

Foreign Aid and its Effectiveness in Education (A Case Study of Nepal)

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ABSTRACT

Nepal including other developing countries still has been facing massive poverty, slow GDP growth rate, high mortality rates, high population growth and low levels of education. To reduce such types of activities, they have no alternative but obligation to dependents on foreign aids. Though foreign aid has both a positive and negative impact on recipient countries, the negative impacts outweighs the positive aspects in most of the developing countries of the world. But several studies in the past have noted that foreign aid has a positive effect on the educational sector and negative effect on economic development in Nepal. In Nepal foreign aid has been contributing more than half of its expenditure on education, but it is mostly in policy and infrastructural level. This article will analyses the sector wise allocation of foreign aid in Nepal as well as the effects of foreign aid on educational sectors of Nepal. Key words: Bilateral, multilateral, development assistance, humanitarian, disbursement,

Introduction

The international transfer of public funds in the form of loans, grants, technical assistance of materials either directly from one government to another i.e. bilateral assistance or indirectly through the vehicle of multilateral assistance agency like World Bank, International monetary fund; Asian Development Bank and other international agencies is called as the foreign aid. The international transfer of capital, goods, or services from a country or international organization for the benefit of the recipient country or its population is called as the foreign aid. Aid can be economic, military, or emergency humanitarian (Encyclopedia Britannica, 2015). In simple meaning, economic help is known as the aid or charity for the helpless nations, but now a day, foreign aid is a relatively fluid concept. It is associated with

the flow of resources and knowledge which is very complex, abstract and multi dimensional in nature.

Foreign aid can involve a transfer of financial resources or commodities or technical advice and training. The resources can take the form of grants or concessional credits. The most common type of foreign aid is official development assistance (ODA), which is assistance given to promote development and to combat poverty. The primary source of ODA is bilateral grants from one country to another, though some of the aid is in the form of loans, and sometimes the aid is channeled through international organizations and non-governmental organizations (NGOs). For instances, IMF, World Bank, UNO, and UNICEF etc. have provided significant amounts of aid to countries and to NGOs involved in

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assistance activities. In fact, it is very difficult to distinguish what is aid from what is not, so confused and confusing the whole process has now become. Foreign aid in its generic sense is defined as the flow of capital from the developed to the less developed or developing countries. In other words, "Net financial flows to the less developed countries and multilateral organizations." (OECD, 1976). The United Nations international economic assistance to underdeveloped countries, defined foreign aid as "all transactions-for a country or an international organization which result in a permanent net addition to total resources available for economic development of another country." After sometime UN modified the definition of foreign aid and according to it "it is only outright grants and net long-term loans for economic purposes." The essence of foreign aid is that it consists of explicit transfer of resources financial and/or technical-form the donor to the recipient countries on concessional terms. Thus, foreign aid is to help the poor or underdeveloped countries to move forward, into the industrial and technological age and it is also a co-operation with a foreign state which helps in furthering its economic growth and social human progress.

Objectives

The overall objective of this article is to assess the role and impact of foreign aid in the education sector of Nepal. The specific objective is to analyze the aggregate inflow of foreign aid in education and its impacts on the educational sector of Nepal.

Methodology and data source

Regarding the above mentioned objectives, analytical and descriptive methods are applied in this study. The data used in the study is quantitative which are collected from the economic survey of the ministry of finance,

Nepal Rastra Bank, OECD, UNO, WB, Various plan documents and other International organizations.

Sector Wise Distribution of Foreign Aid

Globally, the number of donor agencies and countries has increased but the volume of foreign aid has declined. Despite increase in the number of donor countries, the volume of foreign aid has declined in Nepal too. The number of recipient countries has also increased. Many countries like Singapore and the United States of America do not want financial assistance but they want assistance in knowledge. One of the reasons behind the decline in foreign aid is their own economic burden due to change in demography as well as due to financial crisis. Due to financial crisis and other social volatilities, direct impacts have been seen on the volume of foreign aid in recipient countries like Nepal. In the context of Nepal, over 70 percent of capital expenditure is financed by foreign aid. The ratio between bilateral and multi-lateral is fifty-fifty. However, it depends on the project approval. For instance, the World Bank's contribution is the highest for last year but it is not necessary that it will continue for this year also. Even if it increases, Nepal cannot absorb it as Nepal has half a dozen of projects now financed by the World Bank (Ghimire, 2012). According to the OECD's Aid at a Glance data (2010), total net official development assistance (ODA) provided by members of the OECD's Development Assistance Committee (OECD-DAC) amounted to USD 514 million in 2006. The top five donors in 2005-2006 included Japan, the Asian Development Bank, the United Kingdom, the United States and the World Bank. It should be noted that this excludes aid from Nepal's near neighbours, India and China. There is a possibility of declining the foreign aid but

Nepal's annual foreign aid continues to increase. If we see the last 5 years' average received in foreign aid, Nepal received a sum equivalent to Rs. 51 billion annually. In the year 2010/11, Nepal received Rs. 106 billion as foreign

aid. It was Rs. 97 billion in 2009/010 and Rs.47 billion in 2008/09.

Top five multilateral and bi-lateral development partners (DP) in the years of 2017/18 is given in the following table:

**Table 1 :
Multilateral & Bi-lateral aid**

Multilateral DPs	Disbursement in US \$ (in millions)	Bi-lateral DPs	Disbursement in US \$ (in millions)
World Bank Group	533.5 (32.9%)	United Kingdom	123.8 (7.6%)
Asian Development Bank	291.7 (18%)	USAID	117.8 (7.3%)
European Union	116.2 (7.2%)	Japan	106.2 (6.5%)
UN Country Team	65.6 (4%)	China	58.7 (3.6%)
IFAD	15.8 (1%)	India	56.8 (3.5%)

Source: DCR, 2018.

The first Development Cooperation Report based on Aid Management Platform (AMP) data was published in March 2012 and it gave a broad overview of foreign aid in Nepal along with some analysis of aid fragmentation,

the use of technical assistance, and the alignment of programs with national policy. According to DCR 2015 & 2018, sector wise disbursement of foreign aid is given in the following table:

**Table 2 :
Sector-wise distribution of Foreign Aid**

Major sectors	Amounts US \$ (In millions) (2011/12)	Amounts US \$ (In millions) (2017/18)
Economic Reform	-	210.7
Education	US \$ 229.00 million	202.2
Local Development	US \$ 153.5 million	135.8
Urban Development	-	148.7
Road Transportation	US \$ 116.7 million	-
Electricity	US \$ 106.8 million	-
Health	US \$ 85.00 million	145.2

Source: MoF 2013, and 2018.

Nepal have 40 plus official donors countries and agencies. There is no sector

which does not involve foreign aid. From prime minister's office to finance ministry and

National Planning Commission, most depend on foreign aid. Nepal, like other developing countries, heavily depends on foreign assistance. For example, it is reported in the fiscal year 2013-2014 that Nepal received \$1,036,648,340 billion in foreign aid (Development Cooperation Report, 2015). But it decreases at 2017/2018, in which Nepal received only \$ 842.6 million on this fiscal years.

Foreign Aid in Education

The priorities of the government are power, tourism and civil aviation, agriculture and infrastructure. However, if you see the last five years' experiences, foreign aid is coming in education and health sector, which are much higher than others. Education is the key to overall development of any country. Hence, the majority of Nepal's donors have been contributing to the education of Nepal for quite some time now. Donors' expectation while allocating aid in the sector of education is that knowledge and skills gained would certainly be very useful in Nepal's development context. At the beginning, donors were motivated to offer scholarships to the Nepalese students to go and study abroad. The UK, US and India are some of Nepal's bilateral donors that had established scholarship programs through which those Nepalese students were able to go in those respective countries to acquire skills and knowledge that were lacking in Nepal.

There are different forms of aid in educational sectors of Nepal. The main coverage of foreign aid in education are: the infrastructural assistance, policy formulation assistance, loan for policy reform, scholarship program and curriculum management or curriculum formulation. Among these various topics, the scholarship program is very popular in teacher-students level. The scholarship

programs established by Britain, US, India and other Nepal's donors played an undeniable role in the economic transformation of Nepal because the nationals of Nepal could go, gain skills and comeback home to feel various gaps. However, sending students abroad was highly expensive. As a result, the number of Nepalese people who could go abroad for education through donors' scholarship programs was very limited. Therefore, donors gradually embarked on putting more emphasis on education in Nepal. Foreign aid mainly concentrated in primary and secondary education and there are various efforts on these sectors. The ADB, Japan and India focus in the education of science and technology, which are also the passwords to development. The ADB became Nepal's major partner in the sector of education since the 1990s. In primary education, from 1991 to 2000, the bank funded a \$ 19.5 million Primary Education Development Project. Under this project, 42,000 primary school teachers were trained and a National Center for Education Development was established. In secondary education, from 1992 to 2000, ADB and DFID co-financed a \$ 12.6 million for Secondary Education Development Project. In addition, ADB in partnership with the Danish International Development Agency financed a \$ 30 million Secondary School Support Project. The main objectives of those two projects were to improve the quality and efficiency of secondary education nationwide, and thereby produce middle-level human resources and qualified entrants into higher education (Niyibizi, 2015). In education, there are various agencies has been involving as a donor or aid agencies but they have not similar motives and having multiple interests. The top five educational projects are listed in the following table.

Table no. 3: Highest Disbursement projects (2013 & 2018)

Projects	Development Partner	Disbursed in the year 2012/13 (US \$)	Disbursed in the year 2017/18 (US \$)
The School Sector Development Program	ADB, EU, Finland, IDA, JICA, Norway	-	88,061,117
School Sector Reform Program	ADB, Aus-Aid, Denmark, DFID, EU, Finland, IDA, JICA, Norway, UNICEF	112,044,930	10,702,000
Higher Education Reform Project (Including JSDF Secondary School Stipend project)	IDA, World Bank Trust Funds	9,764,040	15,823,912
Earthquake Emergency Assistance Project	ADB	-	13,803,223
Employment Fund Phase-I	DFID, SDC	3,896,494	-
Establishment of the ICT Center to Enhance ICT Capabilities in Nepal	KOICA	2,099,285	-
Adolescent Girls Employment Initiative	DFID, World Bank Trust Funds	2,090,364	-
Emergency School Reconstruction Project	JICA	-	11,360,328

Source: Ministry of Finance, Development Cooperation Report, 2013 & 2018

It is also felt that foreign aid has been instrumental in achieving objectives of education in general and MDG targets of education in particular. As such, education is the top sector receiving US \$ 202,848,741 (18.78 %) for the year 2010–2011, US \$ 229,049,894 (21.91 %) for the year 2011–2012, US \$ 140,721,598 (14.6 %) for the year 2013/14 and 125,947,357 US \$ in FY 2017/18 which is the highest amount in comparisons to previous years. The education sector received the largest volume of disbursement in FY 2017/18. Disbursement to the education sector over the last eight years varied from year to year. The disbursed amount varied from US\$ 202.8 million in FY 2010/11 to US\$ 127.2 million in FY 2016/17 and US\$ 202.2 million in FY 2017/18. Total disbursement to this sector

during the eight-year period reached US\$ 1,302.3 million. The World Bank Group was the lead donor in terms of providing a commitment of 33% of the total of US\$ 1,990.42 million to this sector (MoF, 2018). ADB and EU are the other top donors committing support to this sector. Bilateral partners including Japan, the United States, Norway and the United Kingdom have also committed support to the education sector. In case of education, ADB focused mainly on primary and secondary education and others, such as Japan and India, put more emphasis on the teaching of science and technology. Japan and China, who built their economy on the solid foundation of education, are also the bilateral donors that supported Nepal's education in science and technology (Niyibizi, 2015).

Foreign Aid Effectiveness in Education

Foreign aid effectiveness examines what works and what does not in foreign aid (Katayama, 2007). Aid effectiveness is must to increase significant support of partner countries and their efforts to strengthen governance and improve development performance (OECD, 2008) on aggregate manner. Improvement in economic performance leads effective means to achieve an objective (Ehrenfeld & Morrissey, 2002; OECD, 2010). In fact, aid effectiveness means the extent to which aid resources succeed in producing sustainable development results for developing countries.

The “ineffectiveness” of aid seems heavily influenced by the extent of sustainability induced by significant progress in the sector. Nevertheless, this criterion has been shadowed down by the concept of “efficiency” – making aid a matter of ‘speed’ rather than ‘success’ Bashir (2009), provides a more in-depth examination of aid effectiveness.

The debate between the two distinct ideas is that whether aid is effective in promoting economic growth or it leads government towards corruption and rent seeking behaviours. The concerns on corruption and rent seeking practices resulted into the formation of Paris Declaration. This declaration focuses on measures to ensure effective aid delivery, in broad terms, the aid effectiveness debate responds to criticism between what and how of development aid impacts in developing nations for achieving overall economic and sustainable development (Bermingham, Christen & Mahn, 2009). This raised a serious concern on the reactions of foreign aid and if those were the reactions that were expected or not. To address this query, Monterrey Consensus of 2002 and the Paris Declaration of 2005 have taken significant initiatives in the past decade like establishing foundation for “dialogue on financing of development” (Acedo, 2009) and

bringing together the major stakeholders of aid to make a pledge to improve the aid effectiveness. For productive aid, both development partners and recipients initiate equal and parallel financial dialogue without any conditions. Our general criterion of ineffectiveness of aid surely is limited to the surface level where we fail to identify the above mentioned issues of effectiveness. So far, we have taken the effectiveness of aid for granted, believing that the flow measures up for the effectiveness. However, this is not the case with foreign aid. There are a lot of waves ebbing and in need of identification. Only when these waves are identified aid effectiveness in education can be improved, especially in a country like Nepal (Dangal, 2010).

Conclusions/Recommendations

There are various debates among the economists, policy makers and planners about the utility or effectiveness of foreign aid in Nepal. Though there are many argues about foreign aid but aid remains an important element in Nepal’s economic / educational development. UNDP stated that, looking beyond the current project; several major changes are expected to impact aid coordination practices in Nepal over the next few years. These include:

- 1) The need to mobilize resources and establish partnerships to support a medium to long term peace and development strategy once the political transition is over;
- 2) Potential changes to the institutional arrangements for aid coordination if Nepal adopts a federal constitution (and resulting capacity development needs at national and sub-national level);
- 3) Changes in the donor landscape, with a growing role for South-South cooperation partners and climate finance; and
- 4) Implementation of the Busan Partnership for Effective Development Cooperation,

with renewed emphasis on use of country systems, transparency and domestic accountability mechanisms.

Hence, the foreign aid in education must be evaluating through the result oriented programs in teaching-learning and researching activities in the sector of education. It will only effective if more people benefitted from the result of education that must be rooted in rural areas and marginal people of Nepal. Government must attempt to be Driver's seat to drive the educational system by using the foreign aid not from donors.

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