

FOREIGN AID IN SOUTH ASIA: THE EMERGING SCENARIO

By Saman Kelegama, editor, *Institute of Policy Studies of Sri Lanka, Colombo, 2012*
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The publication *Foreign Aid in South Asia: The Emerging Scenario* is a collection of case studies examining the role that foreign aid (except military aid) has played in the economic and social development of eight countries in South Asia. The main objective of the book is to provide policies to be applied for better aid utilization in the future in that subregion. The book is superbly edited by one of the most renowned economists in South Asia, Saman Kelegama of Sri Lanka. According to Kelegama, South Asia has been receiving development aid (bilateral and multilateral) since the 1950s from various donors, particularly in the West, and through organizations such as the World Bank and the Asian Development Bank in the form of grants and loans, but the impact of the aid has not been assessed in order to determine what has worked and what has not. In the book, it is pointed out that most countries in South Asia view foreign aid as a long-term opportunity to cover their recurrent expenditures. Therefore, this book is a “must read” for policymakers, academic scholars, aid recipients and donors in the South Asian subregion. It is also an excellent asset for students who wish to know specifically about the political economy of foreign aid in the subregion.

The publication is divided into five main sections. In the first section, the aid debate on key features of the aid system, the emergence of new donors and the role of South-South cooperation in aid effectiveness are addressed. The focus is exclusively on the case of India. The relationship between aid and security in Afghanistan and Pakistan is examined in the second section, where it is noted that, between 2000 and 2007, Afghanistan was the greatest recipient in terms of aid as a percentage of gross national income (32.6 per cent) of all South Asian countries. In sections three and four, policy priorities and the role of aid in the post-conflict economies of Nepal and Sri Lanka are discussed, along with the role of aid in the least developed countries of Bangladesh and Bhutan. In the section on post-conflict economies, the author of the article on the case of Nepal suggests that there is a need for a revision of the country’s policy on foreign aid. In the fifth and final section, the effect of aid on a vulnerable economy – Maldives – is discussed. This is the most intriguing section because it shows that Maldives utilized its aid more

effectively than other countries in the subregion, and as a result, the country moved from being a least developed country to being a developing country.

All data used for this publication are secondary, collected from government, multilateral and private sources. The qualitative research method was used in all countries in the subregion, with the exception of Bangladesh, India and Pakistan, where statistical and econometric analyses were used to show the effectiveness of aid and its impact on growth.

The strength of this book is that, for the first time, the trends, sources and types of foreign aid, as well as hindrances to aid effectiveness (such as a lack of absorptive capacity and weak public administration), are discussed together in one book. Even foreign aid in the individual cases of Afghanistan, Bhutan and Maldives had rarely been discussed and documented before this study. In addition, Kelegama links the issues concerning the effects of foreign aid on socioeconomic development with the Paris Declaration on Aid Effectiveness, the most influential development policy of the twenty-first century. He further looks at the impact the Declaration has had on countries in the subregion.

The articles in the publication show that, over the last few decades, the effectiveness of foreign aid as a developmental tool has been mixed due to the different approaches and policies of donors. In the publication, it is pointed out that all countries in South Asia, even Bhutan, which is not a signatory to the Paris Declaration, follow the five core principles (ownership, harmonization, alignment, managing for results and mutual accountability) of the Declaration in order to improve the socioeconomic conditions in their countries. According to Kelegama, the outcome of the Paris Declaration in the South Asian context is not yet clear, and it will likely be several more years before any positive results can be seen. Moreover, the Paris Declaration has also been criticized for being a donor-centred policy framework that does not do enough to alleviate the problems associated with poverty in developing countries (Reality of Aid, 2008).

Furthermore, in the book it is argued that, as a whole, foreign aid has not worked well to solve the deep developmental problems in South Asian countries, and despite the large amounts of aid flowing into the subregion, South Asia is home to more than half of the world's poor. The overall outcome of this book is the recommendation for donors and recipients to pay particular attention to how best to use aid. Hubbard (2005) also confirmed that, without effective aid management, aid funds will fail and the aid recipients will remain poor.

Although the book has many strengths, it can be criticized for being focused solely on the recipient side of aid – the specific structure and management systems of donors' official development assistance are not discussed in any detail. As a result, it is difficult for readers to understand the aid effectiveness challenges from donors' perspectives in the subregion. Aid effectiveness is discussed in all of the articles; however, except in the case of Afghanistan, there are no details on the progress of aid effectiveness based on the Paris Declaration indicators. Moreover, the publication does not include a discussion on technical cooperation, which is one of the main forms of foreign aid that South Asian countries receive from developed countries due to a lack of capacity within Governments. As Scott (2009) affirmed, technical cooperation plays a vital role in solving the absorptive capacity problems of the recipients through training, research and the transfer of knowledge and skills.

Overall, the aforementioned shortcomings in the publication do not undermine Kelegama's arguments. The book is highly informative; the foreign aid experiences in each country in South Asia are comprehensively analysed and discussed as case studies, and policy recommendations are provided. Consequently, it would be an advantage for Governments in South Asia to apply the policy conclusions offered in the book to managing aid in the future. Moreover, the publication provides each country in South Asia with policy lessons for developing an international framework for foreign aid and future policy priorities. It may also provide aid recipients beyond the subregion with crucial policy lessons in aid utilization.

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