

*SIAS-ASD Collaborative Fellowship Program*

**Discussion Paper 3**

**Foreign Aid and Public Policy Process in Nepal**  
**A Case of Forestry and Local Governance**

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## ACRONYM

ADB	Asian Development Bank
BISEP-ST	Biodiversity Sector Program for Siwalik and Tarai
BWI	Bretton Woods Institutions
CCF	Country Cooperation Framework
CDO	Chief District Officer
CIDA	Canadian International Development Agency
CFUG	Community Forest Users Group
DACAW	Decentralized Action for Children and Women
DALAN	Danish Assistance for Local Authorities in Nepal
DANIDA	Danish International Development Agency
DASU	Decentralization Advisory Support Unit
DDC	District Development Committee
DFDP	Decentralized Financing and Development Program
DFID	Department for International Department
DIMC	Decentralization Implementation and Monitoring Committee
DIMWC	Decentralization Implementation Working Committee
DIP	Decentralization Implementation Plan
DLGSP	Decentralized Local Governance Support Program
DPP	District Partner Program
FAO	Food and Agriculture Organization of the United Nations
GDP	Gross Domestic Product
GEF	Global Environment Facility
GOI	Government of India
GTZ	Gesellschaft für Technische Zusammenarbeit
HLDCC	High Level Decentralization Coordination Committee
HMG	His Majesty's Government
IFAD	International Fund for Agricultural Development
IIDS	Institute for Integrated Development Studies
IMF	International Monetary Fund
INGO	International Non-governmental Organization
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
KI	Key Informant
LBFC	Local Body Fiscal Commission
LDF	Local Development Fund
LGCDP	Local Governance and Community Development Program
LGP	Local Governance Project
LSGA	Local Self-governance Act
MFSC	Ministry of Forests and Conservation
MLD	Ministry of Local Development
MOF	Ministry of Finance
MPSFP	Master Plan for the Forestry Sector Project

NDF	Nepal Development Forum
NGO	Non Governmental Organization
NORAD	Norwegian Agency for Development Co-operation
NPC	National Planning Commission
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PDDP	Participatory District Development Program
PRSP	Poverty Reduction Strategy Paper
RDP	Rural Development Program
RUPP	Rural-Urban Partnership Program
SDC	Swiss Development Cooperation
SNV	Netherlands Development Organization
UDLE	Urban Development with Local Efforts
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNV	United Nations Volunteers
USAID	United States Agency for International Development
VDC	Village Development Committee
WB	World Bank
WUPAP	Western Upland Poverty Alleviation Program

## ABSTRACT

Nepal, like many other countries in the developing world, is heavily reliant on foreign aid for its development as well as for other social, economic and political initiatives. A particular sphere that is intrinsically related with and influenced by the aid regime is the country's policy process. Aid agencies and their functionaries have been pervasive in Nepal's policy making, legislative reforms and program design and implementation for over six decades, and we have little appreciation in regard to how foreign aid influences national policies, laws and programs. This discussion paper, which was developed out of SIAS-ASD collaborative fellowship program, intends to fill this gap. To do this, we address two broad questions here: i) how or to what extent foreign aid regime mediates policy process in Nepal? And ii) what changes are induced by aid-supported programs in Nepal's policies, legislation and programs? We examine Nepal's two policy sectors—forestry and local governance—as they comprise two important sectors where foreign aid regime in Nepal has been pervasive. We derive our general observations based on these two case studies.

We suggest that while foreign aid has been instrumental in generating policy, legislative as well as programmatic change in Nepal, the overall outcome is that the changes are more aligned with the priorities of donors and their functionaries. Despite renewed commitments through Rome (2003) and Paris (2005) declaration for aid effectiveness and harmonization, aid administration in Nepal entails co-opted national ownership and fails to accommodate to changing needs of the people. More effort is therefore required to ascertain that the government of Nepal duly represents people's needs in relation to the mobilization of resources and effectively negotiates with development partners to be able to effectively administer and utilize foreign aid.

## 1 INTRODUCTION

Nepal, like several countries in the developing world, is heavily reliant on foreign aid. It is one of the South Asian countries receiving a high percentage of aid.<sup>1</sup> Foreign aid to Nepal as the percentage of gross domestic product (GDP) during 1995-2001 averaged 8.68, whereas Sri Lanka and Pakistan received 3.06 percent and 2.59 percent respectively during the same period.<sup>2</sup> The reliance on foreign aid was even higher in other periods. For example, in the 1950s foreign aid was the only source to finance development projects. Development expenditure under Nepal's first Five Year Plan (1956-60) was completely financed by foreign aid. Since then, foreign aid consistently increased in volume and expanded to encompass virtually all 'development sectors' and ministries. Foreign aid constituted 60-80 percent of Nepal's annual development budget in the 1990s and accounted for over 10 percent of GDP.<sup>3</sup> But aid is not confined to conventional enterprise of "development" as is frequently projected to be; it is so pervasive that social peace and even survival of the nation depends upon it.<sup>4</sup> Thus an important way to examine foreign aid is to go beyond the apparent innocence and triviality of development.

Existing aid literature is ambivalent about whether foreign aid can support the socio-economic transformation in least developed countries. Some international literature on aid critique the basis and administration of foreign aid,<sup>5</sup> while others tend to advocate that the international aid is essential for the effective development of the poor countries.<sup>6</sup> We also find research works coming out of Nepal, that provide an overview of foreign aid, public policy and the development trend. Some of these examine the interrelationship between foreign aid and donors' role in development in Nepal. Long back it was suggested how Nepal lacked planning and was ill-prepared to understand, evaluate and deal with foreign aid pouring into the country in the post-1950 period.<sup>7</sup> We also have accounts of how development is perceived in Nepalese society and how its 'seductive power' creates 'colonial mindset' among the people.<sup>8</sup> It has also been suggested that there are contradictions of democratic governance and external influence in policy making, and that policy making in Nepal is largely driven by the demand of aid regime than national priorities and requirements.<sup>9</sup> More recently an account of the influence of aid in the entire thought process

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<sup>1</sup>It is, however, Pakistan, India, and Bangladesh that are respectively ranked the 5th, 6th, and 7th respectively in Top 10 ODA recipients in Asia. See OECD (2011) 'Development Aid at A Glance: Statistics by Region'.

<sup>2</sup>Bhattarai, P. 2010. Messy Local Governance. *My Republica*, November 17.

<sup>3</sup>Institute for Integrated Development Studies (IIDS). 2004. *Foreign Aid Utilization at the Grassroots Level: A Case Study of Local Development Fund*. Kathmandu: IIDS.

<sup>4</sup>Panday, DR. 2009. *Nepal's Failed Development: Reflection on the Mission and Maladies*. Kathmandu: South Asia Centre.

<sup>5</sup>See, for example, Hancock, G. 1989. *The Lords of Poverty: The Power, Prestige, and Corruption of the International Aid Business*. Macmillan, London; Moyo, D. 2009. *Dead Aid*. Farrar, Straus and Giroux.

<sup>6</sup>See World Bank. 1998. *Assessing Aid: What Works, What Doesn't and Why*. Oxford University Press; Burnside, C. & Dollar, D. 2000. "Aid Policies and Growth." *The American Economic Review*, 90 (4); Collier, P. 2007. *The Bottom Billion: Why the poorest countries are failing and what can be done about it*. Oxford University Press.

<sup>7</sup>Stiller, LF & Ram, PY. 1979. *Planning for People*. Sahayogi Prakashan for Research Centre for Nepal and Asian Studies, Tribhuvan University, Kathmandu, Nepal.

<sup>8</sup>Shrestha, NR. 1998. *In the Name of Development*. Boston USA: University Press of America Inc.

<sup>9</sup>Panday, DR. 2002. *Corruption, Governance, and International Cooperation: Essays and Impressions on Nepal and South Asia*. Kathmandu: Transparency International Nepal.

of important social agents has been available, and this influence is shown to affect the functioning of democratic polity.<sup>10</sup>

We already have important works that offer us important and diverse issues on foreign aid in Nepal, the country's development effort, and donors' involvement in policy process. However, they tend to be generic and less nuanced, and offer little insights in regard to how aid permeates to particular policy sectors or sub-fields. We therefore develop our arguments from a reasonably detailed examination of two policy sectors in Nepal, and identify commonalities and differences as to how and to what extent aid regime becomes influential in policy process.

### **1.1 Objectives**

Our focus in this Discussion Paper is to explore how foreign aid is implicated in Nepal's national policy process. We attempt to address two broad questions: i) how or to what extent foreign aid regime mediates policy process in Nepal? And ii) what changes are induced by aid-supported programs in Nepal's policies, legislation and programs? We examine Nepal's two policy sectors—forestry and local governance—as they comprise two important sectors where foreign aid regime in Nepal has been pervasive. We take policy process to encompass the process from the conception of the policy idea, design of the policy framework, the implementation of projects, as well as the monitoring and review of the projects and initiatives under the policy. Thus, this paper examines how foreign aid comes into play at each of these stages and defines the course and patterns of public policies and programs in Nepal. The cases of forestry and local governance illustrate the way in which foreign aid in general is mobilized to shape the country's public policies.

### **1.2 Methods**

The research that led to this paper started with a review of aid literature, and moved through engagement with the mentors, and frequent interactions with other SIAS-ASD fellows. We conducted further literature reviews, and held interviews with key informants including government officials, local stakeholders, and donor community of Nepal. Snowball sampling technique was used to identify the key informants. Formal and informal talks, telephone conversation, and office visits were made to track key informants' opinions and experiences. The interviews were recoded and are cited in this paper, as appropriate.

### **1.3 Structure of this paper**

The paper is organized in four sections. We present a brief overview of donor involvement in Nepal's development as well as that of South Asia in the section that follows this Introduction. We then move to the next section, where we examine the role of donors in policy making in Nepal. For this we present the cases of two policy sectors—forestry and local governance—as these comprise important arenas in which foreign aid has been pervasive over the decades. In the

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<sup>10</sup>Panday, *op.cit.* p.7.

fourth section, we present our key conclusions and ways forward for making aid more effective and harmonized with Nepal's priorities and needs.

## 2 BRIEF OVERVIEW OF FOREIGN AID IN NEPAL AND SOUTH ASIA

### 2.1 Foreign aid in Nepal's development

Nepal started receiving aid from foreign governments since early 1950s. United States with its Point IV program of technical assistance in January 1951, one month before the fall of *Rana* regime, was the first country extending development cooperation that was later endorsed by King Tribhuvan under the new democratic regime. In the 1950s, the USA and India were the main countries providing aid to Nepal. More donors came in subsequently, sometimes competing with each other. Initially, in the 1960s, it was the UK, Switzerland, China, United Nations, that were followed by West Germany, Soviet Union, Japan, and multilateral lending agencies in the 1970s and 1980s. Japan was the biggest provider of aid in 1990s with huge loans and technical assistance. After 1990s several small European countries like Denmark, Switzerland, and Bretton Woods Institutions (BWI) –the International Monetary Fund and the World Bank—as well as number of international non-governmental organizations (INGOs) made their visible presence in Nepal's development.

This inflow of huge amount of aid, however, came from different donors, with different priorities, sectoral focuses, and different approaches to development planning and implementation. For instance, in 1950s the US laid emphasis on agriculture, rural and infrastructure development. The priorities switched toward basic needs, education and health during 1960s, and democracy, good governance, economic liberalization during 1990s and 2000. Similarly, India's focus in the 1950s was on administrative reforms, transport, communications followed by irrigation and drinking water. After 1962 China-India war, India's aid was shaped largely by security concerns in relation to China and its intention to deter the influence of other countries on Nepal. China also started its aid in transport and industry sectors, and used its influence on Nepal in regard to its sensitivity on Tibet. The entry of Soviet Union and increase in US assistance can be interpreted in cold war context, as both tried expand their sphere of influence. Soviet Union's presence also led to the growing role of Organization for Economic Co-operation and Development (OECD) member countries and multilateral lending agencies in Nepal.<sup>11</sup> Similarly, after the 1990 political change and the entry of INGOs after was accompanied by a flooding of support on diverse issues of human rights, democracy, environment, or governance.

However, Nepal has not been able to effectively coordinate a large flow of foreign aid and ensure alignment of their priorities with the country's priorities and interests.<sup>12</sup> Nepal even

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<sup>11</sup>Mihaly, EB.2002. *Foreign Aid and Politics in Nepal*. 2<sup>nd</sup> ed. Kathmandu: Himal Books.

<sup>12</sup>This situation continues to be so, even after several years of the Paris Declaration on Aid Effectiveness (2005). In the Foreign Aid Policy, which is in draft form (as of December 2011), the Ministry of Finance articulates this gap in aid effectiveness and the alignment with national priorities.

lacked an effective tracking of the development cooperation being flooded upon the country in different forms, and the Government of Nepal fails to fully understand whether the mobilization of aid resources is indeed achieving its priorities of economic growth and poverty alleviation. In addition, in the face of foreign aid, it is questionable whether the government is able to itself shape policy agenda and make decisions in regard to development. Although some achievements in such areas as schools, hospitals, or roads are obvious in Nepal, the country has not achieved broad-based development outcomes that are to be seen in the well being of the people and society.<sup>13</sup> Thus, despite development has been a main mantra for the government and foreign development partners, it has been in wilderness for a long time.

## 2.2 Foreign aid in public policy process in South Asia

South Asia is one of regions where development effort is largely supported through foreign aid, though there are significant differences between the countries. Donors' role is pervasive in the region in regard to development planning, implementation, and review and monitoring. Apart from India, the donors and particularly the Bretton Woods Institutions (BWI), the World Bank and International Monetary Fund (IMF), have played a dominant role in the policymaking process of every South Asian country.<sup>14</sup> The Pakistani experience of BWI was replicated in Bangladesh; Sri Lanka continued the similar policy agenda in 1997; and in Nepal the BWI agenda put in 1980s under monarchial regime has been continued through Panchayat, Congress, and even amidst the recent rise of communists.<sup>15</sup> Such policy intervention of the international community is a reflection of weak governance and less national capability. The region is clutched in problems of frail national vision, political commitment and capacity to realize the commitment.

As indicated above, India's case is slightly different from other South Asian countries, in terms of foreign aid and its policy implications. Largely due to its expanding economy and the national capacity, India's say in policy process is predominant. For instance, when Government of India (GOI) accepted World Bank as the major donor in elementary education, there was deep resistance among political leaders that the Bank was a domineering partner to induct expatriate consultants regardless of need. Bank's proposition of ownership and capacity building was at that time unconvincing to the GOI.<sup>16</sup> Similarly, India declined to develop Poverty Reduction Strategy Paper (PRSP) when IMF/WB conditioned developing countries to draft it as the policy document. India argued that its Ninth Five Year Plan (1997-2002) already addressed all the relevant issues of poverty reduction and it did not need additional strategy paper.

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<sup>13</sup>Mihaly and Pandey, *op. cit.* p.9 & 7.

<sup>14</sup>Sobhan, R. 2003. *Aid, Governance and Policy Ownership in Bangladesh*. Working Paper. Centre for Policy Dialogue, Dhaka.

<sup>15</sup>Ibid.

<sup>16</sup>Colclough, C., Anuradha De. 2010. *The Impact of Aid on Education Policy in India*. Working Paper No. 27. Research Consortium on Educational Outcomes and Poverty (RECOUP). University of Cambridge.

However, India's national competence, ownership and bargaining capacity with aid agencies are not matched in the countries in its neighborhood. In these countries, as a senior civil servant of Mozambique remarked "under aid dependency and government strategy to maximize aid flows, ownership means that the government adopts the program that donors want the government to adopt before donors tell the government to adopt it."<sup>17</sup> This case in regard to national ownership provides how foreign aid is administered in highly aid-dependent contexts.

### 3 FOREIGN AID AND SECTORAL POLICY MAKING IN NEPAL

Nepal's development efforts have been largely driven by foreign aid. Over the past several decades, Nepal's development partners have had their influential say in the country's national plans and projects. For instance, when Nepal formulated its first Five Year Plan in 1956, United Nations Adviser Harry B. Price assisted drafting the document.<sup>18</sup> It was the time when Nepal was new to the outside world; lacked information, study, statistics, and data, competent human resource to coordinate the plan formulation. The government was forced to rely on USAID data collection and field activities for plan information, as the primary donor, USAID strongly influenced Nepal's development priorities in the First Plan" (2001).<sup>19</sup>

Again, the Eighth Five Year Plan (1992-1997), which was formulated after establishment of multiparty democracy in Nepal, focused largely on economic liberalization measures. This focus emerged out of domestic and international needs, "the challenge of formulating the Eight Plan is both high expectations of people when resources are limited and the new international economic realities that compel us to reorient our thinking and policies".<sup>20</sup> His remark could be interpreted in light of the Nepal Aid Group Meeting in 1990 in Paris where International Monetary Fund (IMF) pledged its willingness to extend the Structural Adjustment Lending that it started in 1986 if political development in Nepal encouraged democratic and economic liberalization, and all major donors continued to stress on liberal economic reforms. This instance also shows the significant say of international aid regime in Nepal's national planning. Similarly, in case of the Poverty Reduction Strategy Paper (PRSP), when WB/IMF announced that this document would be the basis of national policy and would provide basis for their concessional lending and debt relief. This shows the lending agencies' domination on developing priorities. In countries like Nepal which rely high percentage of its development expenditure in foreign assistance such condition becomes 'catch- 22', a situation when one has knowledge of becoming victim but has no control over it.

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<sup>17</sup>Castel-Branco, CN. 2008. Aid Dependency and Development: a Question of Ownership? A Critical Review. Working Paper no. 01/2008. Institute for Social and Economic Studies (IESE), Mozambique.

<sup>18</sup>Mihaly, *op.cit.* p.9.

<sup>19</sup>Isaacson, JM, Skerry, CA, Moran, K, & Kalavan, KM. 2001. *Half-a-Century of Development: The History of U.S. Assistance to Nepal (1951-2001)*. Kathmandu: United States Agency for International Development (USAID).

<sup>20</sup>This was the remark of the then Vice Chairman of National Planning Commission, Dr. Ram Sharan Mahat, in the Foreword to "Approach to The Eighth Plan" (1992-97).

In a context where development activities are largely donor funded, the government often accommodates donors' say in the policy process. Nepal's policy making is largely driven by the demand of aid system than of the national priorities, and policy-making is governed by two contradictory elements: democratic governance and the imperatives of foreign aid.<sup>21</sup> The first deemed for people's involvement in policy process that has been provisioned in the constitution. However, due to high aid dependency policy making and development practice are largely in line with international frameworks and priorities. The following case studies of forestry and local governance provide further insights on this situation.

### 3.1 Foreign aid in Nepal's forestry sector policy

Right from the First Plan, forestry comprises a priority sector of development in Nepal. Foreign aid proliferated in this sector early on, and went on increasing particularly since the crisis narrative of the Himalayan degradation theory brought Nepal under greater international focus. Since Nepal's unification in late 18<sup>th</sup> century, the country's forest policy has gone through three stages: i) privatization (pre 1950), ii) nationalization (1957 to mid-1970s), and populist community orientation (mid-1970s onwards). In a second stage—when national planning was introduced—the country's forests were nationalized in order to prevent random cutting of trees and unregulated trade of timber. However, the nationalization brought unintended consequences of unsystematic harvest and overgrazing due to the denial of forest rights to local people.<sup>22</sup> The inability to control large-scale deforestation led to the third stage, which involved populist policies of community orientation in regard to forest management. Community forestry concept was, thus, accentuated in forest policy. International projects to curb Nepal's problem of deforestation and soil erosion heightened in second stage, concurrently with the widespread concerns on the fate of global environment. Nepal also became members of international institutions and became party to international conventions related to the environment, and received foreign aid.

But it was early on the 1950s when international cooperation in forest sector began in Nepal. In 1952, the government invited Earnest Robbe, an expert with the Food and Agriculture Organization of the United Nations (FAO), to assist the formulation of new forest policy. Several studies on Nepal's environment crisis carried out by foreign experts in the subsequently period projected Nepal as a country with alarming environmental condition and in dire need of interventions. As a response, the government adopted conservation measures by formulating and revisiting its programs and initiatives on forestry and environment. Community Forestry, thus, started as pilot projects during 1970s. Community forestry practice emerged out of Nepal's long history of 'indigenous forest management'<sup>23</sup> with a strong sense of community and its

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<sup>21</sup>Panday, DR. 2006. *Matching Democracy and Developmental Policymaking in an Aid-Dependent Country*. Harvard Asia Quarterly, 28 January.

<sup>22</sup><http://www.forestsmonitor.org/fr/reports/549391/549395>, accessed in July 2011.

<sup>23</sup>Fisher, R.J. 1989. *Indigenous Systems of Common Property Forest Management in Nepal*. Working Paper, 18. Honolulu: Environment and Policy Institute, East-West Centre; Chhetri, R. B. and T. R. Pandey. 1992. *User Group forestry in the Far-western Region of Nepal: Case studies from Baitadi and Accham districts*. Kathmandu, ICIMOD.

dependence on local forest commons for livelihoods. Community forestry was deemed as best means to institutionalize indigenous management of forestry resources. It was formalized in 1978, with the revision of Forest Act and the enactment of Panchayat forest rules 1978 and Panchayat protected forest rules 1978. The new legislations authorized the handover of government forest to the Village Panchayat for its protection and management; and aid-funded projects provided fund and resources to materialize the program.

By the end of 1980s approximately 50% of all donors' assistance to Nepal's forest sector was invested in community forestry. The first community forestry project titled *Community Forestry Development and Training Project* was launched in 1980 funded by WB with technical assistance by FAO.<sup>24</sup> Table 1 highlights the international community's concerns on Nepal's environment crisis and corresponding policy initiatives and development projects launched by the government and donors.

**Table 1: International Concerns and Policy Impact on Forestry**

<b>Period</b>	<b>Aid Agency Activities</b>	<b>Policy Impacts</b>
1950s	FAO expert Earnest Robbe recommended soil conservation, forest protection and afforestation	First Plan (1956-60) emphasized forest management as a means to economic development; the government adopted strict conservation through Private Forests Nationalization Act 1957.
1960s	R. G. M. Willan, the UN-appointed forestry expert, suggested to educate the rural population in soil conservation and forest protection.	Established the Task Force on Land Use and Erosion Control under HMG; A separate Department of Soil and Water Conservation was established in 1973.
1970s	UN Conference on the Human Environment in 1971 Eric Eckholm's <i>Losing Ground</i> (1976) depicted Nepal as the quintessence of environmental degradation.	The National Forestry Plan, 1976 acknowledged the government's inability to curb deforestation Introduction of legislation on participatory forestry—Panchayat Forest and Panchayat Protected Forests Establishment of national parks and other protected areas
1980s	1984: Donors' meeting on long term plan on forestry <i>State of the World</i> reiterated population driven deforestation, and unsustainable farming in Nepal and India.	Master Plan- Forestry Sector Project (MPSFP)' started in 1986 funded by Finish International Development Agency and Asian Development Bank. <sup>25</sup> The Sixth Plan (1980-4) broadened basic needs policies to include conservation measures for the public good and service provision
1990-2000s	In 1991, World Bank continued on environment conservation and productivity issues under its wider	Unprecedented rise in NGOs, lending institutions, and development agencies—responding to the environmental crisis narrative.

<sup>24</sup>Guthman, J.1997. Representing Crisis: The Theory of Himalayan Environmental Degradation and the Project of Development in Post-Rana Nepal. *Development and Change*, 28, pp. 45-69.

<sup>25</sup> MPFS was developed during 1986-1988 and was adopted in 1989. The Master Plan provided a foundation for Forest Act 1993 that underpins Nepal's community-based forestry.

Period	Aid Agency Activities	Policy Impacts
	focus on basic needs policy. UNDP Country Cooperation Framework (2002-2006) support.	Formulation of Nepal biodiversity action plan

Source: Based on Guthman, 1997 & UNDP Country Cooperation Framework (2002-06).

The above table illustrates how international concerns for Nepal’s environment and forestry sparked off changes in forestry policy and programs in Nepal. Aid agencies have been influential from the conception of community forestry, the development of Master Plan and its implementation. It reveals how aid mediates policy in Nepal’s forestry. Two patterns can be traced: First, the discourse and theories of environment crisis out of international concerns have been institutionalized and legitimized in national projects and legal provisions. Secondly, selective implementation of policies in line with international demand rather than changing national needs is pervasive.

For example, the FAO expert Earnest Robbe’s study in 1952 on soil erosion and deforestation was followed by the UN’s forestry expert’s 1962 recommendation to educate rural dwellers on conservation. The government established Task Force on Land Use and Erosion Control to look after deforestation, soil erosion, and landslides. Similarly, Elkholtm’s theory of Himalayan degradation was seminal to bring global attention to Nepal’s environmental crisis. In a series of developments, the community forestry program was institutionalized through aid projects and eventually solidified through legislation (Forest Act 1993 and Forest Regulations 1995). These laws also legitimized the concept of forest users’ group.

Through the above policy and legislative measures, the community forestry program has brought several successes in the management of forest resources. So far, some 16 thousand community forest user groups have been formed, and they manage approximately one quarter of the total forest area of Nepal. This program is often lauded for its effectiveness in conservation, local participation in resource management and decision-making. Nepal’s Ninth Plan (1997-2002) and Forest Sector Policy 2000 are still largely in line with the Master Plan’s goals, and the aid projects in forestry are largely aligned with it. They thereby resist addressing new trends in forest products use, the needs for commercialization, and enterprise development.

While Nepal’s aid supported forestry projects as well as the government committed to implement the Master Plan, several of its components are yet to be materialized. By the time of the expiry of Master Plan in 2011, a few components—especially community forestry and leasehold forestry—achieved a certain degree of success. But other components of the Plan, such as the development of forest-based industries, which could have been instrumental in poverty reduction, were not supported.<sup>26</sup> Such components went on unattended in subsequent policies as well as programming. Thus we find that even the well-intentioned policies experienced selective implementation.

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<sup>26</sup>An official at Ministry of Forest and Soil Conservation shared with one of the authors in an interview.

The community forestry program has been largely practiced through conservationist approach. However, with investment of resource and finance for more than three decades, it has reached certain maturity in terms of forest management practice, meeting livelihood needs as well as user group dynamics. It now demands a fresh and expanded approach in order to institutionalize past gains and capture newer opportunities. The ‘first generation’ success was criticized by ‘second generation’ criticism, which emphasized on the equitable benefit sharing and access to resources and decision-making. A more recent, ‘third generation’ debate is focused on the claim that community forestry projects and programs confined their focus on conservation and protectionist approach to management. It advocates for harnessing sustainable forest production for subsistence and marketing.<sup>27</sup> These debates reveal the selective implementation within the community forestry program itself. However, present policies and development projects have not drawn adequate attention towards these needs.<sup>28</sup> Existing aid projects are still aligned with the environmental crisis narrative that was indeed repudiated some two decades ago. They fail to appreciate and respond to changing needs and new context of people-forest interface. We present in Table 2 focus of aid-supported projects under Ministry of Forest Soil and Conservation (MFSC).

**Table 2: Projects under MFSC (2001 -2011)**

<b>Aid agency</b>	<b>Program/Project</b>	<b>Focus</b>
Netherland and SNV	Biodiversity sector program for Siwalik and Tarai (BISEP-ST)	To work towards self-sustaining forestry sector in Tarai, Inner Tarai and Siwaliks for bio-diversity conservation and equitable economic development.
UNDP/GEF/IUCN	Conservation and sustainable use of wetlands in Nepal	To ensure the sustainable management and conservation of nationally and globally important wetland biodiversity along with enhancing sustainability of environmental services
IFAD	Leasehold forest and livestock development program	To reduce poverty by allocating leasehold forestry plots to poor families to enable them to increase incomes from forest products and livestock.
DFID	Livelihood and forestry program	To focus on areas of sustainable forest management, pro poor social inclusion, small and medium enterprise, capacity building and governance, linking practice to policy, climate change.
SDC	Nepal Swiss community forest development program	To improve livelihoods of the forest-dependent disadvantaged groups through Community Forestry To contribute GoN’s community forestry program in the country and outside through sharing experiences and learning

<sup>27</sup>Pokharel, B & M. Nurse. 2004. *Forest and People’s Livelihood: Benefiting the Poor in Community Forestry*. Journal of Forest and Livelihood.4(1) 19-21.

<sup>28</sup> Former Secretary of Ministry of Local Development shared with the author in an interview.

Aid agency	Program/Project	Focus
UNDP	Participatory conservation program- second phase	To bring about a harmonious relationship between the Parks/Reserves management and the Buffer Zone residents and to forge a lasting partnership between the two to achieve sustainable biodiversity conservation and socio-economic development of the Buffer Zone communities.
UNDP, GEF, SNV, WWF	Western Tarai landscape complex project	To establish effective management systems and build capacity for the conservation and sustainable use of Nepal's Western Tarai Landscape Complex.
Finland government	Forest Research and Survey Project	To strengthen forestry sector and its administration to improve the provision of adequate forestry data and its processing for national forest policy development and for national level forestry sector decision making.

Source: Economic Survey of Nepal (2007/08, 2008/09, 2009/10, 2010/11).

As shown above, most of the projects are based on bio-diversity, conservation, and forest management. These projects or programs supported through foreign aid are focused on conservation than promoting commercial use of forestry. As most development (or capital) expenditure of MFSC is supported through foreign aid (it was 92.24% in 2010/11), the Master Plan components not covered in the aid project remain without implementation. Where external resource is high, external advice is also pervasive.<sup>29</sup> International commitment on aid—asserted through Rome (2003) and Paris (2005) declarations—emphasize on ‘aid harmonization’ so that donor projects are in line with national policies. But when national policies are themselves driven by international discourse and frameworks, harmonization makes the reverse sense. This happens because Nepal’s bureaucrats lack the competency and capability to frame national frameworks and negotiate with the donors. Interviews with government officials indicate that Nepal’s negotiation is weakened in many ways.<sup>30</sup> For example, the confidence is weakened by several constraints like language, little understanding of the issue, and lack of vision and these make the officials weaker in front of the donor officials. Similar lack of national vision and competence was observed in implementing Forest Sector Master Plan. Community based management was first priority and was implemented well but government could not equally prioritize other areas and hence were not implemented over the period of twenty years.

Thus the selective implementation of projects and programs is primarily guided by the priority of aid agencies. One of the reasons is the lack of competence of bureaucrats to negotiate the national priorities. Given this, it is apparent that programs in priority of local people get further overshadowed, though the problem of whether the government officials rightly represent the need of the country is an altogether separate question. Nevertheless, the subversion of broad-based national priorities gets exacerbated under political transition and resulting uncertainties, as there is little deliberation over development agenda.

<sup>29</sup>Panday, *op. cit.* p.7.

<sup>30</sup> This is based on interviews with Former Secretary of Ministry of local development and a Forest Officer.

### 3.2 The role of foreign aid in local governance sector

Another case we took in the examination of foreign aid in relation to policy making in Nepal was local governance.<sup>31</sup> Formal local governance started in Nepal with the adoption of decentralization policy in 1960s, as the country's 1962 Constitution provisioned for separate district, municipality and elected village level *panchayats*.<sup>32</sup> These panchayats were provided for the first time with the authority to make policy, implement programs and levy taxes. However, because of lack of political incentives and centralized authority, provisions in law were not materialized and local institutions acted just as extended or de-concentrated agents of the central authority.

After the political change in 1990, Constitution of 1990 and subsequent legislation adopted decentralization policies that were a response to the mounting dissatisfaction with the previous centralized approach of governance and the failure of centralized service delivery mechanism.<sup>33</sup> Article 25 (4) of 1990 Constitution states, "the state shall maintain conditions suitable to the enjoyment of the fruits of democracy through wider participation of the people in the governance of the country and by way of decentralization." While decentralization was *mantra* for governance in the period after 1990, it was confined in deconcentration of few economic and administrative powers to local authorities, and about people's participation in planning. But after Maoist insurgency erupted with the agendas of autonomy and federalism as rallying points, demands for federalism and autonomous regions gained strength. We start with Table 3 below that provides a brief trajectory of decentralization process in Nepal.

**Table 3: Trajectory of decentralization Trend in Nepal**

Period	Decentralization/local governance policies
1951 –60	Interim Constitution of Nepal 1951 elaborated the notion of democratic governance
1961-90	Constitution (1962) emphasized on decentralization of Panchayats; The Decentralization Plan 1965, Decentralization Act 1982; Establishment of Ministry of Local Development (MLD) in 1980.
1990-2000	1990. The constitution of (article 25.4) identifies decentralization as the means to ensure participation of people in governance enabling them to enjoy the benefits of democracy. 1992. The Local Development Act restructured Panchayats into DDC, Municipalities and VDCs and promulgated four separate Acts: Village Development Act 2048, the Municipality Act 2048, District Development Committee Act 2048, and Local Bodies Elections Act 1992. Ninth Five-Year Plan (1997-2002) intended to build local governments that are accountable and responsive to people's need and capable to manage development activities locally

<sup>31</sup>Local governance is understood as, "The exercise of economic, political and administrative authority to manage a country's affairs at all levels. It comprises mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences" (UNDP 1997 as quoted in Kafle & Karkee, 2004).

<sup>32</sup> Panchayat refers to party-less system of government established by the royal take over from 1962-1990 with the King holding executive powers on country's affairs. Central authority was all pervasive for every development affairs and national planning. It also refers to tiers of elected entities at village, district and national level.

<sup>33</sup> Adhikari, Damodar. 2006. *Towards Local Democracy in Nepal: power and participation in district development planning*. Spring research series.

Period	Decentralization/local governance policies
	1996. High Level Decentralization Co-ordination Committee formed to review past laws and lay down the principles and policies on decentralization 1999. A new 'Local self-Governance Act 1999' enacted. The Act increased the authority and responsibilities of the local bodies and provided administrative, judicial and fiscal powers to the local elected bodies.
2000 onwards	Nepal's Tenth Plan document (2003-2007) has a separate chapter devoted to local development program. The Three-Year Interim Plan (2007/08 to 2009/10) has specified decentralization as a main means of enhancing good governance. Governance (Management and Operation) Act, 2008 underlines measures for people oriented, accountable, transparent, inclusive and participatory public administration to provide its benefits to general people. 2008 onwards. The state restructuring committee of the Constituent Assembly deliberating over restructuring of the country.

Source: Developed from Gurung 1999: 22, Dahal *et al.* 2001:39-42, and NDF 2002.

Each of the periods on decentralization shown in the table above was shaped and influenced by aid projects. Before 1990, donor support was confined on capacity building of local governments. After 1990s, however, donor support has had direct policy implications.<sup>34</sup> The influence was made feasible through large-scale donor funded local governance projects that led to the promulgation of LSGA, followed by subsequent guidelines. This was supported by the UNDP through its Participatory District Development Program (PDDP) since 1995. This program was later supported in different names by the government of Nepal and donor agencies as a model program.

Indeed, several donors were supporting the Government of Nepal in developing and implementing decentralization policies and legislation since 1990.<sup>35</sup> The leading programs and donors in this sector include: Participatory District Development Program (PDDP), Local Governance Program (LGP) and their successor LGP/PDDP Bridging Phase Program (LPBPP) (UNDP/NORAD/DFID); Decentralization Advisory Support Unit (DASU) (DANIDA); District Partner Program (DPP/SNV), Decentralized Financing and Development Program (DFDP) (UNCDF/DFID); Rural Urban Partnership Program (RUPP) (UNDP), Urban Development with Local Efforts (UDLE), Rural Development Program (RDP) (GTZ), (DANIDA/NORAD), Decentralized Action for Children and Women (DACA/W/UNICEF), Western Upland Poverty Alleviation Program (WUPAP/IFAD).

The PDDP became a model program for the government in poverty alleviation and bringing the grassroots into the mainstream of development. Later, MLD launched LGP with same objectives of PDDP. The PDDP also provided the basis for the government to promulgate Local Self Governance Act in 1999. Later, the largest ever decentralization and rural development project in

<sup>34</sup> Former government officer shared in an interview.

<sup>35</sup> Scanteam, UM, Harihar, PA & Neeta TS. 2009. *End Evaluation of the Decentralized Local Governance Support Program (DLGSP)*. Commissioned by UNDP and the Royal Norwegian Embassy Kathmandu, Nepal: 11

Nepal, Decentralized Local Governance Support Program (DLGSP) was introduced on the basis of lessons learnt from PDDP and LGP. DLGSP covered all micro (social mobilization on Village Development Program), meso (capacity development of local bodies at district level), and macro level (policy and institutional support to MLD and NPC). Again, after the end of Maoist insurgency, donors pooled their support to rebuild local government through a new national program. As a result the government initiated Local Governance and Community Development Program (LGCDP) for the period of 2008-2012 in support of eleven development partners (ADB, DANIDA, CIDA, DFID, UN System (UNDP, UNICEF, UNCDF, UNFPA, UNV), Government of Norway, SDC, GTZ, JICA, World Bank, Government of Finland). The LGCDP is the first phase of a longer-term program for local governance and community development strengthening both the demand and the supply sides of local service delivery and good governance to attain the LSGA spirit.<sup>36</sup> Table 4 shows the glimpse of aid-funded programs or projects on decentralization and its impact on national programs and policies.

**Table 4: Foreign aid and policy impact on local governance**

<b>Time</b>	<b>Aid agency/program</b>	<b>Policy Impact</b>
1980s	UNDP	1982. UNDP supported formulation of the Decentralization Act (1982)
	Strengthening Decentralization Planning (DSP)/UNDP	1989/early 90s. Assisted the preparation of District Development Act, Village Development Act, and the Municipal Development Act.
1990s	Danish Support to Local Authorities in Nepal (DALAN)	1993-98. Supported the High Level Decentralization Coordination Committee to prepare Nepal's decentralization policy, which became the basis for LSGA.
1990s/ 2000s	PDDP/UNDP (1995) continued in three programs that ended in 2007/08: <ul style="list-style-type: none"> <li>- The 'Decentralized Local Governance Support Program (DLGSP) in 66 districts</li> <li>- Rural-Urban Partnership Program (RUPP) in 25 municipalities</li> <li>- UNCDF's 'Decentralized Financing and Development Program (DFDP) (2007) in 20 districts.</li> </ul>	1996. MLD launched LGP as parallel program to PDDP recognizing PDDP as a model program. The PDDP/ LGP provided support in preparation of Local-self Governance Act (LSGA) 1999 and Regulation 2000 DLGSP supported MLD to prepare Operational Guidelines on Community Development Funds for a smooth flow of development resources in the absence of elected bodies. Replication of DFDP's performance-based funding (MC/PM system) is adopted in all 75 DDCs. Local Body Fiscal Commission (LBFC) is working on a decentralized financing mechanism, a formula-based grant allocation system.
	Local Development Fund (LDF) established	LDF as the product of donors' joint move is

<sup>36</sup> See [www.lgcdp.gov.np](http://www.lgcdp.gov.np).

	by UN Capital Development Fund (UNCDF) in 2000 got support from external and internal agencies to implement the VDP.	continued operating in 68 districts.
	UNDP Country Cooperation Framework II (2002 – 2006)	CCF II enabled the Government to design and implement policies and strategies for poverty reduction CCF II aimed at supporting the government in preparing a decentralization implementation plan.

Source: Developed from UNDP, CCF II (<http://www.undp.org.np/ccf2nep.php>)/ SANEI, 2004(p.17, 24-27)/ UNDP, LGCDP (<http://www.undp.org.np/programs/details.php?i=96>).

The table above shows the role of aid-supported projects in local governance policy and legislation, which encompassed the development of policy and legislative framework to their implementation. For instance, PDDP contributed to the conception and implementation of government’s LGP programs. Its participatory planning has been emphasized in LSGA and other local governance programs and projects. The LSGA is often considered a landmark in devolution provisions in Nepal, and its key provisions include:

- Explicit recognition of local self-governance
- Wide sectoral authority to local bodies, increasing their responsibility and accountability
- Provision of 20% representation of women in local government and representation of deprived and disadvantaged groups
- Mandatory participatory planning, periodic planning, resource maps and information system
- Establishment of sector office by local government

We find two key characteristics in local governance policies and programs that were primarily driven by the influence of foreign aid-supported projects: i) demand side performance outweighs supply side improvements in local governance institutions; ii) policies and programs concentrate on displaying ‘good principles’ but overlook the underlying institutional structure that creates hurdles in putting them into work.

Firstly, after the success of PDDP/LGP projects in participatory planning and social mobilization, there was increase in investment in participatory approach by different donor agencies and the government. The interventions were successful in increasing community participation in governance, empowering them through community organizations and local planning. For example, under DLGSP support community organizations in 66 districts saved NPR 624 million, and community organizations started 75,668 income generating activities.<sup>37</sup> In addition, there was increase in women’s participation in decision making and the empowerment of deprived groups. These gains indeed exhibit the contribution of aid projects in nurturing people’s participation in governance.

<sup>37</sup>Decentralized Local Governance Support Program (DLGSP). 2010. *Social Mobilization in Nepal: a way out of Poverty*. Government of Nepal, United Nations Development Program and Norwegian Embassy, Nepal.

However, the gains against the protracted donor support on strengthening of local bodies, and their service delivery and good governance have lagged far behind. While significant investments were made on strengthening institutional mechanisms, the programs concentrated more on the participatory approach and social mobilization. The institutional strengthening was less successful. For instance, efforts were made in formulating Decentralization Implementation Plan (DIP) through DIMC and DIMWC, but the process did not take any momentum.<sup>38</sup> Policy support for local governance has not achieved the intended outcomes, as the devolution of power in fiscal, administrative and political level is yet to materialize. Although LBFC has developed a budget allocation formula for districts based on population, service coverage and remoteness, the formula remains on paper and actual allocation is made on the basis of bargaining power of politicians.<sup>39</sup> These bottlenecks have not been adequately addressed in policies and programs that are largely financed through foreign aid. The ongoing LGCDP has been designed to address the lacunas of supply side interventions,<sup>40</sup> but it remains to be seen how the program delivers this.

Secondly, the lack of supply side capacity in regard to local governance interventions has obstructed materializing ‘good governance principles’ that are provisioned in local governance policies and programs. Thus the devolution of power to local bodies as envisioned in LSGA has not been effective because of weak institutional mechanism. Due to unclear law and overlapping functions, the ‘central’ government continues with its role of providing public services like health, education, or drinking water, through its line agencies. Such functions are largely overlapping between different levels of government and ambiguous in terms of which level is responsible for regulation, financing and implementation.<sup>41</sup>

In addition, the absence of locally elected representatives, the very essence of local governance has been jeopardized. Lack of accountability and widespread corruption characterizes present local governance. There is politicization in allocation of local budget, and the funds are highly prone to misappropriation in the absence of elected leadership. For instance, there is little compliance to the VDC Grants Operational Guidelines that set the provision of at least 20% VDC allocations to the target groups like *Dalit*, women, *Janajatis* and the disadvantaged. For instance, the budget allocation in six districts (Khotang, Okhaldhunga, Ramechhap, Dolakha, Dailekh and Jajarkot) in 2009 showed that budget earmarked for target groups was spent on the construction of school, roads and other structures.<sup>42</sup> ‘The irony is that a greater involvement of donors has not improved the situation either in aid management or in curbing corruption’.<sup>43</sup> The

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<sup>38</sup>Government of Nepal Ministry of Local Development (GON/MLD): Local Governance and Community Development Program (LGCDP). [http://www.lgcdp.gov.np/home/about\\_lgcdp.php](http://www.lgcdp.gov.np/home/about_lgcdp.php). Accessed on June 11, 2011

<sup>39</sup>Shrestha, RL & James W. 2008. *Effective Financing of Local Governance to Provide Water and Sanitation Services: A Water Aid Report*. Water Aid, Nepal.

<sup>40</sup>As shared by decentralization and local governance advisor in UNDP Nepal in an interview with the author.

<sup>41</sup>Shrestha, Manoj. K. 2002. *An Overview of Intergovernmental Fiscal Relations in Nepal*. Working Paper, Andrew Young School of Policy Studies, Georgia State University.

<sup>42</sup>Bhattarai, op.cit.p.7

<sup>43</sup>Gurung, H. 2001. Transparency in Development Aid. *Spotlight: The national news magazine*. Vol.21(12), September 14.

channeling of financial resources overlooking the institutional structure can lead to misappropriation.

Nepal's local governance policy and legislation were introduced with high optimism, and they aspire for achieving good governance in local jurisdictions. However, even with several years of huge aid inflow, the institutional bottlenecks continue to operate in the way of realizing good governance, but these institutional problems are overlooked. An evaluation report asserts:

“The measures of success of any program should be related to the success of good principles, rather than structures or institutions, as the latter are influenced and ultimately determined by politics rather than program objectives.”<sup>44</sup>

The lines expressed in the final evaluation report of the largest local governance project in Nepal, DLGSP<sup>45</sup> illustrate how donors are concerned with judging success with program objectives handing burden of institutional structure to politics. Questions can be raised on how good principles exist in bad institutional structures? How can good principles be materialized unless there is strong institution to implement them? These questions remain unanswered in local governance policies and aid-supported programs.

#### **4 CONCLUSIONS**

In this paper, we tried to explore how foreign aid, in the backdrop of Nepal's high dependency on it, can mediate and influence the formulation and implementation of public policies. We showed how foreign aid is very closely associated with the course of development of Nepal's policies and programs, and their subsequent implementation. We focused on two sectors in Nepal that attracted continuous donor support over decades—forestry and local governance—that provide the basis for our arguments. While the two sectors differed in many ways in regard to how aid funds were used for policy formulation, program planning and implementation, they also exhibited commonalities in terms of influencing Nepal's public policies to align with donor priorities.

Within Nepal's forestry sector, donor involvement started early in 1950s, but foreign aid considerably increased after the popularization of environmental crisis narrative by Eric Eckholm in mid-1970s. Subsequent donor response led to significant policy and legislative changes in Nepal's forestry sector, and continues to define approaches to forest management. The donor influence in policy, legislative and programmatic aspects led to achieve successes in reversing deforestation and forest protection in most localities in Nepal. However, existing policy framework is inflexible in regard to how to accommodate to the gains made over the past

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<sup>44</sup>Norwegian Agency for Development Co-operation (NORAD). 2009. *End Evaluation of the Decentralized Local Governance Support Program (DLGSP) in Nepal*. Report Commissioned by UNDP and the Royal Norwegian Embassy, Kathmandu.

<sup>45</sup>Started from April 2004 to 31st July 2010 covering 66 districts and 880 VDCs of all five development regions amounting US\$ 22.1 million.

three decades and to respond to the changing needs of people, especially in regard to commercial utilization of forest products and equitable access to resources and decision-making by marginalized groups. We suggested that donors were not only involved in shaping overall policies, but created conditions for selectively implementing certain components of those policies by limiting funds to those components. Accordingly, forest management practice operates within protection-oriented, conservative planning that animated donor concern in 1970s, and thereby limits the opportunity for local people innovate and adopt new ways of improving their livelihood through forest management.

In the local governance sector, there was massive inflow of foreign aid after Nepal's political change in 1990. Aid projects initially focused on implementing the decentralization policy and moved on to make major legislative and administrative reforms leading to the promulgation of LSGA in 1999, and subsequent administrative-technical measures. The aid-supported programs largely focused on inculcating participatory approach at local government units as well as at community level. This has led to enhancement of social capital and empowerment of communities. But, they fail to fully realize the ideals of self-governance, not only because of the vacuum of elected representatives in local government units, but also due to limits on devolution of authorities, funding, and other resources. Instead, they concentrated more on participatory approach and social mobilization, pouring finance and resources in favor of the demand side of the local governance, without effecting needed capacity building at the supply side. The gap made it impractical to realize 'good governance principles' in local jurisdictions. The supply side is further weakened due to underlying institutional weaknesses such as contradictory legal provisions between LSGA and sectoral laws, parallel service delivery mechanisms and the attitude and behavior of central government functionaries. The aid-supported reforms made in local governance in Nepal necessitate further interventions that consolidate the capacity and accountability of supply side institutions.

We suggest that while foreign aid has been instrumental in generating policy, legislative as well as programmatic change in Nepal, the overall outcome is that the changes are more aligned with the priorities of donors and their functionaries. Despite renewed commitments through Rome (2003) and Paris (2005) declaration for aid effectiveness and harmonization, aid administration in Nepal entails co-opted national ownership and fails to accommodate to changing needs of the people. More effort is therefore required to ascertain that the government of Nepal duly represents people's needs in relation to the mobilization of resources and effectively negotiates with development partners how effectively foreign aid is administered and utilized.