



Geopolitics and Shifts in Development Aid Policies: The Effects on Poverty in Nepal

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Abstract

Current debates on global poverty reduction have renewed scholarly interest in foreign aid. As a result of recent concerns over global security, donors and aid agencies have redirected aid funding to countries of strategic political interest. To comply with the political agendas of the North, major aid donors (such as USAID, CIDA, and the EU) have shifted their priorities from humanitarianism and sustainable development to freedom and international security. Such shifts undermine interventions critical to easing widening socioeconomic disparities, and poor countries like Nepal have experienced a significant decline in international development aid. This paper explores the implications of current aid policy on the division between Northern and Southern countries. The use of a multidisciplinary approach in the analysis of development aid policies is beneficial for understanding the complexities and tensions involved in the provision and distribution of development aid.

Keywords: Aid, Development, Geopolitics, Conflicts, Nepal

1. Introduction

Issues concerning current practices in international development aid have received attention from scholars in various disciplines. By examining the shifting geopolitical interests of donor countries and the effects these interests have on the provision of aid, this paper generates new insights into the complex relations between international development aid and geopolitics. This paper will argue that development aid is politically motivated and often used as a tool to promote donor countries' interests, and that it thus contradicts the humanitarian aspect of aid itself.

In the post-Cold War era, issues of poverty, inequality, and social exclusion increasingly dominated discussions about geopolitical relations and international development aid. As competition between the West and the East subsided in the late 1980s, development aid was generally regarded as less geopolitical and more humanitarian in motive (Brunel, 2001, p. 241). However, a shift in patterns of aid provision and distribution in recent years reflects changes in geopolitical relations between donors and recipients. Furthermore, international aid agencies such as the Canadian International Development Agency (CIDA) and the United States Agency for International Development (USAID) have shifted their priorities from sustainable development and provision of aid on the grounds of humanitarianism to interventions based on the promotion of freedom and international security.

Using Nepal as a case study, this paper will demonstrate how changes in the priorities of donor countries and international development agencies have contributed to the widening socioeconomic disparities among Third World countries. It will be argued that donors' interest in promoting freedom and security through aid in recent years overshadows the humanitarian needs of recipients, particularly the Nepalese. These changes pose new challenges to development and aid.

2. Theorising International Development Aid

Following Matthew B. Fielden, this paper uses the term *aid* to refer to diverse

forms of humanitarian and development assistance, provided in a short term emergency context and longer term capacity building context. This includes food rations, water, shelter, health care, education and general infrastructure. (Fielden, 1998, p. 460)

The provision of aid operates within a system that 'mainly includes the organisations, their political owners and civil servant managers, as well as their sources and uses of funds' (Rogerson, Hewitt, & Waldenberg, 2004, p. 1). Rogerson

and his colleagues developed a four-part framework that proved to be useful in analysing changes in aid system over time:

multiple foreign and security policy objectives, loosely bundled with anti-poverty goals, with no common weighing system; the continued existence of institutional barriers insulating aid programmes to different extents from hard budget constraints[;] reduced willingness, or ability, to use aid in its current form at both ends of the client spectrum: more advanced countries reject foreign intrusion; much weaker countries badly need aid but cannot demonstrate ability to use it[;] new cosy relationship with private and voluntary organisations, funded by official aid, and competing with it for taxpayer and commercial support. (Rogerson et al., 2004, p. 9)

These changes further highlight the politics involved in the provision and distribution of aid and demonstrate how competing interests among donors contribute to the widespread inequalities among Southern countries.

The majority of current foreign aid policies are aimed at accomplishing a series of development goals, such as

- i. to stimulate economic growth through building infrastructure, supporting productive sectors or bringing new ideas and technologies,
- ii. to strengthen important sectors, such as, education, health, environment or political system,
- iii. to support subsistence consumption of food and other essential commodities, especially during relief operations or humanitarian crisis, or
- iv. to help stabilize an economy following economic shocks. (Chowdhury & Garonna, 2007, p. 5)

Despite the emphasis on broader objectives of foreign aid, 'economic growth has always been the main criterion used to measure aid effectiveness' (Chowdhury & Garonna, 2007, p. 5). To fully understand the complexities in the shifting priorities of international development aid within the geopolitical context, it is necessary to understand the motives and the intentions of donors (Fielden, 1998). Analysis of aid provision in Nepal reveals diverse interests and motives of donor countries and agencies.

In analysing motivations for the provision of aid, four theoretical approaches prove to be useful: the power-political hypothesis, the political stability and democracy hypothesis, the development and performance hypothesis, and the strategic-defensive or Cold War hypothesis. These approaches provide important insights for examining donors' motivations to provide aid and how aid is politicised. The power-political hypothesis explains how aid is given to gain support from the recipients. Alternatively, the political stability and democracy hypothesis suggests how aid should be viewed within the context of human rights. The development and performance hypothesis explains how aid should be approached from the perspective of future prospects of development. Finally, the strategic-defensive or Cold War hypothesis explains how differences in the provision of aid reflect the competition between the West and the Soviet Union in asserting influences over Third World countries; this hypothesis thus closely aligns with Cold War political ideology (Fielden, 1998). Together, these theories are useful for examining shifting patterns of aid provision and distribution among donor countries and international aid agencies over recent years. This aspect will be explored in more detail in the discussion of changes in patterns of development aid to Nepal (section 6).

Fielden (1998) rejects the idea that the provision of aid is humanitarian based. He suggests that decisions by donors to assist developing countries are mostly influenced by geopolitical motives rather than humanitarian ones. Ngaire Woods (2005) found that recent changes to aid flow in developing countries coincided with the shift in priorities and goals among donors and international aid agencies. This shift has important implications for aid provision and distribution among aid recipient countries. Recent increases in aid funding to places like Afghanistan and Iraq reflect U.S. and other donors' interest in asserting political influences over these countries. Diverting aid flow to these geopolitical hotspots places long-term development projects in other recipient countries (e.g., Nepal) at risk.

The governments of aid recipient countries often do not 'have sufficient information, mobility, or power to make choices among aid providers' (Rogerson et al., 2004, p. 7). Donors, on the other hand, can classify aid recipient countries into different categories in order to exert political leverage and simultaneously impose constraints on recipient countries. Recent global political events such as the war on terrorism led to the

growing subset of low-income countries, which are labeled 'difficult partners' or 'countries under stress'. Donors believe that these countries, despite substantial increases in aid flows, are unable to put aid to good use, owing to their weak institutional and policy performance based on their chronic vulnerability to unrest, conflict and state failure. (Rogerson et al., 2004, p. 6)

However, research has shown that the notion of 'poor performance is not supported by evidence. . . . It is very difficult to identify a group of countries performing poorly on both of the key indicators (growth and infant mortality reduction)' (Rogerson et al., 2004, p. 6). Given the difficulties of classifying countries as poor performers, the criterion for denying

aid should be ‘the institutional inability of donors to engage with [aid recipient] countries, linked mainly to defects in the sovereignty of the recipients’ (p. 7).

3. Geopolitical Motivations for Development Aid

Ideologies concerning development began to change after 1945 as a result of the rise in anticolonial movements in different parts of Asia, Africa, and Latin America. For the Soviet Union and other countries within the Soviet bloc, development was seen as a form of socialism, the final phase before communism. Alternatively, Northern countries such as the United States perceived development as economic development. At the same time, Northern countries began to offer aid and advice to Southern countries (Wallerstein, 2005). However, provision and distribution of aid was largely shaped by donors’ political interests. Under these circumstances,

aid-receiving countries enjoy greater leverage vis-à-vis their foreign patrons. . . . Threats to make aid conditional on fulfillment of democratic reforms may not be credible, because withholding aid from autocratic countries could mean losing clients to Cold War powers. (Dunning, 2004, p. 411)

Competition among donor countries has proved to be an advantage for aid provision and distribution in Nepal. Multilateral and bilateral Overseas Development Aid (ODA) agencies have been used by donor countries since the Cold War to form political and economic alliances with recipient countries. Through these aid agencies, development assistance was often used to promote donors’ political interests. In response to the Soviet occupation of Afghanistan in 1979, the United States provided financial and arms assistance to Afghan resistance forces (Fielden, 1998). These aid provisions enabled the United States to exert and secure its influence over the country’s political landscape. Further confirmation that U.S. aid is closely aligned to political interests was provided by the previous director of Afghan aid: ‘The US aid package is putting a lot of money into the political arena and away from direct humanitarian aid’ (quoted in Fielden, 1998, p. 467). International aid is often portrayed as ‘humanitarian, independent, impartial and neutral, so that the underlying geopolitical agenda remains obscured’ (p. 469); however, humanitarianism has been replaced by the politicisation of international aid provision and distribution.

During the Cold War, the West was indifferent to issues of human rights and democracy in order to ‘avoid jeopardizing its economic and strategic interests and to facilitate its obsessive search for allies’ (Dunning, 2004, p. 413). The emphasis on strategic interests reflects how ‘aid is allocated primarily on geopolitical grounds and not as a result of rational humanitarian planning’ (p. 417). The provision of aid to countries of strategic interest thus enabled Northern countries to pursue their own political agendas.

4. Shifting Development Aid Policies

The end of the Cold War, marked by the collapse of the Soviet Union, has contributed to significant changes in global development aid. Although major donor agencies claim to be apolitical, they are still ‘bound by the geopolitical agendas of the donors upon which they depend’ (Fielden, 1998, p. 479). This connection further demonstrates how aid continues to be politicised and how the provision of aid increasingly targets countries of interest to donors.

The political changes in the post-Cold War period produced a global trend in development aid, whereby

countries of the former USSR and Eastern Europe are much less capable of supplying aid funds, with detrimental results for former Soviet allies such as Cuba, Afghanistan and Vietnam. On the other hand, many countries of the former Soviet bloc have become aid recipients in competition with countries of the South. (Slater & Bell, 2002, p. 336)

Recent concerns about security threats in strategically interesting countries (e.g., Afghanistan and Iraq) have altered the flow of foreign aid. Geopolitical hotspot countries are increasingly portrayed in the Western media as the countries in need of the most international assistance. The focus on these countries effectively undermines the humanitarian aspect of foreign aid and bypasses the needs of other poor countries. Shifting priorities and goals among donors and aid agencies have further reaffirmed North–South differences and inequalities. Consequently, poor countries like Nepal, which do not have the same strategic value, are excluded from media attention and from international donors’ aid budgets.

The current practices of provision and distribution of foreign aid are also criticised for their

tendency toward top-down and spending oriented approaches at the expense of local capacity building and ownership, fragmented aid delivery with large numbers of insufficiently coordinated sources of assistance and projects relative to absorption capacity, questionable allocation patterns and sobering experience with conditionality. (Ferroni, 1999, p. 11)

The lack of coordination between donors and aid agencies reveals some of the important reasons why development projects fail at improving the lives of the intended aid recipients. Concerns have been raised that the cost of the war on terror and the war in Iraq may soon have a negative impact on the overall global aid budget (Woods, 2005). Together, these issues place the global development aid system at a crossroads in the twenty-first century.

In recent years, donors have agreed that aid would be more effective under conditions of greater cooperation with recipient governments, and that recipient governments should have more control over the distribution of aid. The emphasis on cooperation was expressed through the establishment of the Millennium Development Goals, in which donors and recipient governments agreed to tackle urgent global issues such as poverty, disease, illiteracy, and human security (Woods, 2005). There is also agreement among multilateral institutions such as the UN, the IMF, and the World Bank in making poverty reduction the top priority of the international agenda. Along with these changes, the UN also entered a partnership with the corporate sector with the hope that the UN would benefit from private sector expertise and improve diplomacy with countries in the South. An example of this joint effort is the creation of the Global Alliance for Vaccines and Immunization programme, through which vaccines are provided to children in the poorest countries. This programme has brought together various multilateral institutions and the private business sector, including the Bill and Melinda Gates Foundation, the Rockefeller Foundation, the International Federation of Pharmaceutical Manufacturers and Associations, the World Health Organisation (WHO), the United Nations Children's Fund (UNICEF), and the World Bank. Such alliances reflect increased involvement of the corporate sector in development and multilateral institutions (Therien & Pouliet, 2006). Other aid programmes, such as the

Global Fund to fight AIDS, Tuberculosis and Malaria built on radically different premises of what constitutes effective aid delivery, . . . are arguably incompatible with the aid system that preceded them. . . . [These changes] could reshape the 'system' considerably. (Rogerson et al., 2004, p. 1)

In addition to these new aid programmes, the International Financing Facility recently called for an increase in aid flows, which 'would be allocated from a single central point; this is of crucial importance for how the aid system adjusts to what could be a whole new "market" in its own right' (p. 1).

New wars and post-conflicts have had devastating effects on the lives of many people and pose new challenges to the provision of aid. Although during the Cold War foreign aid policies were closely aligned with donors' interests, donors are increasingly realising the interconnection between poverty and human security. This recognition has proved to be important in promoting further cooperation between governments. However, research demonstrates that this goal is not always easily achieved. Outbreaks of civil wars require immediate assistance from donors and aid agencies. Under these circumstances, local officials are often left out of decisions concerning the provision and distribution of aid (Woods, 2005). The exclusion of local officials further perpetuates recipients' dependence on donors and aid agencies.

Since 2002, attempts have been made to harmonise aid donors' practices in ways that will 'lower costs of transactions to recipient countries' (Rogerson et al., 2004, p. 10). In particular, some donors agreed to 'deliver aid as budget support rather than project or sector investment finance' (p. 10). This practice of aid provision is aimed at enhancing 'the quality of flexibility of aid' (p. 10). However, critics argue against the new practice, which they perceive as 'unwise, or at least premature. Because project funding is mostly fungible with domestic resources, the government can redeploy it to offset much of the narrower concentration the donors intended' (p. 10). Also, the majority of budget support projects 'have a very short time limit and are not closely tied to ultimate development outcomes. Aid flows overall are still more volatile than recipient country growth patterns, when they should be less' (p. 11). These criticisms raise important questions about the implications that current aid practices have on long-term development projects in recipient countries.

The leading international development aid agencies, such as CIDA, have made efforts to ensure that the goal of human security is achieved. These efforts include a shift in aid provision to developing countries. CIDA's (2008) mandate includes 'poverty reduction, democratic governance, private sector development, health, basic education, equality between women and men, and environmental sustainability' (What is Canada's Mandate? section). Accordingly, helping people in developing countries to meet their basic needs (i.e., shelter and food) has been CIDA's main goal. In recent years, concerns over global security altered Canada's aid policies. Between 2001 and 2004, about 28% of Canada's total new aid resources were allocated to countries that were considered political hotspots—such as Afghanistan and Iraq (Simpson & Tomlinson, 2006). It is clear that CIDA's decision to align its aid policies to the United Nations Secretary General's High Level Panel on Threats, Challenges and Change (HLPTCC) in 2004 represents a change in international aid focus from sustainable development to the promotion of donors' political interests (e.g., national security). Within the same year, Canada's first 'National Security Policy . . . proposed a role for development assistance in countering terrorism. [Thus] Canadian aid spending has been under corresponding pressures to conform to a security logic' (Simpson & Tomlinson, 2006, ¶ 6). In 2005, Canada joined other donors in the Organization for Economic Co-operation and Development (OECD) to narrow 'the criteria for what can be counted as ODA, particularly for military and security aspects of peace operations' (¶ 5). The shift in aid funding effectively undermined CIDA's and the Canadian government's previous commitment to eliminating worldwide poverty and raised important questions about their current priorities and practices in the provision and distribution of aid.

In addition to major donor countries such as the United States, Japan, and Canada, the European Union (EU) is often considered one of main aid providers in the world (Chowdhury & Garonna, 2007; Woods, 2005). Much of EU aid has been bilateral and multilateral. Each of the fifteen main EU member states has its own bilateral aid programmes and

positions on multilateral agencies (Woods, 2005). It should be noted here that bilateral aid programmes are designed by individual donor governments and therefore operate according to different and often competing interests and priorities. As a result, current EU aid policies are in a state of 'disarray, lacking political thrust, strategic purpose and institutional support. This has created perverse incentives inhibiting the innovation and boldness that is required to promote sustainable development and democratic governance in poor countries' (Chowdhury & Garonna, 2007, p. 8). Viewed within this context, the lack of coordination and cooperation among EU member states has detrimental effects on the delivery of effective aid. Donors need to reassess their priorities and goals and work together with governments of recipient countries toward reducing the number of poor people and improve their living conditions through long-term and sustainable development projects. Recent attempts have been made to improve coordination between donors. So far, efforts have been made by Canada, the Netherlands, Britain, and the United States to join together various diplomatic, military, and development initiatives in a more effective manner. Despite the change, the absence of recipient governments from discussions about restructuring the aid framework reflects the ongoing failure of donors to deliver effective aid (Woods, 2005).

5. The Politics of U.S. Development Aid

Given that aid is always a political instrument, U.S. aid has been and continues to be politicised. By focusing on forming an alliance with countries that are of strategic interest, the United States has failed to provide assistance to other poor countries such as Nepal.

Prior to the tragic events of September 2001, much of U.S. aid was aimed at achieving humanitarian development. Since 2001, the U.S. government has perceived global security to be under threat. In response to this new security threat, the United States sought to increase aid funding to projects that were designed to improve national and global security. For example, from 2002 to 2005 the United States spent approximately \$32 billion on projects in 'countries on the front line of Afghanistan, to build support for the war on Iraq or to fund reconstruction of Iraq and Afghanistan' (Woods, 2005, p. 397). This shift posed new challenges to aid organisations 'in responding to what they perceive as threats to aid's impartiality vs. the humanitarian imperative to respond without regard to politics' (Elwell, 2006, ¶ 2). Also, the decision to divert aid flows to strategically important countries raised questions about the U.S. government's priorities and commitment to humanitarian development. To qualify for U.S. aid funding, aid organisations such as NGOs are now required

to certify in their grant applications that proposed grant implementing partners, beneficiaries, and they themselves are not affiliated with terrorist organizations. Support to terrorist organizations or work in embargoed countries can result in sanction, liability, freezing assets, or termination of USG grant agreements. (Elwell, 2006, ¶ 3)

In 2005, USAID spent about \$887.5 million in 'counter-terrorism' projects; this number represented 'a nearly seven-fold increase over 2004' (Jones & Nikinson, 2006, Conflict, Security and Development in US Foreign Assistance section). Redirecting U.S. aid flow toward counter-terrorism projects effectively undermined the country's commitment to reduction of global poverty. Increased U.S. military spending on the counter-terrorism campaign 'can divert scarce financial resources and trained personnel from projects that could create wealth and benefit the poor' (Hillier, 2006, The Opportunity Cost of Arms Sales section). U.S. assistance to Iraq postwar reconstruction is considered the largest aid campaign since the Marshall Plan was introduced by the federal government during post-World War II. Part of U.S. aid to Afghanistan in 2004 was spent on the reconstruction of roads, water and power supply, and public infrastructures such as health facilities and government buildings, most of which had been destroyed by U.S. bombs in 2001 (Padilla & Tomlinson, 2006). Unequal global aid provision and distribution means that the United States as a donor country must re-examine its priorities in the provision and distribution of aid to ensure that other poor countries in need of aid, such as Nepal, are not left out.

Despite the technical advances and logistic improvements that have been made in the humanitarian sector, aid organisations are often hindered by political constraints. Because of the close connection between aid and politics, we cannot ignore the political aspect of the provision and distribution of humanitarian aid. Whereas charitable organisations have limited resources, state-financed development programmes have larger budgets. Issues of water and food shortages are often addressed by NGOs. Private donors are gaining less leverage in the development market as competition between states in development projects increases (Brunel, 2001). Seen in this light, the politicising of aid prevents the progress of human development.

The U.S. government's decision to cut back on aid funding has important implications for development programmes such as education, water supply, and sanitation in aid recipient countries such as Nepal (Woods, 2005). The ongoing competition and clash of donors' priorities endanger the provision and distribution of aid among recipient countries. Consequently, the international community is relegating poverty issues in poor countries such as Nepal to the back burner. In 2002, U.S. President George Bush introduced a plan for directing aid to countries that could prove

‘sound economic policies and good governance’ (p. 398). This new plan posed a challenge for those recipient countries that have not met U.S. requirements and that occupy the margins within the international aid framework.

When examining cases in South Asia, and specifically Nepal, we see that the shift in geopolitical interests among donor countries and international aid agencies has contributed to the widening of global socioeconomic disparity and inequalities. Whereas sustainable development used to be the long-term goal for various aid agencies, it is increasingly undermined by international development projects that promote freedom and security. The renewed interest in security established a new pattern of aid provision and distribution in which the majority of aid funding is being redirected to strategically important countries.

6. Nepal and Development Aid

Despite the rises in living standards that we have seen elsewhere in the region, Nepal is the only country in South Asia that has not seen any significant improvement in people’s living standards (South Asia Alliance for Poverty Education [SAAPE], 2003, 2006). Until the 1970s, Nepal was ‘a food exporting country. However, the situation began to change in early 1980s with a decline in food production relative the population growth’ (SAAPE, 2003, p. 137). In addition to the decline in food production, foreign aid to Nepal also dropped over the years. Consequently, a trend of poverty has emerged in the country. Approximately 40% of Nepal’s population experienced a drastic decrease in their total income over the last twenty years (SAAPE, 2003, 2006). The poverty rate is ‘much higher in rural areas (44%), where 90% of the population lives. In urban areas, the incidence [of poverty] is 23 percent’ (SAAPE, 2003, p. 131). As in other South Asian countries, poverty issues in Nepal are complex and multilayered. The widespread incidence of poverty in Nepal is connected to gender, socioeconomic, ethnic, and caste inequalities (SAAPE, 2003, 2006). In Nepal,

the *Dalits* who constitute around 16 percent of the total population do not have a single position of policy making status in the bureaucracy, army or police. . . . The only group that enjoys a position of privilege and power besides *Brahmin* and *Chhetris* is *Newar*, constituting around six percent of the total population. The *Newars* are predominantly the residents of Kathmandu valley. (SAAPE, 2003, p. 122)

Nepalese Dalits are often considered to be the poorest of the poor. The continued insurgency in Nepal has led to the destruction of the country’s infrastructures: roads, communications, schools, and hospitals (SAAPE, 2003, 2006). With an average life expectancy of 62 years, low literacy rates, and limited access to healthcare and food security, Nepal is considered one of the poorest countries in the world. Since the signing of the Colombo Plan in 1952, Nepal’s economy relied heavily on foreign aid resources. Over the years, foreign aid became an integral aspect of Nepal’s political and social landscapes, to the extent that ‘elections cannot be held without it, [and] the media depends on development agencies for sponsored awareness raising and advertising’ (SAAPE, 2003, p. 128).

Under these conditions, any cut to aid funding in Nepal has significant impacts on the lives of many Nepalese. The country’s former finance minister, Devendra Raj Pandey, argues that

the main agenda of the [Nepalese] government leaders is foreign aid, their doctrine . . . is foreign aid, and their daily activities are overwhelmed with foreign aid. . . . A bigger mystery is that none of us seem to know what to do with or without these foreign hands. To have to bear with all this is not development. (quoted in SAAPE, 2003, p. 128)

Pandey’s statement highlights the important roles that international aid plays in Nepal’s political development. Increased poverty ‘has robbed Nepal of its self-esteem and helped to create a general sense of helplessness’ (SAAPE, 2003, p. 131). Foreign aid is also seen as contributing to Nepal’s foreign debt; ‘it is estimated that more than half of the annual government revenue goes to foreign debt servicing today and each citizen, on average is calculated to owe more than US \$100 to foreign creditors’ (SAAPE, 2003, p. 128). The decision of Nepal’s government to divert foreign aid to debt repayment has thus exacerbated the widespread poverty throughout the country. In 2000, the country was considered

the recipient of the highest amount of foreign aid, as a percentage of gross national income (GNI) in South Asia. While other countries in the region have made significant progress towards reduction in dependency ratio to foreign assistance, Nepal has not. (SAAPE, 2003, p. 128)

Given the complexities involved in aid provision and distribution, it is not surprising that the Nepalese government’s efforts to generate employment and reduce poverty so far have failed.

Because trade accounts for a very small portion of Nepal’s GDP, donors do not regard the country as an important geopolitical strategic area. Increased instabilities in the country have further contributed to the decline in foreign aid (SAAPE, 2003, 2006). The UK Department for International Development (DFID), has cut its aid to Nepal from 47 million pounds in 2004 to less than 32 million pounds in 2006 (Timsina, 2006). DFID also threatened that it would cut more aid funding if there were ‘no sign of peace and democracy’ in Nepal soon (¶ 3). This action would accelerate the poverty rate in Nepal, thereby putting many lives at risk.

Since the 1950s, Nepal has been ruled by a series of political successions. The military coup led by King Mahadra in 1960 led to ‘a partyless Panchayat system that lasted till 1990’ (Siwakoti & Shrestha, 2006, ¶ 1). Despite the political changes, the Nepali government still fails ‘to implement progressive land reform and to eliminate class and caste-based discrimination’ (¶ 2). Since the 1990s, the increase in internal political conflict in Nepal led to the loss of many Nepalese lives and destruction to much of the country’s infrastructure (SAAPE, 2003, 2006). Recent reports of political corruption and human rights violations committed by Nepal’s Royal Army have become a major source of concern. For example, in 2002, the Nepalese government introduced the Terrorist and Disruptive Activities Act, which gave ‘security forces the power to arrest without a warrant and detain suspects in police custody for up to 90 days’ (SAAPE, 2006). According to Siwakoti and Shrestha (2006),

the Royal Army is interested in purchasing more and more arms and will not give away their hold on the army even after peace. [The Royal Army] have also become so corrupt that even the government officials have to pay them for special security from the Maoists. (Security Sector Reform in Nepal section)

As the conflict intensified, the majority of rural residents were forced to flee from the violence. Increased flows of migration, particularly from the countryside, led to a decrease in agricultural production (SAAPE, 2003, 2006). The mass movement from rural to urban areas thus reflects an increase in poverty rates among Nepalese.

During the 1980s, most U.S. aid development projects failed to ‘deliver development’ (Siwakoti & Shrestha, 2006, Military Aid to Nepal section). In response to the growing political influences of the Nepal Communist Party in the 1990s, ‘the US, the UK, Belgium, India and even China began to supply arms to the Royal Nepal Army (RNA) in the name of suppressing the Maoists’ (¶ 3). King Gyanendra, who came to power in 2003,

dissolved the elected government in October 4, 2004 with the support of the army. He assumed all executive power in February 1, 2005 and is now running the country despite the Supreme Court’s decision in February 13, 2006 that his rule is unconstitutional. . . . The US is supporting the Royal military openly and has condemned the agreements between the political parties and the Maoists for peaceful settlement of the existing crisis. (Siwakoti & Shrestha, 2006, ¶ 3)

The U.S. government also signed an agreement with Nepal in 2003, ‘for the establishment of an anti-terrorist assistance program and to further expand the intelligence network’ (Siwakoti & Shrestha, 2006, Military Aid to Nepal section). In the following year, the United States provided \$20 million in military aid to the government in an attempt to discourage peace negotiations between the government and the Nepali Communist Party, also known as the Maoists.

Critics of the provision of U.S. military aid in Nepal argue that ‘even if all the Maoists were killed, the basic problems of poverty elimination, democratization and social security will continue’ (Siwakoti & Shrestha, 2006, Military Aid to Nepal section). Furthermore, ‘pouring money for consultants and advocacy groups on conflict does not make any sense unless the Maoist-Government conflict is understood in Nepal’s social, cultural and political contexts and rather than treating it as terrorism’ (Misappropriation of Funds section). The U.S. ambassador, James F. Moriarty, criticised the establishment of the coalition between the seven-party alliance and the Maoists; he also

urged the King to urgently reach out to political parties, and asked the seven-party alliance to withdraw from its agreement with the Maoist rebels. . . . As a result of this US diatribe, the King has become even more brutal. His ministers are calling the political parties allied with the Maoists as terrorists (Siwakoti & Shrestha, 2006, Shift in International Concerns section).

Viewed within this context, the provision of U.S. arms and financial aid to Nepal contributed to the spread of sporadic violence throughout the country and thereby posed a major obstacle to restoring peace and security.

Unlike U.S. aid, Japan’s aid provision to Nepal has been concentrated mainly on

profit-making infrastructure projects. The main purposes of Japanese aid have been to pay for high-cost consultancy, to sell expensive equipment, and the return of most of its aid money through these schemes. Japan is less interested in actual poverty reduction strategies and programs. (Siwakoti & Shrestha, 2006, Military Aid to Nepal section).

Similarly, China and India gear their aid toward infrastructure projects. In addition, China and India provide arms aid to Nepal:

Although India’s support for the Royal military regime was reduced after the February 1 coup [in 2005], it has not stopped the arms supply even when there are protests from within and outside Nepal. . . .

[China] called for peace at the earliest. At the same time, however, China has been selling arms to Nepal and providing military assistance directly despite concerns from India and other countries. It was only in January 2006 when China for the first time expressed its serious concerns over recent political developments in Nepal. (Siwakoti & Shrestha, 2006, Nepal’s Immediate Neighbors section)

Research demonstrates that arm purchases have important effects on economic development in developing countries. The selling of arms to developing countries like Nepal was prevalent in the 1970s, when

arms sales to the developing world were financed by low-interest loans. When global interest rates rose in the 1970s and 1980s, a mountain of debt impoverished many developing countries. By 1994, it was estimated that one-fifth of the developing world's debt was due to arms imports. (Hillier, 2006, The Opportunity Cost of Arms Sales section)

Increased spending on arms reflects arms race escalations among developing countries:

Arms races in the context of developing countries can have severe consequences for government spending. Once locked into an arms race, arms purchases will not just be one-off occurrences: increasing national and regional government resources are poured into importing arms, resources that could have been spent in addressing critical development needs. (Hillier, 2006, The Opportunity Cost of Arms Sales section)

In recent years, increased provision of arms assistance by the United States and other donor countries to Nepal's Royal Army has fueled tensions among different political factions. Multilateral aid to Nepal from donor countries such as Britain, Finland, and Denmark has seen the biggest cut since 2001 (Timsina, 2006). Denmark, one of Nepal's top five bilateral donor countries, 'suspended preparation for a new integrated environment program of approximately US \$ 40 million' (Timsina, 2006, ¶ 8). In addition,

the Finnish Embassy in Kathmandu said it has frozen two rural water supply and sanitation projects worth 22 million euros. The funds for the project . . . have been diverted to the Office of the High Commissioner for Human Rights and the National Human Rights Commission, following escalation of human rights violations. (Timsina, 2006, ¶ 11)

Thus donors's competing interests resulted in failure to secure the basic necessities (such as food and shelter) for many Nepalese. Most often, donors fail to address the basic needs of the people that they intend to help.

Nepal's poverty rate from 1977 to 1996 has steadily increased at a rate of more than 3% annually (SAAPE, 2003). Recent decisions to reduce aid to Nepal effectively endanger food security for the majority of Nepalese. This situation calls for immediate interventions from the international community (see Table 1).

Former World Bank economist William Easterly criticised the recent decisions by donors to alter their aid spending (Dunning, 2004). Multilateral aid to Nepal from donor countries such as Britain, Finland, and Denmark has seen the biggest cuts since 2001 (Timsina, 2006). These donors defend their decision to cut aid to Nepal on the grounds that the Nepalese government is violating human rights. The decision to cut aid to Nepal clearly demonstrates how the provision of aid is mostly based on geopolitical selectivity. Failure to effectively address global poverty issues is in itself a violation of human rights. Poverty strips people of their dignity and self-worth and denies them opportunities for advancement (SAAPE, 2003, 2006).

7. Conclusion

As this paper demonstrates, current debates on global poverty reduction have renewed scholarly interest in foreign aid. The shifting geopolitical relations between North and South countries throughout the twentieth century reflect the realignment of Cold War and post-Cold War politics and ideologies. To comply with their political agendas, major aid donors (such as USAID, CIDA, and the EU) have clearly shifted their focus from humanitarian aid to political selectivity in the provision and distribution of aid. Recent concerns over national and global security have prompted donors and aid agencies to redirect aid funding to countries of strategic political interest. This shift needs to be challenged in order to address North-South inequalities and highlight the widening disparities among Southern countries. The shift in donors' commitments raises important questions about the purposes and effectiveness of aid provision and distribution in developing countries.

Through aid, donors need to demonstrate that it is in their states' interests to promote economic growth and sustainability in developing countries. The goal of development must be to improve and promote a sustainable and prospering economy and a healthy population. Unequal aid provision and distribution among Third World countries has contributed to regional instabilities, displacement of people, and widespread poverty.

The decline of aid to Nepal has contributed significantly to the widespread poverty in the country. This paper demonstrates that the provision of aid in Nepal has been and continues to be fraught with political corruption and inequalities. Therefore, any discussion of aid provision in Nepal must take into account the political dimension at the local, national, and global levels. This approach will add further complexities to the analysis of geopolitical decisions involved in the provision and distribution of aid in Nepal within the context of the global aid system.

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Table 1. Aid provision in South Asia

	Total Overseas Development Aid (Millions of US dollars)		
	1980	1990	2001
Bangladesh	1282	2103	1023.9
India	2147	1586	1705.4
Nepal	163	429	388.1
Pakistan	1130	1152	1938.2
Sri Lanka	390	665	330.2

Adapted from "Aid, Governance and Ownership," by R. Sobhan, 2004, *South Asian Journal* (4) [Online] Available: http://www.southasianmedia.net/Magazine/Journal/aid_ownership.htm (September 14, 2008), Table 1.