Roles & Challenges of Development Assistance in LDCs

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Outline of presentation

• Nepal: Country Profile
• Country Context:
  • Background information
  • History of Development Assistance
  • GDP, expenditure
  • Graduation from LDC to Middle-Income Country by 2030
• Challenges of Development Assistance
  • Federal structure and resource mobilization
  • Monitoring and Review mechanism
• Strengthening Development Assistance
Nepal: Country Profile

- Area: 147,181 km$^2$; between India & China
- Population: ~29.75 million,
- Population growth rate: 1.1% (annual, 2017)
- Literacy rate: 65.9%
- 7 Province, 77 districts and 753 local Governments.
- Four types of Local Governments (LGs) – Metropolitan Cities, Sub-Metropolitan Cities, Municipalities and Rural Municipalities.
- Population below poverty line: 21.6%
- Percapita Income: 1012 USD
• Promulgation of the Constitution in 2015, Nepal is moved from centuries old unitary system to federal system of governance.

• Article 59 (6) of the Constitution - mandate to the Federal Government of Nepal to continue to lead in the mobilization of foreign resources.

• The Government of Nepal has set ambitious development targets:
  • to graduate from least developed country (LDC) status by 2022.
  • achieve the SDG targets, and to emerge as an inclusive, equitable, and prosperous middle-income country (MIC) by 2030 with the spirit of a welfare state.
History: Development Assistance, Nepal

• Nepal has been receiving foreign aid since second world war after the establishing the diplomatic relationship with United States in 1947.

• Almost all physical infrastructures have been financed by foreign aid in that time. The first Five Year Plan (1956-60) was entirely financed by foreign aid.

• At the beginning, a substantial portion of development expenditure, averaging about 55% per year, has since been financed through foreign aid.

• The average aid to GDP ratio increased from about 2 per cent in the 1960s to almost 10 per cent in the 1990s.

• Currently it is above 25%.
Types of Aid / Development Assistance Funding

• **Grant:** Cash, Goods or Services.

• **Loan:** Soft loans or concessional loans and provided in any of three modes of payment
  • Direct payment,
  • Reimbursable and
  • Cash

• **Technical Assistance:** Provided by DPs for the purpose of capacity development of individuals and institutions.
  • Trainings
  • Seminars
  • Consultancy services and the cost of associated equipment.
• TA can also include project preparation costs/pre-investment activities.
Types of Development Partners (DPs)

- Multilateral or bilateral.

- **Multilateral DPs:** Institution or agency with multiple participating nations or parties providing development assistance e.g.
  - World Bank, Asian Development Bank etc.

- **Bilateral DPs:** Member States of the United Nations and/or their official development agencies that provide development assistance directly to the recipient country e.g.
  - India, China, DFID, USAID etc.
  - Country-to-country development assistance.
Overview of Development Cooperation Structure

Volume of Foreign Aid Disbursement

ODA IN US$ MILLION

FISCAL YEAR

Volume of Foreign Aid Disbursement, Donor Basis
Types of ODA Disbursement

![Bar chart showing types of ODA disbursement for each year from 2010-11 to 2017-18, with grants, loans, and TA represented by different colors. The data is in US$ Million.]
Trend of GDP Growth rate in Nepal

GDP growth per capita Nepal (WDI)

GDP growth (1968–2015)
Remittances % of GDP

Remittances (% of GDP, WDI)

Foreign Aid Flows and Aid Effectiveness
Analysis of Aid Modalities

- **Humanitarian Assistance**: 19.9% US$ 323.15 million
- **Budget Support**: 16.6% US$ 269.45 million
- **Program Support**: 16.3% US$ 264.28 million
- **Project Support**: 43.1% US$ 698.72 million
- **Sector Wide Approach**: 1.9% US$ 31.12 million
- **OTHERS**: 2.2% US$ 36.06 million
Aid on Budget and Aid on Treasury

On Budget percentage

Off Budget percentage

On Budget Disbursement

2010-11 70% 755.80 0
2011-12 77% 804.88 200
2012-13 64% 614.37 400
2013-14 71% 733.19 600
2014-15 65% 663.44 800
2015-16 63% 678.65 1000
2016-17 73% 1012.60 1200
2017-18 78% 1263.53 1400

US$ million
Alignment with National Development Plan

- Infrastructure Development Policy
  - Disbursement for FY 2016-17: 473.04 US$ Millions
  - Disbursement for FY 2017-18: 572.18 US$ Millions

- Social Development Policy
  - Disbursement for FY 2016-17: 442.56 US$ Millions
  - Disbursement for FY 2017-18: 514.15 US$ Millions

- Macroeconomic Policy and Economic Development Policy
  - Disbursement for FY 2016-17: 303.91 US$ Millions
  - Disbursement for FY 2017-18: 400.49 US$ Millions

- Peace, rehabilitation and Inclusive Development
  - Disbursement for FY 2016-17: 87.44 US$ Millions
  - Disbursement for FY 2017-18: 74.55 US$ Millions

- Good Governance and Human Rights
  - Disbursement for FY 2016-17: 37.91 US$ Millions
  - Disbursement for FY 2017-18: 39.82 US$ Millions

- Crosscutting
  - Disbursement for FY 2016-17: 44.74 US$ Millions
  - Disbursement for FY 2017-18: 20.73 US$ Millions

- Not aligned with TYP
  - Disbursement for FY 2016-17: 5.01 US$ Millions
  - Disbursement for FY 2017-18: 0.86 US$ Millions
Aid Fragmentation in different sectors

- Ministry of Federal Affairs and Local Development:
  - No. of Projects: 56
  - Disbursements (in US$ Millions): 144.99
  - No. of On-budget Projects: 36
  - On-budget Disbursements (in US$ Millions): 108.41

- Ministry of Health:
  - No. of Projects: 51
  - Disbursements (in US$ Millions): 161.31
  - No. of On-budget Projects: 30
  - On-budget Disbursements (in US$ Millions): 81.63

- Ministry of Education:
  - No. of Projects: 42
  - Disbursements (in US$ Millions): 185.25
  - No. of On-budget Projects: 24
  - On-budget Disbursements (in US$ Millions): 155.65

- Ministry of Agriculture Development:
  - No. of Projects: 41
  - Disbursements (in US$ Millions): 77.68
  - No. of On-budget Projects: 15
  - On-budget Disbursements (in US$ Millions): 56.87

- Ministry of Finance:
  - No. of Projects: 38
  - Disbursements (in US$ Millions): 243.15
  - No. of On-budget Projects: 23
  - On-budget Disbursements (in US$ Millions): 218.02
Pledging, Commitments & Disbursement for Post-Earthquake Reconstruction

- Of the US$ 4.1 billion pledged, about 75% has been committed through agreements with GoN.
- 10 DPs have translated more than 50% of their pledged amounts into commitments.
- The disbursement (against commitments) in FY 2017-18 was US$ 352 million, slightly more than the US$ 325 million made in FY 2016-17.
- The total disbursement (past three fiscal years) against commitments is 23%.
Trends of Annual Expenditure vs. Annual Budget

In Rs. '000

- Total Budget
- Foreign Aid %

FY 2009-10: 207,353,750 (27.48%), 250,324,355 (25.92%)
FY 2010-11: 285,113,114 (25.93%), 332,000,000 (17.99%)
FY 2011-12: 404,000,000 (21.89%), 404,000,000 (20.05%)
FY 2012-13: 613,574,473 (25.13%), 613,574,473 (28.77%)
FY 2013-14: 747,115,976 (22.22%), 747,115,976 (22.22%)
FY 2014-15: 994,794,855 (22.22%), 994,794,855 (22.22%)

1,200,00,000
## Foreign Aid Mobilization during the SDG Era

<table>
<thead>
<tr>
<th>Sustainable Development Goal</th>
<th>Disbursement (US$) FY 2014/15 – FY 2017/18</th>
<th>AMP sectors included in disbursement figure</th>
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</thead>
<tbody>
<tr>
<td>Goal 3: Good health and well being</td>
<td>520.35 million</td>
<td>Health</td>
</tr>
<tr>
<td>Goal 4: Quality education</td>
<td>589.97 million</td>
<td>Education</td>
</tr>
<tr>
<td>Goal 6: Clean water and sanitation</td>
<td>289.37 million</td>
<td>Drinking water</td>
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<tr>
<td>Goal 7: Affordable and clean energy</td>
<td>485.68 million</td>
<td>Energy(including hydro/electricity); alternate energy; renewable energy</td>
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<tr>
<td>Goal 8: Decent work and economic growth</td>
<td>488.57 million</td>
<td>Economic reform; livelihood; commerce; labour</td>
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<tr>
<td>Goal 9: Industry, innovation, and infrastructure</td>
<td>339.39 million</td>
<td>Road Transportation; industry</td>
</tr>
<tr>
<td>Goal 11: Sustainable cities and communities</td>
<td>694.33 million</td>
<td>Urban development; housing; earthquake reconstruction</td>
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</tbody>
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Challenges on development Assistance in Nepal

i) Development Assistance provided through a variety of modalities and choosing right delivery methods are big challenging.

ii) What is the content of development in Nepal? How equilibrium balance is maintained among civilized and marginalized human Society, Economic growth rate, Job opportunity and Environment.

iii) Agency of Development? Who is main center of development either National government or State government or local government

iv) Shifted from multilateral AID/ loan to personal loan in case for Nepal.

v) Effective and inclusive AID mobilization in recent Federal structure of Nepal is another challenge for development Assistance.

vi) Monitoring and Review mechanism is still challenging.
Challenges to achieve SDG Goals

• National periodic plan addressed the SDGs Goals - opportunities to deepen social and economic progress.

• Key development challenges include:
  • Low and stagnant level of economic growth (average annual rate = 4.1% in last 10 years).
  • Multidimensional poverty index is 28.6%,
  • Dependency on agriculture (2/3 population),
  • Trade deficit and
  • Low levels of domestic savings among (5.26 % of GDP)

• Sustainable development is possible after addressing these challenging parameters.
  • Improving human development,
  • Addressing the poor infrastructure,
  • Investing in the large agricultural sector and
  • Managing risks related to climate change and
  • Natural disasters
Thank You!