption ever since. A vigorous campaign and curbing of overall corruption (forest) will also have positive impact on aid transparency (tree). Corruption was a taboo subject, has become a talk theme, and could be a doable thing. Accountability is said to be an endless phrophecy. With concerted effort, transparency in development aid need not be an excercise in futility.

I will conclude with an observation from Dr. Devendra Pandey's forthcoming book:

Development cooperation has now entered a new era. The dialogues between the donors and the recipient are becoming more open. Traditional diplomacy is new expected to take a back seat in the interest of transparency and accountability. If we do not make positive use of the situation, the vested interests in the capitals of the donor and recipient countreis will use this freedom to promote their own goals.¹⁴

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¹³ DSE & TI. Accountability and Transparency in International Development, Berline, 1995.

¹⁴ Devendra Raj Pandey. Corruption, Governance and International Cooperation, Kathmandu: TEN, Forthcoming, p. 89.

ANNEX I : External Assistance Disbursement, 1997

A. Donor Category

S.N	Category	No. of Donors	Disbursement (in US \$ '000)	Percent
1	Multilateral	22	203,780	50.8
	a. Non-UN System	3	106,067	26.4
	b. UN System	19	97,713	24.3
2	Bilateral	17	175,750	43.8
3	INGO	26	21,947	5.5
	TOTAL	65	401,477	100.0

B. Type of Assistance

S.N	Type	Disbursement (In US \$ '000)	Percent
1	Investment Project Assistance	213,379	53.1
2	Free-standing Technical Cooperation	116,071	28.9
3	Investment-Related Tech. Corp.	39,258	9.8
4	Program/Budgetary Aid	17,584	4.4
5	Emergency Relief	11,513	2.9
6	Food Aid	3,674	0.9
	TOTAL	401,479	100.0

Source: UNDP. Development Cooperation Nepal, 1997 Report

A. pp. 40-42

B. p. 39

ANNEX II : On-Going Projects and Disbursement, 1997

S.N	Sector	No. of Projects	Disbursement (in US \$ '000)	Percent
1	Transport	28	66,538	16.6
2	Energy	28	51,791	12.9
3	HRD	88	47,935	11.9
4	Agri, Forestry and Fishery	78	47,842	11.9
5	Natural Resources	45	30,869	7.7
6	Communications	15	29,492	7.3
7	Health	100	28,241	7.0
8	Area Dev.	75	26,520	6.6
9	Social Dev.	87	24,690	6.1
10	Dev. Admin.	34	14,073	3.5
11	Humanitarian Aid	20	13,153	3.3
12	Industry	20	12,609	3.1
13	Economic Management	11	3,084	0.8
14	Disaster Preparedness	5	2,073	0.5
15	Domestic Trade	8	1,747	0.4
16	International Trade	6	815	0.2
	TOTAL	648	401,474	100.0

Source: UNDP. Development Cooperation Nepal, 1997 Report
pp. 43-45 and pp. 60-168