

**THE ROLE OF FOREIGN AID IN THE ECONOMIC
DEVELOPMENT OF NEPAL
WITH SPECIAL REFERENCE TO USAID**

A Thesis

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By

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LETTER OF RECOMMENDATION

This thesis entitled **The Role of Foreign Aid in the Economic Development of Nepal with special reference to USAID** has been prepared by M/S Rita Basnet under my supervision and guidance in partial fulfillment of the requirements for the Degree of Master of Arts in Economics for evaluation and acceptance.

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APPROVAL LETTER

We certify that this entitled **The Role of Foreign Aid in the Economic Development of Nepal with special reference to USAID** submitted by **M/S Rita Basnet** to the Central Department of Economics, Faculty of Humanities and Social sciences, Tribhuvan University, in partial fulfillment of the requirements for the degree of **MASTER of ARTS in ECONOMICS** has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

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TABLE OF CONTENTS

LETTER OF RECOMMENDATION

APPROVAL LETTER

ACKNOWLEDGEMENTS

LIST OF TABLES.....i

LIST OF FIGURES.....ii

ACRONYMS AND ABBREVIATION.....ii

CHAPTER-1 INTRODUCTION..... 10

1.1 General Background..... 10

1.2 Statement of the Problem 13

1.3 Objectives of the Study..... 15

1.4 Significance of the Study..... 16

1.5 Limitations of the Study 17

1.6 Organization of the study 17

CHAPTER-2 LITERATURE REVIEW..... 18

2.1 Introduction 18

2.2 International Review 18

2.3 National Review 21

2.4 Research Gap..... 24

CHAPTER-3 RESEARCH METHODOLOGY..... 25

3.1 Research Design 25

3.2 Nature and Sources of Data..... 25

3.3 Selection of the Study Period 25

3.4 Procedures of Data Collection..... 26

3.5 Statistical Tools for Analysis..... 26

3.6 Hypothesis of the Study..... 27

3.7 Statistical Test of Significance 27

| | |
|---|-----------|
| CHAPTER – 4 FOREIGN AID IN NEPAL | 30 |
| 4.1 Introduction..... | 30 |
| 4.2 Trend and Magnitude of Foreign Aid in Nepal..... | 32 |
| 4.3 Components of foreign Aid (Grants verses Loan) | 33 |
| 4.4 Sources of Foreign Aid | 35 |
| 4.5 Foreign Aid Commitments and Disbursements | 36 |
| 4.6 Foreign Aid Disbursement by the Sectors..... | 39 |
| 4.7 Resource Gap and Need for Aid | 40 |
| 4.8 Share of Foreign Aid on GDP and Government Expenditure..... | 42 |
| 4.9 Foreign Aid on GDP: An Empirical Analysis..... | 44 |
| CHAPTER -5 USAID IN NEPAL..... | 46 |
| 5.1 Introduction | 46 |
| 5.2 Objectives of USAID to Nepal..... | 48 |
| 5.3 Total Magnitude of USAID to Nepal. | 49 |
| 5.4 Trends and Pattern of USAID | 50 |
| 5.5 Sectoral Analysis of USAID in Nepal..... | 52 |
| 5.6 USAID to Nepal in Different Sectors..... | 55 |
| 5.7 Strategies and programs of US Agencies after 2000..... | 65 |
| 5.8 Program Summary of USAID to Nepal in 2011..... | 70 |
| CHAPTER-6 SUMMARY, CONCLUSION AND RECOMMENDATIONS | 73 |
| 6.1 Summary | 73 |
| 6.2 Conclusion..... | 76 |
| 6.3 Recommendations | 79 |
| APPENDICES | 81 |
| REFERENCES..... | 93 |

LIST OF TABLES

| Table No. | Title | Page No |
|------------------|--|----------------|
| Table 4.1 | Aid Inflow in Nepal | 23 |
| Table 4.2 | Components of Foreign Aid (Grant versus Loan) | 24 |
| Table 4.3 | Trend of Bilateral and Multilateral Aid | 26 |
| Table 4.4 | Foreign Aid commitments and Disbursements | 28 |
| Table 4.5 | Sectorial Allocation of Foreign Aid | 30 |
| Table 4.6 | Resource Gap Situation in Nepal | 32 |
| Table 4.7 | Share of Foreign Aid on GDP and Government Expenditure | 34 |
| Table 5.1 | Total Magnitude of USAID to Nepal | 41 |
| Table 5.2 | Trend and Pattern of USAID to Nepal | 42 |
| Table 5.4 | Sector-wise distribution of USAID to Nepal (FY 1991-FY 2002) | 45 |
| Table 5.5 | Sector-wise distribution of USAID to Nepal (2006 and 2007) | 45 |

LIST OF FIGURES

| Figure No. | Title | Page No. |
|-------------------|--|-----------------|
| Figure 4.2 | Aid Inflow in Nepal | 25 |
| Figure 4.3 | Trend of Bilateral and Multilateral Aid | 27 |
| Figure 4.4 | Foreign Aid Commitments and Disbursements | 29 |
| Figure 4.5 | Resource Gap Situation in Nepal | 33 |
| Figure 5.1 | USAID Inflow in Nepal | 42 |
| Figure 5.2 | Sector-wise Distribution of USAID | 44 |
| Figure 5.3 | Sector-wise Allocation of USAID to Nepal (2009 and 2010) | 46 |

ACRONYMS AND ABBREVIATIONS

| | |
|--------|--|
| ADB | Asian Development Bank |
| CBS | Central Bureau of Statistics |
| DOA | Department of Agriculture |
| DANIDA | Danish International Development Association |
| GTZ | German Agency for Technical Co-operation |
| EU | European Union |
| FY | Fiscal Year |
| GON | Government of Nepal |
| GDP | Gross Domestic Products |
| IAAS | Institute of Agriculture and Animal Science |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association for the World bank |
| ILO | International Labor Organization |
| IMF | International Monetary Fund |
| JICA | Japan International Co-operation Agency |
| LDC | Least Developed Country |
| LIC | Low Income Country |
| MOF | Ministry of Finance |
| NAG | Nepal Aid Group |
| NDF | Nepal Development Forum |
| NGDO | Non-Governmental Development Organization |
| NIDC | National Industrial Development Corporation |
| NPC | National Planning Commission |
| NRB | Nepal Rastra Bank |
| ODA | Official Development Assistance |
| OECD | Organization of Economic Co-operation and Development |
| OPEC | Organization of Petroleum Exporting Countries |
| UDCs | Under Developed Countries |
| UK | United Kingdom |
| UN | United Nations |
| UNDP | United Nations Development Program |
| UNICEF | United Nations Children's Fund |
| USA | United States of America |
| USAID | United States Agency for International Development |
| WB | World Bank |
| WHO | World Health Organization |
| WHR | Western Hills Road |
| \$ | US Dollar |

CHAPTER-1

INTRODUCTION

1.1 General Background

Nepal is a sovereign Himalayan Republic country situated in north of south Asia. It is covered by 147,181 sq.km which extends to an east west direction and forming a narrow rectangular shape. It lies between new economic emerging nations i.e. China and India. Nepal is one of the least developed countries in with low per capita income i.e. \$561 in 2010, (MOF, 2010/11). For developing countries like Nepal, only the internal finance cannot meet the required investment for the targeted economic growth. Thus the only way to meet required target of economic growth as well as to pull the economy out of the vicious circle of poverty is to resort foreign aid.

The term foreign aid is defined in the economic dictionary as the administered transfer of resource from the advance countries for the purpose of encouraging economic growth in the developing countries. It is generally used to refer to the normal value of direct and indirect flow of finance and other resources from government of rich countries and multilateral institution to those of poor Countries. The resources can be transferred in various forms such as financial, technical, commodities and human capital.

Nepal, being a developing country, gets foreign aid from different countries and international agencies .Before 1951, foreign aid was unknown factor for Nepal. When Nepal opened its border to the outsiders in 1951, the searched for development assistances from external sources. Foreign aid appears to have played a loan able role in as much as it has inspired successive governments in Nepal to demonstrate their commitment to development. Even if the desire of the people to have better living standard has a product of endogenous stimuli, everything else from the objective of development to the strategy, policies and projects are destined to be influenced by

foreign aid. Channeling of the fund was not significant until the beginning of Nepal's first plan in 1956. Since, the foreign aid from various sources has been meeting a large proportion of the cost of Nepal's development program. (Poudyal, 1983:57-59).

The history of foreign aid in Nepal dates back in 1968 BS, when the "Pharping Hydro-electricity Project" was established. This assistance was provided by British Government. But there is also another view that, the first foreign aid was India for the construction of "Railway" from Amlekhgunj to Rakshaul of India in 1958 B.S. But in formal or official term Nepal received first foreign aid under "Point Four Programme" on 23rd January, 1951 A.D. with the government of America (USA). Before 1956 India gave Rs.7 crores and America had given Rs. 3 crores of foreign aid to Nepal. One of the most underdeveloped countries in the world Nepal received substantial amount of foreign aid in the last six decades. It has received various kinds of economic assistance from all donors irrespective of their political system and ideologies. As, its per capita income is one of the lowest in the world, even if resources effectively mobilized and directed to productive investment, required level of development may not be substantially achieved. An additional foreign capital can be most beneficial with the combined utilization of domestic and external financial resources results in a high rate of investment. (Sharma, 2003 : 85).

In recent years, most of the prime sectors of the economy are receiving foreign aid, and almost in every sector several bilateral as well as multilateral donors are involved. The Nepal Aid Group, now Nepal Development Forum includes countries like Australia, Canada, France, UK, USA, Switzerland, Japan and international agencies such as ADB, IDA, IMF and UNDP. Other major donors for Nepal are China and India. Upto 1961/62 foreign loans started to enter the country. It has been founded that the overwhelming proportion of loans comes from the multilateral agencies and also from IDA and ADB (Paudyal, 1988: 22).

Nepal has been receiving foreign aid from different ways. Nepal has been getting foreign aid from two types of donors- (i) Bilateral and (ii) Multilateral. Countries such as Australia, Canada, France, UK, USA, Switzerland, Japan, USAID, GTZ, SDC of Switzerland, DFID of UK, JICA of Japan, and FINIDA of Finland etc. lie under

bilateral donors and aid received from the multilateral organizations established by more than two countries such as WB, IMF, IDA, ADB, UNDP, UNICEF, WHO, OPEC, FAO, and UNESCO etc. lie under multilateral aid. Foreign aid has two forms – (i) Grant and (ii) Loan. The aid which is obtained in terms of not returning back is known as grant whereas loan is obtained on the condition of returning back with interest. The financial assistance takes the form of either grant or loan. Grant are generally gifts which do not have repayment liability therefore it should be used in the projects with long gestation period such as social services. Loans are three types according to the period of maturity -1) Long Term Loan, 2) Mid-Term Loan and 3) Short Term Loan . Foreign aid is classified into various forms on the basis of its nature, terms condition and source. Foreign aid from the point of view of its nature is broadly classified as i) capital aid, ii) commodity aid and iii) technical aid. Capital aid refers to the provision of capital such as balance of payments support. Commodity aid usually takes the forms of transfer of surplus products of the donors to the recipient countries and the technical assistance involves the training of the recipient's countries and the provision of skilled foreign personal experts to carry out the required development takes in the recipient country. (Dahal, 2004).

It is founded that foreign aid has been playing a vital role in the economic development of developing countries like Nepal. After the rise of democracy in 1951, democratic practice along with development and construction also started in Nepal. Up to thirteenth intermediate plan, foreign aid has important contribution in the economic development of field such as road, communication, irrigation, education, agriculture, health, hydroelectricity, drinking water, etc. The first five year plan was entirely financed by foreign aid, as the development expenditure and foreign aid received during the plan both amount to Rs.382.9 million. Foreign aid as percentage as development expenditure which was 100 percent for the first plan declined over a short period of next fifteenth years, but still remained high. The share of amount during second to eleventh plan period was 77.5 percent, 56.1 percent, 45.0 percent, 48.1 percent, 61.0 percent, 49.6 percent, 44.0 percent, 51.8 percent, 57.7 percent and 50.2 percent respectively. (Various economic plans).

Foreign aid helped to increase production and productivity to expand the development works and to find out suitable technologies. The final aim of foreign aid is to accelerate the development activities and try to make the country self-standing. There is such condition that generates expenditure is increasing and as a result internal resources are not sufficient to fulfill that increasing level of expenditure. That is why foreign aid is necessary for supporting development expenditure. But to archive the goal of foreign aid, it must be used properly and transparently. Otherwise there may raise great problems like inflation in the economy.

If fact, donors have their own policies, priorities and strategies regarding aid disbursement and utilization. Therefore, developing countries like Nepal need to have a clear policy, priorities and strategies on foreign aid. The government of recipient's country must focus all its attention on certain priority areas. Well as financial and technical assistance. Those countries which are called developed these days were also received technical assistance. Without foreign aid, major problems such as huge amount of saving-investment gap, mass poverty, lack of capital formation of developing countries can't be introduced.

Hence, foreign aid is the necessary component for the economic development of developing countries like Nepal, domestic resources are inadequate to meet the financial requirement of economic development. The present level of capital formation of Nepal is too low and any substantial increase in saving is not possible due to extremely low level of income and wide spread poverty. At this situation, foreign aid is advantageous for the acceleration of growth mechanism it is a supplement to poor domestic saving less and backward economies.

1.2 Statement of the Problem

The Per capita income of a single Nepali is US\$ 561 (MOF, 2010/11). Agriculture is the main occupation of Nepali people. The share of agriculture in Nepalese economy is about 34.7 percent in the GDP whereas the engagement of more than 80 percent people

in the rural area of Nepal. The contribution of industrial sector to GDP is about 20 percent with the full time engagement which covers 6 percent economically active population in manufacturing sector.

Developing countries in the world, including Nepal, are moving around the vicious circle of poverty. Still more than 25 percent people of Nepal are under the absolute poverty line, according to the government record. But, the real situation is different. In reality, more than 50 percent people are under the absolute poverty line. The growth rate of Nepal is around 4.7 percent of real GDP. Every year, there is high gap in our budget. It means our budget is called deficit budget. There is higher expenditure than revenue, due to the high growth rate of population, lack of capital, technology and skilled manpower; there is high saving – investment gap in Nepal. In this situation, foreign aid is only way to fulfill this types of gap country profile, (MOF 2010/2011).

Underdeveloped infrastructures, lack of good governance adverse geographical structure, political instability lack of proper education, and traditional farming are the major hurdles in the economic development of Nepal. The most serious of these constraints is the political, i.e. lack of grassroots level of political institutions, lack of responsible government, and over- centralization of political and economic powers, heavy bureaucratization and lack of political priority to development works (Khadka, 1991:55). This country is receiving foreign aid especially for the development of agriculture, industry, education, infrastructure etc. But the problem is that the foreign aid has not been fully utilized in these sectors which may be due to inefficiency of administration, non- availability of suitable contractors, resulting delays in the implementation of projects etc. Hence large amount of foreign assistance is driven back to the donor countries. It seems to be a controversy that on the one hand, the disbursement of foreign aid has been increasing steadily, while on the other hand: Nepal has been facing a problem of under spending at the time. Although aid in Nepal is used for the construction of various projects, sometimes the donors are using aid as an instrument mostly to serve their own interest rather than giving benefit to Nepal.

There is no doubt that foreign aid has been playing crucial role for economic process, if foreign aid has been used properly, transparently, co-coordinately with the full co-

operation of the people of targeted group. But there are many problems in effective use of foreign aid by developing countries like Nepal. They are weak institutional system, political stability, rapid growth of population, mass poverty, illiteracy etc. The system of foreign aid is deviating from its track. The donor countries and donor agencies have used their aid for fulfillment of their vested interest though various conditionality's. Likewise, they are provided loans, not on the interest of particular communities but on the interest of themselves. It is argued that large amount of foreign follows back to donors in the form of compensation to the expatriate consultant and imports of equipment and large portion of aid is siphoned by the bureaucrats, projects staff and political leaders, before it reaches to the targeted groups. On the other hand, commitment disbursement gap is also wide and donors lobby to appoint incompetent personnel to work in developing countries as experts. So for successful implementation of aid-financed projects such weaknesses have to be addressed. Hence, the study has been carried out to as an attempt to solve the following questions:

1. What is the role of USAID in Nepalese economy?
2. What is the trend and pattern of USAID to Nepal?
3. Has the USAID been used in the desired sector?

1.3 Objectives of the Study

The major objective of this study analyze the overall trend, structure and impact of the foreign aid in Nepal. The specific objectives of this study is given below:

- ❖ To study the role of USAID on the Nepalese economy.
- ❖ To study the trend and pattern of USAID in Nepal.
- ❖ To present the analysis of sectorial allocation of USAID in Nepal.

1.4 Significance of the Study

Nepal, a land-locked country, is blessed yam between Asia's two strong stones, China and India. Being supplied to a developing country, foreign aid plays an important role in the development Nepalese economy. We have very low saving and investment rate within the countries. Hence, to fulfill the saving- investment gap and to pull the economy out of vicious circle of poverty, foreign assistance seems obvious necessity.

Foreign aid has significant role in the development of different sectors of the economy. Nepal has been receiving aid in terms of grant, loan, technical aid, training service, scholarship etc. For financial resource deficient country the rapid economic growth and achievement of required growth rate is difficult without foreign assistance. Foreign aid plays a vital role in economic development, but it has not been fully utilized.

The study of foreign aid provides the idea about aid, being provided by foreign countries for various development works and infrastructure building. This study may help for the researcher, planners and others to decide whether to bring in more aid or reduce dependences on it.

Nepal had received the first bilateral aid from US under the point four program on 23rd January 1951. The trend of foreign aid to Nepal started from US then followed by other countries and multilateral agencies. Aid received by Nepal from US covers many sectors of the country's economy.

Hence this study analyzes the trend and pattern of foreign aid with reference to USAID in Nepal. Thus, the study of foreign aid provides a clear- cut vision about aid pattern and utilization of received aids by least developed country like Nepal, which further may provide guidelines to correct weaknesses made previously in this respect. Such studies provides knowledge of other required information to people or authorities who are interested in the study of foreign aid situation and its impact in Nepal.

1.5 Limitations of the Study

Although the impact of foreign aid on economic development of developing nations covers a wide range. This study has the following limitations:

- ❖ In this study, secondary data have been only used.
- ❖ This study is limited to identify the role of foreign aid in the economic development of Nepal with special reference to USAID from 1980-2010.

1.6 Organization of the study

This study is divided into six chapters. The chapter one is concerned with introduction, it consists the general background, statement of the problem, objectives of the study, significant of the study and limitations of the study. The chapter two concerns on the literature review. The chapter three deals with research methodology. The chapter four concerns with foreign aid in Nepal. The fifth chapter has discussed on the USAID in Nepal. Finally, conclusion and recommendations are given in chapter sixth.

CHAPTER-2

LITERATURE REVIEW

2.1 Introduction

Foreign aid is the transfer of capital and technologies from developed and advanced countries in the world to the underdeveloped countries in term of loan or grant on occasional scale. The important of the foreign aid is considered after the Second World War and with marshal plan.

Nepalese economy has undergone many changes since 1951, when Nepal received foreign aid for the first time. The donor is United State of America. In the context of foreign aid in Nepal several books, booklets, journals, research, articles have been written by Nepalese as well as foreigner, beside these the students of economics have submitted thesis referring to foreign aid. Hence, to complete this research work researcher tries to study maximum available dissertations on its topics.

2.2 International Review

Microsoft Encarta Reference Library DVD, (2005) Foreign aid can take many forms, including money, goods, services, and technical expertise. Foreign aid can be bilateral, which means it is given by one country to another. It can also be multilateral—that is, given by a group of countries. The term foreign aid is also sometimes used to describe assistance given to a country by a private organization in another country.

Microsoft Encarta Reference Library, (2005) The United States has been the largest contributor of foreign aid in the world since World War II ended in 1945. The United States gives many different types of bilateral foreign aid. It directs aid primarily to

developing countries through projects aimed at agricultural and rural improvements, health care, population planning, child survival assistance, and business enterprise, among other activities. Such aid goes mainly to developing countries.

Nepal has received foreign aid for its development projects and programs in the form of technical and financial assistances from different bilateral and multilateral sources. India, china, UK, German, Japan, USA, are major donor under the bilateral sources. The UN, World Bank, UNDP, ADB are under the multilateral source.

Rodan (1961) argued that the purpose of an international program of aid to underdeveloped countries is to accelerate their economic development up to a point where a satisfactory rate of growth can be achieved on self-sustaining basis. Researcher also includes technical assistance as part of aid, although it is not a normal capital inflow, because it is a form of transfer of skills, which can result in economic growth.

Acharya (2003) emphasized on economic development, reveals the foreign policy of small developing countries such as Nepal must have, besides others, the following two main objectives: national security, and promotion of its social and economic development. It may also constitute the two main elements of foreign policies of the developed, more powerful and greater nations as well. But in case of poorer and less developed countries vulnerable to internal and external pressure, the need to meet those two objectives is most urgent.

Mihaly (1965), has given descriptive facts about affairs and political condition of Nepal. Mihaly has attracted unusual attention from aid donors. Nepal received aid from so many sources; from the beginning until today they are mainly the USA, India, China, USSR, Israel, Switzerland, West Germany, Japan, Australia, etc.

The researcher further showed that India and Chinese Aid conflicted in purpose. India gave a greater urgency to implement the economic aid program after the political charge of Nepal to exclude Chinese influence from Nepal. According to him, in minor aid program, few of them are successful to fulfill their indicated aim; but in aggregate, they created serious problems in Nepal. At last, researcher has shown two types of foreign aid in Nepal: Short - project didn't increase political consciousness as hoped by donors.

In long term impact, he says that aid not only failed to attribute a significant boost of Nepal's economy, but also it might even have made growth more difficult to achieve.

The report, "INGO Cooperation in Nepal and US Agencies for International Development" has introduced Nepal is one of the poorest country having rapid population growth rate and degrading environment. In addition according to this report US assistance is already providing during the half of 20th century to Nepal for the infrastructure development and socio economic development.”

Gurugharana (1992) has highlighted an overview of foreign assistance in Nepal with plan wise, foreign aid as percentage of development expenditure and international comparison of per capita aid. Besides these, researcher has briefly gone through review of major bilateral donor's assistance, multilateral assistance and its overall positive and negative impacts in Nepalese economy.

According to Gurugharana Nepal is receiving substantial amount of aid since the collapse of Rana regime in 1951, many bilateral and multilateral donors keenly taken interest for investing in Nepal. There are some factors such as geo- economic as well as non-aligned and friendly relation with all countries caused substantial aid inflow in Nepal. Some donors are provided aid purely on humanitarian basis, while others assisting us just to fulfill their vested motives. While taken consideration the multilateral aid, they are provided loans aid in concessional term for infrastructure development of Nepal in various fields.

Once again plunging into the general definition an exact from Upreti, (1998) in “Dynamics of foreign aid” stating Milton Friedman expressed that foreign aid consists of grants or loans from one government to another government for economic development. Then after, researcher added that foreign aid consists of with or without concession rates of interest.

2.3 National Review

In the case of Nepal at present, Foreign aid is therefore, viewed as a concept which refers to the flow of capital and technical resources either directly from the government of a donor country or through multilateral channels to the government of Nepal. Multilateral and bilateral aid include all assistances either they are tied or not and technical or financial.

There is no hard and fast rule regarding the principle of foreign aid. It differ from country to country, from time to time and according to geo – political location and country's need. The need of least develop countries like Nepal are different. Political and economic compulsions are equally important factors to determine the aid.

USAID Office Record (2011) shows the U.S government, through the U.S Agency for International Development (USAID), recently amended its five – year agreement with the Government of Nepal to increase the total expected amount of the agreement by \$111.5 million. This brings the U.S Government's total five –year (2009-2014) development assistance in Nepal to \$316.5 million. The funding provided for 2010 alone is \$47.7 million.

Other on-going USAID programs in Nepal: supports the peace process; strengthen democratic institution and processes; improve governance and rule of law; provides training and education for youth employment; support early childhood education; fight trafficking in persons; provides sustainable, accessible, and quality basic health services; and enhance competitiveness in targeted economic sub- sectors and promote inclusive economic growth. The Government of the United States of America for this assistance and also for their continued interest and support in the socio-economic development of Nepal.

Forum (2000) has inked several issues under the topics “INGO co-operation in Nepal”. Likewise, US Agency for International Development in its briefing has introduced Nepal as one of the poorest country having rapid growth rates of population and

degrading environment but the agency appreciated Nepal's political scenario after free election system was restored a decade ago.

US assistance is already provided during the second half of the last century to Nepal for its infrastructure development and for accelerating transition to market economy. The current focus of the US assistance is project concerning agriculture, family planning, women empowerment and hydroelectricity project etc. The US interest in Nepal is attributed to strengthen of democracy, human rights, peace and stability as instrument to facilitate US-Nepal partnership on global issues.

Tripathi (2011) addressed that under developed in fracture, lack of good governance, political instability, lack of proper technical education etc. are the major hurdles in economic development. It suffers from serious resource gap problem. Foreign aid can play an important role to fulfill the development plans' outlay and to narrow the resource gap problem in Nepal. If foreign aid is utilized properly, it can play a vital role in the overall development efforts of country.

Aryal (1978) has kept the objective of assessing the magnitude of foreign aid in Nepal and to give the historical analysis of Chinese aid in Nepal from 1959/60 to 1976/77 and also to assess the role of Chinese aid in Nepal. Aryal finding has focused on foreign aid is affecting the economic development of Nepal and also recommends that foreign aid should depend on the absorptive capacity of recipient country. In researcher's view aid recipient country should suggest appropriate projects to the donors, which will be beneficial for the rapid development of the country.

Nepal (2000) concluded that foreign aid inflow to Nepal has been increasing from bilateral as well multilateral agencies in the form of grant, loan and technical assistance. Researcher further states, "Japan has been aiding to Nepal in different fields in a friendly manner since 1954. Upto 1975, Japanese assistance was not regular. Only after 1975, grant assistance is increasing in a regular manner. The volume of Japanese assistance sharply increased from 1980 and now Japan become the biggest supporting country to Nepal"

Bajracharya (1990) addressed that during King Mahendra's rule in Nepal, Nepal-India relationship was given new orientation with perfect understanding between HMG and the government of India. During this period the India assistance to Nepal had been both fruitful and meaningful. Under tripartite agreements between Nepal, India and the USA, Nepal received substantial assistance from India and USA.

Phulara (1974 AD) showed that Indian aid has provided substantial assistance for the development of Nepalese economy at the best of her capacity. Since beginning 1951, India extended support to many areas of economic development. Researcher further states the economic assistance from India in different sectors of Nepalese economy has taken 38 percent of the total assistance to Nepal since 1951 up to 1972. In the context of Indian aid to Nepal, his thesis reveals historical background and gives the early stage of Indo – Nepal co-operation. It might be affected by various political charges in Nepal since 1972 up to now which is not addressed by this thesis.

Gurung (2006) showed that since 1951 Nepal has enjoyed foreign aid. In the early stage of foreign aid to Nepal there seems to have competition between socialistic and capitalistic country for providing aid. There has been many fold increase in the quantum of aid flow to Nepal in comparison to early stages. During this period, there have been some improvements in the various sectors of Nepalese economy. It is hard to get only one sector, in which foreign aid has not been utilized. Nepal's various periodic plans absorbed the large volume for foreign aid. The development expenditure in each plan period was heavily financed by foreign aid as between 47 percent. And 76 percent. In this thesis, the main objective is to analyze the contribution of Indian aid in the Nepalese economy and uses secondary data from FY1984/85 up to 2004/05.

Similarly, Poudel (1980) concluded that India has been a pioneer and continues to be the foremost in the field of assistance to Nepal in initiating and accelerating the process of her economic development. Researcher includes the Indian aid to Nepal since initial stage of cooperation up to 1979/80. After 1979/80, many economic activities have been held under India-Nepal cooperation. These are still under the shadow.

In the context of foreign aid several publication are published in different forms like books, bookplates, articles and journals and it is not found that foreign aid from

different countries to Nepal is made in different sectors. Some available prior studies, in this area were concerned to the share of foreign aid on development plans. Many available prior studies were concerned to foreign aid in Nepal with special reference to some another countries. The present study is concerned with the trend and pattern of foreign aid with special reference to USAID to Nepal. This study is concerned with the impact of foreign aid in GDP in Nepal. In this regard, this study is different from other available studies related to foreign aid to Nepal.

2.4 Research Gap

There has been conducted several studies on foreign aid in Nepal. These studies are different from one another. Each of these studies are analyzing particular country's aid to Nepal and its impact on national economy. They are analyzing the impact of foreign aid on different sectors. But this study has focused on sectoral allocation of the USAID in Nepal. Similarly, this research studies the trend and pattern of USAID in Nepal.

CHAPTER-3

RESEARCH METHODOLOGY

3.1 Research Design

Research methodology is a way to have a systematic guidance for conducting research. It refers to the various steps to be adopted by researcher in studying the problem with certain objectives. Descriptive, analytical and explanatory research design is used to gain insight about the foreign aid situation in Nepal. It is based on facts and interpretations of information gathered in relation to the problem under consideration.

3.2 Nature and Sources of Data

The research study is descriptive as well as analytical in nature. Secondary data are handled to reach on the conclusions. Time- series data are taken to analyze the trend of assistance as well as to compute some important statistical indicators. Data are taken from officially published materials like books, journals, reports, papers, and so on. Such materials include the publication of Ministry of Finance, Central Bureau of Statistics, World Bank, Nepal Rastra Bank, National Planning Commission, The USAID office Kathmandu and different website.

3.3 Selection of the Study Period

To meet the objective of effectiveness of foreign aid in Nepal the study covers thirty years' time span from FY 1980 to 2010. The analysis of foreign aid and its contribution on Nepalese economy is shown through regression analysis. The study also focuses on foreign aid and its impact on GDP.

3.4 Procedures of Data Collection

Data analysis is the heart of the study that furnished the derivation of conclusions. After collecting the data from different sources and taking sample, these are systematically arranged and tabulated according to the need of the research content. Charts, diagrams and tabulated tables are drawn as per the requirement of the study. Data are presented in percentage when required. For Regression analysis, SPSS computer software program and MS Excel are used. The programs are also for the calculation of different statistical tests as well.

3.5 Statistical Tools for Analysis

In order to make an empirical analysis, simple regression model and log-linear forms have been used.

a) Simple Regression Analysis

There are two types of variables in simple regression analysis i.e., dependent variable and independent variable. The variable which is used to predict the variable of interest is called the independent or explanatory variable. In addition, the variable whose value is to predict is called the dependent variable or explained variable. Gross domestic product in time period t is supposed to be a function of foreign aid in flow in Nepal. Hence GDP will be dependent variable and foreign aid will be an independent variable. Model can be explained as:

$$GDP_t = a_0 + bFA_t$$

Where,

GDP_t = Gross Domestic product at time t .

FA_t = Foreign aid inflow at time t

a_0 and b are parameters of foreign aid

b) Log linear model:

Log linear model depicts the percentages change in dependent variable caused by one percentage change in independent variable. Model can be written as:

$$\ln \text{GDP}_t = \ln a_0 + b \ln \text{FA}_t$$

Where,

\ln = Natural Logarithm

GDP_t = Gross Domestic Product at time t

FA_t = Foreign aid inflow at time t

a_0 and b are regression parameters.

3.6 Hypothesis of the Study

Null hypothesis: H_0 a: There is no significant relationship between foreign aid and GDP in Nepal, i.e. $b = 0$

Alternative Hypothesis: H_{1a} : There is significant relationship between foreign aid and GDP growth in Nepal, i.e. $b \neq 0$

3.7 Statistical Test of Significance

a. Coefficient of Determination (R^2)

Coefficient of determination explains how good is the fit of the estimated regression line to the sample observation of dependent variables and independent variables. Therefore, it is the measurement of the dispersion of observations around the regression line. R^2 shows the percentage of the total variation of explained variables that can be

explained by the explanatory variables of the multiple determinations and is the square of the correlation coefficient. The formula to derive R is mentioned below:

$$R^2 = \frac{a_1 \sum yx_1 + a_2 \sum yx_2 + \dots + a_n \sum yx_n}{\sum y^2}$$

Where, $y = Y - \bar{Y}$

$x = X - \bar{X}$

b) It is applied for judging the statistical reliability of the estimates of the regression coefficient. t- test, F-test and DW- test are implemented to test the hypothesis in the study.

- **t-test**

This test is applied to identify the statistical significance of the observed sample regression coefficient. The formula for deriving the value of t-test is given below:

$$t = \frac{a^i}{SE(a^i)}$$

Where, a^i = estimated value of a_i

$SE(a^i)$ standard error of $a_i = \sqrt{\text{var}(a_i)}$

The calculated t values have been compared with critical or tabulated t-values at the certain level of significance for a given degree of freedom. If the calculated values of t-statistic exceeds the tabulated value, it implies that the best fit of parameter in the model.

- **F-test**

F- test is used to examine the overall significance of the model. The formula for calculating F – test is:

$$F = \frac{R^2 / K - 1}{1 - R^2 / N - K}$$

Where,

R^2 = Coefficient of determination

K = Number of explanatory variables

N = Number of Observation in the sample

The calculated value of F- statistic compared with tabulated value at the specific level of significance with (k-1) and (n- k) degree of freedom.

If $F_{cal} < F_{tab}$, we accept the null hypothesis.

If $F_{cal} > F_{tab}$, we reject the null hypothesis

- **Durbin-Weston (DW-test)**

D- W Test is defined as test for serially correlated (or auto correlated) residual. One of the assumptions of regression analysis is that the residuals for the consecutive observation are uncorrelated. The statistic is computed as:

$$d = \frac{\sum_{t=2}^T (e_t - e_{t-1})^2}{\sum_{t=1}^T e_t^2},$$

Where, T is the number of observation

CHAPTER – 4

FOREIGN AID IN NEPAL

4.1 Introduction

The United States completed the establishment of formal diplomatic Nepal and relations for the first time on October 29, 1952. Meantime, Chester Bowles, American Ambassador to both India and Nepal, made his official visit to Nepal in February 1953 for explanatory talks concerning United States aid to Nepal. Nepal received a grant of \$320000 from the Technical Aid Administration from July 1, 1952 to 30th June, 1953. This fund was used to implement the first five year plan. Nepal's relationship with United States has been largely in terms of economic aid. The USAID for the year 1954 was \$1,097,000. In fiscal year 1955 aid amounted to \$2,447,000 out of which \$920,000 was used to organize 1,050 primary schools and to open a training institute for teachers. Other areas of aid expenditure have been in village improvement, agricultural development, and mineral exploration.

India for the first time offered her aid in the construction of small Gaucharan Airport (now Tribhuvan International Airport). This program was taken up in 1951 in Kathmandu to make air link between Kathmandu and Patna of India. Since then, India has been providing aid i.e. grant and technical assistance for the economic development of Nepal. There is no loan element in the composition of Indian aid so far. Road, airport, irrigation, power, drinking water supply, agriculture and horticulture, education and health, industrialization and communication are the areas benefited by the Indian aid.

After the five years of aid story, the plot changed and Nepal, slowly, started to become pawn of the power aid. In October 1956, it was reported that Nepal would receive economic assistance worth 60 million rupees from communist country China; one third of the aid would be a direct money grant, and the rest consisted of capital goods. It wa

alleged by Indian sources that Nepal's Premier Tanka Prasad Acharya was playing India against China to gain advantage from both the countries.

King Mahendra, while visiting Moscow in June 1958 agreed on an aid plan from the U.S.S.R. In May 1958, Nepal and United States signed an agreement covering ten major projects intended to raise Nepal's standard of living whereby the United States agreed to contribute \$7,880,400 plus \$346,000 worth of material. The areas concerned on agriculture, public works, construction of industrial development, creation of suspension bridges, village development centers, an anti-illiteracy campaign, a teacher training program, public health services and measures for the control of insect-borne disease. The American Ambassador to India and Nepal, Ellsworth Bunker, announced that the US would give Nepal \$125,000 in aid during the fiscal year 1958.

It was noteworthy that political friction did not halt the flow of aid and experts into Nepal. About 83 percent (1962) of Nepal's development funds still come from abroad. The United States was usual, the largest contributor; India was second, followed by China, the Soviet Union and Great Britain.

Japan, one of the main contributors of Nepal, paid attention to Nepal's development only after the late 1970s. The story of Japanese aid begins when King Birendra paid a state visit to Japan in May 1978. Japan granted Nepal \$10.3 million in aid to be used for food production and the purchase of industrial and medical equipment.

The signing of Mahakali treaty in January was a major landmark in Indo-Nepal relations, providing for the joint exploitation of water resources of the Mahakali River, including the Janakpur dam, and the construction of a giant hydroelectric power plant. Some measures were also taken to improve economic cooperation between the two countries. Foreign aid donors to Nepal pledged substantial new commitments and in April, the Nepal aid group promised development assistance totaling \$993 million for the period of 1996 – 1997.

There were only two donor countries (US and India) during the late 1950s, and early 1960s. Nepal got many opportunities to get aid from U.S.S.R, UK, China, France, Germany, Canada, etc. Nepal amalgamated the Colombo plan in 1952 and gradually

attracted the interest of other countries in her economic development efforts. Besides the Colombo plan, Peoples Republic of China has been utilized mainly to build up infrastructure. Soviet Union joined the growing numbers of donors in 1959 as well. In addition to these major donors there are more than twenty other countries providing considerable amount of aid to Nepal also. There are many international agencies or institutions as Bank, IBRD, IMF, UNICEF, WEP, UNDP, SCF, etc. are providing aid through various sources in Nepal.

4.2 Trend and Magnitude of Foreign Aid in Nepal

Nepal begin receiving foreign aid since 1951, and the volume of aid inflow has increased steadily after 1960. The important factors responsible for the remarkable increase in the aid receipts of Nepal seem to be mainly three causes, which are firstly, Nepal's expanding international relations increased and diversified the source of aid, secondly, the introduction of development plan helped it to rationalize the demand for aids, thirdly, the bonus effect of the cold war and feeling of the competition among some donors pushed up the level of aid. The following table shows the increasing trend of foreign aid in Nepal.

Table 4.1 Aid Inflow in Nepal (1980-2010)

(Rs. in million)

| Fiscal Year | Total Aid Inflow |
|--------------------|-------------------------|
| 1980/81-1984/85 | 10,584.80 |
| 1985/86-1989/90 | 23,978.40 |
| 1990/91-1994/95 | 45,832.60 |
| 1995/96-1999/2000 | 79,490.90 |
| 2000/01-2004/05 | 91,637.40 |
| 2005/06-2009/10 | 2,326,779.90 |
| Total | 2,574,304.00 |

Source: Appendix-I

Table 4.1 clearly displays the increasing trend of foreign aid in Nepal. The amount of foreign aid that the country received during a 1980s decade from 1980/81 to 1984/85 was only Rs.10, 584.8 million. Every decade, aid inflow of Nepal is increasing rapidly

due the globalization and liberalization, increasing of the Nepal's expanding international relations, the introduction of development plan which help to rationalize the demand of aid.

4.3 Components of Foreign Aid (Grant versus Loan)

With an increase in magnitude, the structure and composition of foreign aid had also changed over time. Present trends in sources (bilateral versus multilateral), components (Grants versus Loans) and sectoral disbursement of aid coming to Nepal presented below.

Aid element consists both the loan and grant component. 100 percent aid was in the form of grant during the initial periods. Loan element crept in only from the year 1963/64 which constituted 90.7 percent of total foreign aid.

Table 4.2 Aid Inflow in Nepal: Grants versus Loans (1980-2010)

(Rs. In million)

| Fiscal year | Grants | Loans | percent of Grants | percent of loan | Total Aid |
|-----------------|------------|------------|-------------------|-----------------|------------|
| 1980/81-1984/85 | 4,752.30 | 5,832.90 | 44.90 | 55.10 | 10,585.20 |
| 1985/86-1989/90 | 7,460.10 | 16,518.30 | 31.10 | 68.90 | 23,978.40 |
| 1990/01-1994/95 | 12,765.60 | 33,067.00 | 27.90 | 72.10 | 45,832.60 |
| 1995/96-1999/00 | 26,264.30 | 53,226.60 | 33.10 | 66.90 | 79,490.90 |
| 2000/01-2004/05 | 50,454.00 | 41,184.10 | 55.10 | 44.90 | 91,638.10 |
| 2005/06-2009/10 | 114,887.80 | 48,440.00 | 70.30 | 29.60 | 163,327.80 |
| Total | 216,584.10 | 198,268.90 | 52.20 | 47.80 | 414,852.90 |

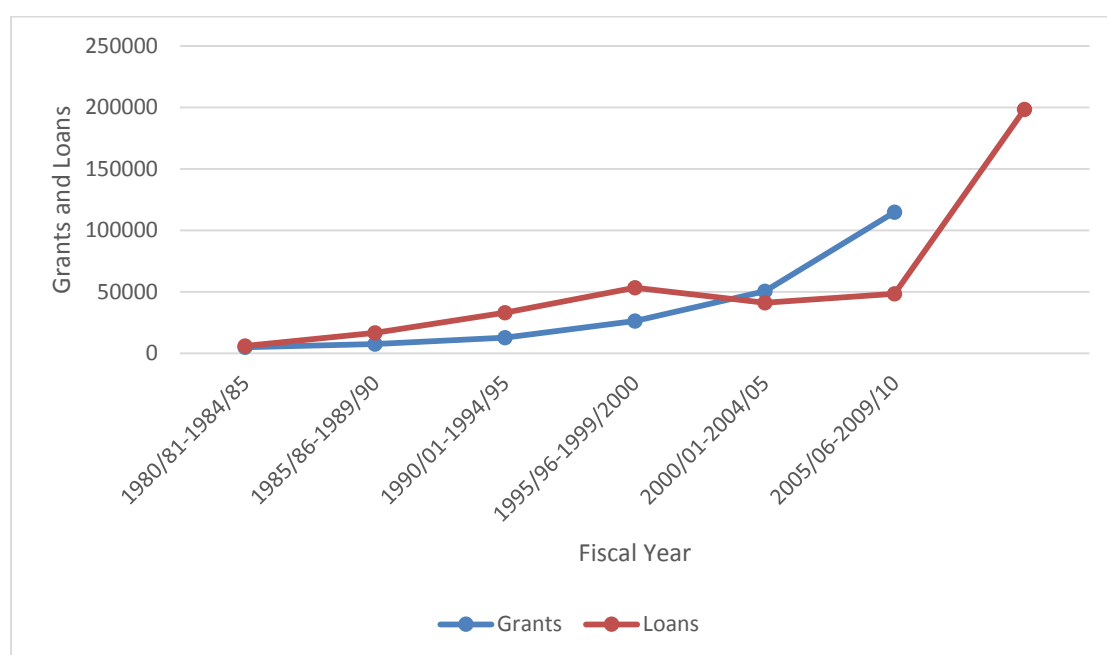
Source: Appendix-II

Table 4.2 shows the share of grants aid is declining while the loan aid is increasing up to 1990s. During the period 1980s, grants and loan occupied 44.9 percent and 55.1 percent of the total foreign aid to Nepal respectively. The share comes to be 31.1 percent and 68.9 percent in 1985/86-1989/90. Similarly foreign grant and loan occupied 27.9 percent and 72.1 percent respectively of the total foreign aid in the year 1990/01-1994/05. This share comes to be 33.1 percent and 66.9 percent in the year 1995/96-

1999 /2000. The main cause of decreasing grants and increasing loans is political instability, process of re-saturation of democracy. But the situation changed after the year 1980s. Due to the emergence of new and bigger international lenders (especially IDA and ADB), providing bigger and bigger loan package, the share of grants began to fall. After 1990s the share of loan in total aid was rapidly increasing.

Fig. 4.2 Aid inflow in Nepal: Grant versus Loans (1980-2010)

(Rs. In million)



Source: Table 4.2

This is because of the comprehensive peace Agreement bilaterally was signed by Communist Party of Nepal (Maoist) and Nepal government in this period. This trend clearly depicts that the government is unable to utilize the committed amount of grant the basis of disbursement.

4.4 Sources of Foreign Aid

According to critics, bilateral aid depends on the mutual cooperation between two countries. Nepal has received the first bilateral aid from the USA under the point four programs. Recent trend depicts that bilateral aid has been declining from 45.86 percent of the total aid in the period 1980/81-1984/85 to 37.64 percent in the period 1985/86-1989/90. After the 1980s, the number of regional multilateral donors increased. Japan was the largest bilateral donor country providing of the total bilateral assistance in FY 1999/2000. Multilateral assistance began with the establishment of International Labour Organization (ILO) and then IMF and IBRD.

Table 4.3 Bilateral and Multilateral Aid (1980-2010)

(Rs. In million)

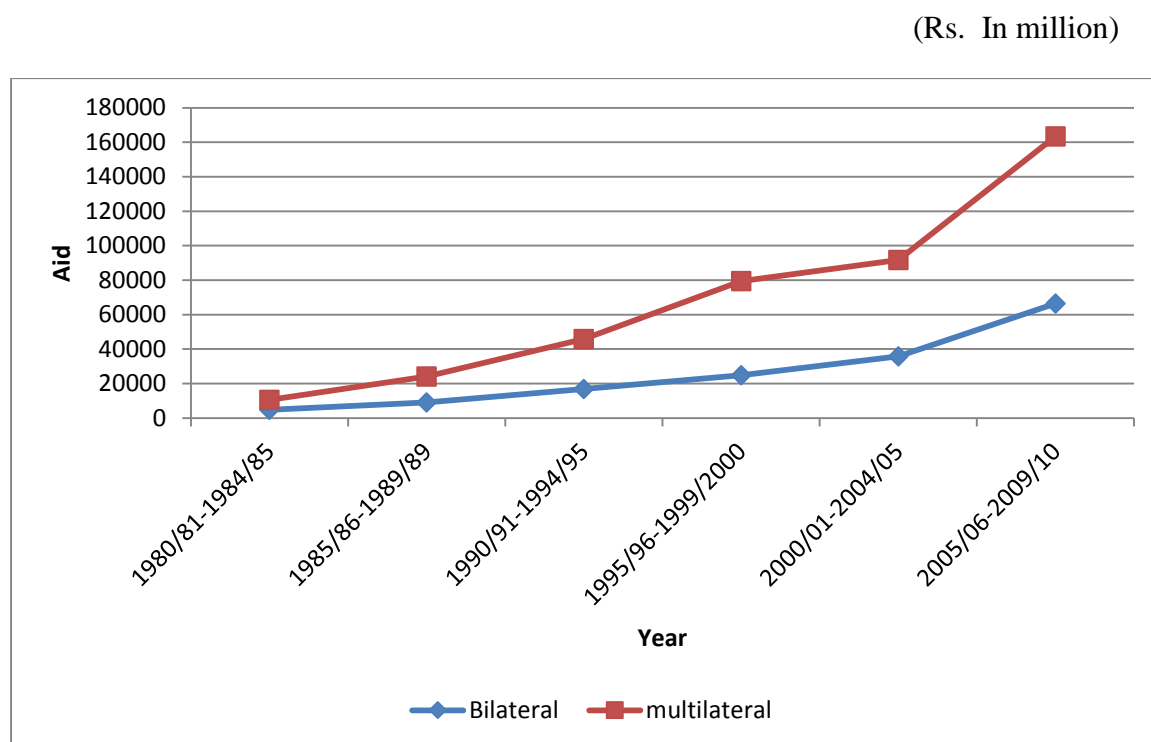
| Year | Bilateral | Bilateral as a percent of total | Multilateral | Multilateral as a percent of total | Total |
|-----------------|-------------------|---------------------------------|-------------------|------------------------------------|-------------------|
| 1980/81-1984/85 | 4,854.30 | 45.86 | 5,730.90 | 54.14 | 10,585.20 |
| 1985/86-1989/90 | 9,063.00 | 37.64 | 15,014.80 | 62.36 | 24,077.80 |
| 1990/91-1994/95 | 16,791.50 | 36.64 | 29,041.10 | 63.36 | 45,832.60 |
| 1995/96-1999/00 | 24,940.40 | 31.38 | 54,550.50 | 68.62 | 79,490.90 |
| 2000/01-2004/05 | 35,734.90 | 39.00 | 55,902.80 | 61.00 | 91,637.70 |
| 2005/06-2009/10 | 66,507.10 | 40.72 | 96,810.70 | 59.28 | 163,317.80 |
| | 157,891.20 | 38.05 | 257,050.80 | 61.95 | 414,942.00 |

Source: Appendix-III

Table 4.3 shows that multilateral aid has been increasing from of total aid in 1980/81 to 2000/01 i.e. 45.1 percent to 85.3 percent. So, in the period, 1980 to 2000 multilateral aid is increased and bilateral aid is decreased. Multilateral aid is more significant as it is less politically motivated. Nepal has received 39.00 percent bilateral and 61.00 percent multilateral aid in total foreign aid in the period 2000-2005. The reason of multilateral aid decreased is Maoist conflict in the country which effect on multilateral aid disbarment. In the fiscal year 2006-2010 the bilateral aid is increase 40.72percent as a total disbursement aid. This is because of the Comprehensive peace Agreement bilaterally signed by Communist party of Nepal (moaist) and Nepal government in this fiscal year. The aid disbursement of multilateral and bilateral aid based on the

government dealing power with the donor country and donor agency. The reason of fluctuating sources of aid in Nepal is the change in government in every year.

Fig. 4.3 Bilateral and Multilateral Aid (1980-2010)



Source: Table 4.3

4.5 Foreign Aid Commitments and Disbursements

Aid commitment refers to the expression of the donor to provide financial support of specified amount under agreed terms and conditions for the specified amount under agreed terms and conditions for the specific purpose to the recipient country whereas disbursement is the time lag because aid for many projects are committed in one year and the committed aid is disbursed in subsequent years. Besides, failure in receiving the committed amount is due to the political instability and lack of commitment on the part of the recipient government, because of bureaucratic hurdles inefficiency, absence of institutionalization in development administration, corruption and poor management

of development projects and absorptive capacity, the capacity to utilize committed amount of aid continues to remain as a crucial problem for the Nepalese government. The following table shows the status of foreign aid commitment and disbursement.

Foreign assistance data for the period FY 1980/81 to FY 2009/10 shows that on an average about 59.44 percent of the committed foreign aid was actually disbursed. Surprisingly in the period 1980-1985, actual disbursement has exceeded commitment which was 55.86. But it is decreased 47.10percent in the period 1985-1990. Again it is increased 55.00 percent. This is the cause of new elected government after Panchayat rulers. However, in the 2000-2005 it is decreased to 88.2 percent in 1998/99 and 85.7 percent in 1999/2000. But it again decreased to 54.03. It may be decreases of autocratic rule of King Ganeandra. In the FY 2005/06, again, the amount of committed aid was greater than disbursed aid i.e. Rs.22101.9 million was disbursed including bilateral as well as multilateral grants and loan, although the committed aid was Rs.20924.2 million. This I because of the Comprehensive peace Agreement bilateral signed by Communist Party of Nepal (Moaist) and Nepal government in this fiscal year.

Table 4.4 Foreign Aid Commitments and Disbursements (1980-2010)

(Rs.in million)

| Year | Commitment | Disbursement | Disbursement as a percent of commitment |
|-----------------|-------------------|---------------------|--|
| 1980/81-1984/85 | 18,948.90 | 10,585.20 | 55.86 |
| 1985/86-1989/90 | 50,914.30 | 23,978.40 | 47.10 |
| 1990/91-1994/95 | 83,325.40 | 45,832.20 | 55.00 |
| 1995/96-1999/00 | 124,003.00 | 79,490.90 | 64.10 |
| 2000/01-2004/05 | 169,608.00 | 91,637.40 | 54.03 |
| 2005/06-2009/10 | 251,257.00 | 163,378.37 | 65.02 |
| Total | 698,056.00 | 414,902.50 | 59.44 |

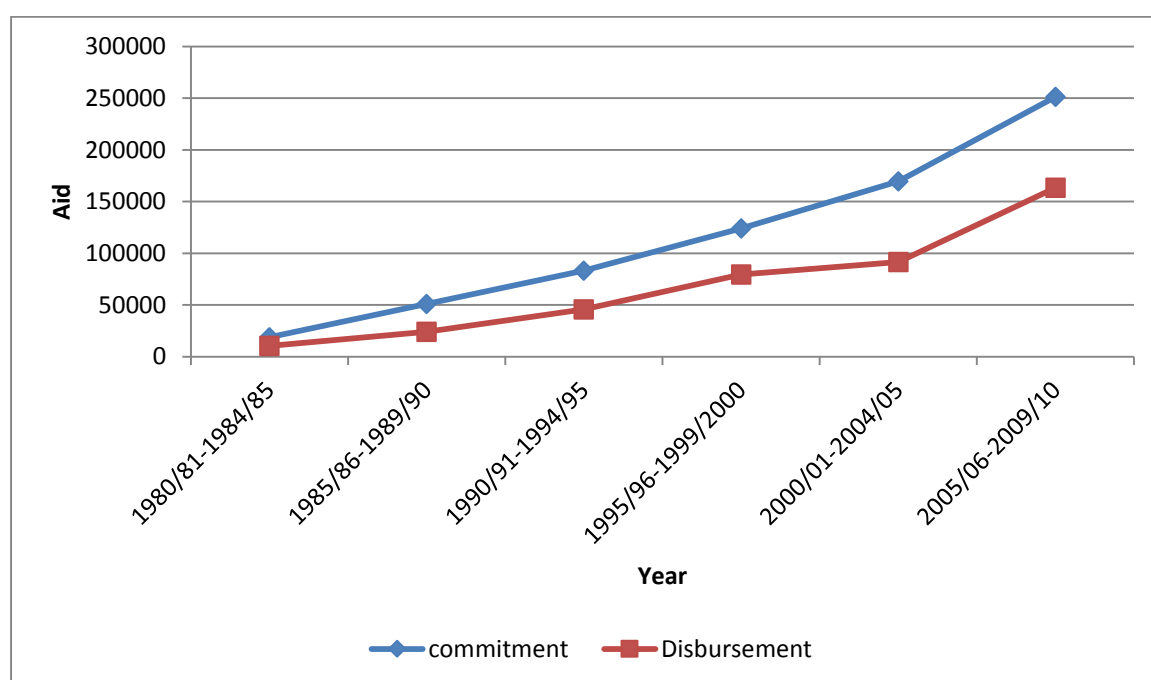
Source: Appendix-IV

The poor absorptive capacity is the main cause of raising the difference between foreign aid commitment and disbursement. One of the major constraints of absorptive capacity in Nepal is the lack of skilled manpower, technology, innovative entrepreneurs and efficient institutional costs of the aid financed projects programs is also another constraint in absorptive capacity. Donors seek to provide the assistance in their own

priority on installment basis and they also observe the performance in implementing the projects in different sectors. If they do not find good performance of foreign aid utilization, they will not disburse the whole committed aid. The lack of efficient administration, centralization of power, and delay in the implementation of the foreign aided as well as political instability are yet the main constraint in effective utilization of foreign aid.

Fig. 4.4 Foreign Aid Commitments and Disbursements (1980-2010)

(Rs.in million)



Source: Table 4.4

But again in the FY 2003/04, disbursement was nearly 80 percent of the committed aid. In fiscal year 2008/09 disbursement was 75.76 percent of the commitment aid. In fiscal year 2009/10 disbursement was 51.55 percent of the commitment aid. This difference in the ratio of disbursement over commitment is mainly due to the poor absorptive capacity and dissatisfactory performance on the side of Nepalese counterparts. Every donor country wants to provide assistance in their own priority on the installment basis. They also observe the initial performance in implementing the projects in different sectors. If the performance in utilizing aid is not found sound and satisfactory, donors will definitely deny in disbursing the wholly committed aid.

4.6 Foreign Aid Disbursement by the Sectors

Various sectors of the Nepalese economy have been provided with the foreign aid. Nepal has been receiving the foreign assistance in different sectors ever since it adopted the planned economic development. The sectoral distribution of foreign aid is not smooth and has very fluctuating nature. Due to the strategic interest of some major donors, foreign aid has not been provided to match the plan targets. Good example of vested interest being imposed to the recipient by the donor countries can be seen in the projects assisted by India and China. Some donor countries which don't have strategic interest towards Nepal providing aid for agricultural development and institutional buildings.

In 1956, when Nepal began to leap forward in the path of planned economic development, Nepal was in dire need of infrastructure such as transport, communication and hydro- electricity in the country. Realizing the importance of transportation facilities, road construction emerged as the priority at the initial periods. Sectoral allocation of foreign aid in different sectors in the review period is shown in the table below.

Table.4.5 Sectoral Allocation of Foreign Aid (1980-2010)

(Rs.in million)

| Fiscal Year | Transport, power & communication | Agriculture, Irrigation and forestry | Industry and Commerce | Social service sector |
|--------------------|---|---|------------------------------|------------------------------|
| 1980/81-1984/85 | 4,252.10 | 3,186.80 | 1,109.50 | 1,962.40 |
| 1985/86-1989/90 | 11,378.70 | 6,519.20 | 1,752.60 | 4,094.90 |
| 1990/91-1994/95 | 17,744.60 | 14,107.50 | 5,132.10 | 9,583.70 |
| 1995/96-1999/00 | 32,140.50 | 15,672.90 | 940.60 | 20,959.30 |
| 2000/01-2004/05 | 14,263.80 | 14,263.80 | 1,060.50 | 35,243.20 |
| 2005/06-2009/10 | 109,859.00 | 68,260.00 | 17,382.00 | 174,079.20 |
| Total | 189,638.70 | 122,010.20 | 27,377.30 | 245,922.70 |

Source: Appendix- V

Table 4.5 shows that since the very beginning transportation, power and communication sector has been the biggest recipient of foreign aid. This sector has received greater amount of loans grants. In the period 1980/81 to 1984/85, this sector received the largest portion of aid which was 72 percent of the total aid. Share of aid received by industry and commerce sector was relatively smaller than other sectors. Because of the adaptation of the privatization policy by the government, priority of aid in this sector declined gradually. The source wise annual aid disbursement indicated that the percentage share of agriculture in 1980s was smaller in comparison to transport and communication sectors. There was shift in priority from infrastructure to agriculture because of the occurrence of food shortage in the country. Share of aid to agriculture, irrigation and forestry sector was quite high until 1980s after which it began to fall. Social service sector has also remained an important sector from the perspective of aid receipt. The increasing trend of aid into this sector is a reflection of donor priority. This sector is provided with the grant assistance only. In the period 1980//81 to 2009/10, out of the total disbursed aid of Rs.584948.9 million, 20.86 was distributed to agriculture, irrigation and commerce, and 42.04 percent to social services.

4.7 Resource Gap and Need for Aid

Total resource gap is defined as the total budgetary expenditure less the resource mobilized internally. Resource gap creeps in when a country spends more on investment and expenditure than its internal resource. If this resource gap is not bridged timely then it invites serious problems like unfavorable balance of payment and foreign exchange gap. Nepal has been experiencing a serious and widening resource gap in her regular as well as development finance. The following table reflects the serious position and growing financial resources crisis in Nepal.

Table 4.6 Resource Gap Situation in Nepal (1980-2010)

(Rs. In million)

| FY | Total govt. expenditure | Total Revenue | Resource Gap |
|-----------------|--------------------------------|----------------------|---------------------|
| 1980/81-1984/85 | 32,265.20 | 15,266.20 | 17,000.00 |
| 1985/86-1989/90 | 73,389.40 | 26,034.90 | 40,354.50 |
| 1990/91-1994/95 | 153,524.10 | 83,547.00 | 72,126.10 |
| 1995/96-1999/00 | 279,235.70 | 171,349.30 | 107,886.60 |
| 2000/01-2004/05 | 435,916.30 | 288,022.60 | 137,893.80 |
| 2005/06-2009/10 | 885,194.70 | 655,963.80 | 228,834.90 |
| Total | 1380,174.40 | 851,834.80 | 513,489.90 |

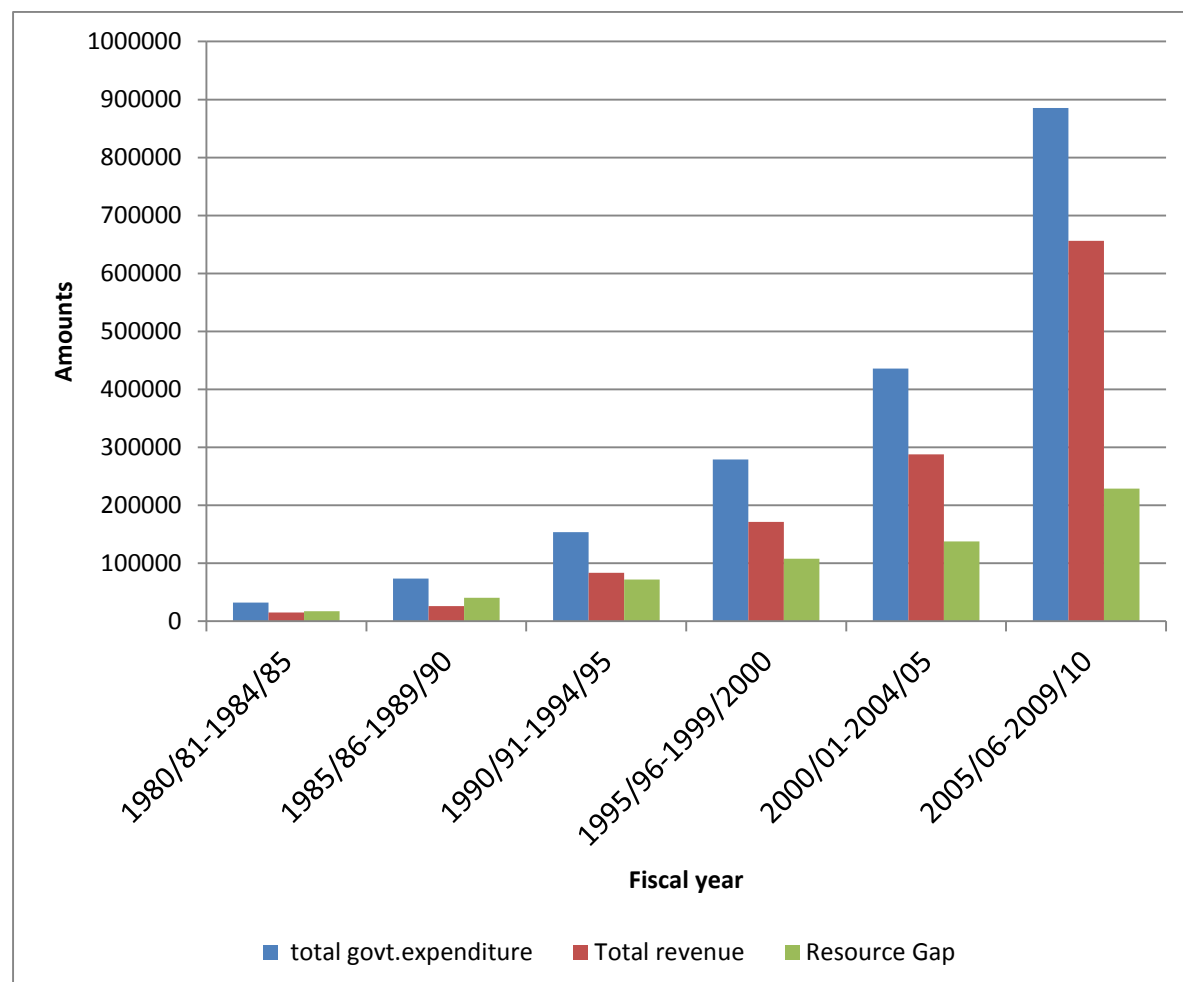
Source: Appendix-VI

Table 4.6 shows that the resource gap has been growing every year. In year 1980/81-1984/85, initial resource gap was Rs. 17,000 million. It increased to Rs. 40,354.50 million in year 1985/86-1989/90, which is more than two times the gap in 1980/81-1984/85. It further increased to Rs.72, 126.10 million in year 1990/91-1994/95. The trend of increasing resource gap depicts the alarming financial situation in Nepal. Therefore, the role of foreign aid will be of paramount importance in the process of bridging this resource gap. The resource gap in Nepal is Rs.51,489.90 million.

The resource gap problem arises due to the increase in government expenditure than that in government revenue. Nepal is a developing country having poor infrastructure and suffering from diverse internal conflicts also. So, large amount of money should be invested in infrastructural development, security, industrial development, and allowance for poor, marginalized as well as conflict-afflicted people. On the revenue side, due to the poor government administration and political conflict, expected amount of VAT is not collected. Tax evasion on income and poverty is also pervasive.

Fig.4.5 Resource Gap situation in Nepal (1980-2010)

(Rs. In million)



Source: Table 4.6

4.8 Share of Foreign Aid on GDP and Government Expenditure

Foreign aid plays an important role in the economic development of Nepal. In the overall welfare of the country, the increasing level of foreign aid can be argued to be necessary for further growth of economy. The increasing role of foreign aid is revealed even more clearly by the consistent rise in the ratio of aid to GDP. The following table shows the share of foreign aid in the GDP of Nepal from FY 1980/81 to FY 2009/10.

From table 4.7, it was found that in FY 1980/81-1984/85, the foreign aid /GDP ratio was 6.02 percent. It was 6.43 percent in FY1985/86-1989/90. In the FY 1990-1995, the foreign aid/GDP ratio was 5.54 percent. Aid/GDP ratio was lowest in the period 2000-2005, which was 4.07 percent. It may be the maoist conflict which is effect on aid disbursement. During the period, year 2005/06 to FY 2009/10, the share of foreign aid in GDP, was 333.27percent. In total analysis, the share of foreign aid into GDP is increasing. The following table shows the share of foreign aid in the GDP of Nepal from FY 1980/81 to 2009/10.

Initially, the share of foreign aid in the government expenditure was 32.81 percent. After the period 1980 to 2010, the share of foreign aid in the government budget was continuously decreasing. During the FY1984/85-1989/90 the share of foreign aid on government budget expenditure was 32.67 percent, the share of foreign aid on government budget expenditure was 29.85 percent in FY1990/91-1994/95. During the FY 1994/95 to FY 1999/2000, the share of foreign aid in the government budget expenditure was around 28.47 percent. During the FY 2000/01 to FY 2005/06, the average share of foreign aid in the government budget expenditure was 21.02 percent. In the year 1990/91 to 2009/10, the share of foreign aid in the government expenditure was only 262.86 percent.

Table 4.7 Share of foreign Aid on GDP and Government Expenditure (1990-2010)

(Rs.In million)

| FY | Foreign Aid | GDP | Govt. Budget Expenditure | Share of Aid (in percent) | | |
|-----------------|--------------|--------------|--------------------------|---------------------------|-----------------------------|-------------------|
| | | | | Aid/GDP ratio | percent change in total Aid | Govt. Budget Exp. |
| 1980/81-1984/85 | 10,584.80 | 175,887.00 | 32,265.20 | 6.02 | - | 32.81 |
| 1985/86-1989/90 | 23,978.40 | 373,057.00 | 73,389.40 | 6.43 | 55.86 | 32.67 |
| 1990/91-1994/95 | 45,832.60 | 827,264.00 | 153,523.10 | 5.54 | 47.68 | 29.85 |
| 1995/96-1999/00 | 79,490.90 | 1,495,025.00 | 279,236.00 | 5.32 | 42.34 | 28.47 |
| 2000/01-2004/05 | 91,637.40 | 2,253,078.00 | 435,916.40 | 4.07 | 13.25 | 21.02 |
| 2005/06-2009/10 | 2,326,780.00 | 698,164.40 | 885,194.70 | 333.27 | 96.06 | 262.86 |

Source: Appendix -VII

4.9 Foreign Aid on GDP: An Empirical Analysis

For the positive impact of foreign aid on the economic growth and the overall welfare of the country, there must be positive relationship between Gross Domestic Product (GDP) and foreign aid. In other words, there must be direct relationship between GDP and foreign aid for the economic development of the country. Moreover, other things remaining same, as foreign aid increases there is also increase in GDP and vice versa, for the positive impact of foreign aid on the economy. To prove the above relation, the basic starting point is the examination of a relationship between GDP and foreign aid. To calculate the regression equation, R-square, standard error of Appendix A, there is using the SPSS program. By using this program, the following results have been obtained:

$$\text{GDP}_t = 54,366.632 + 12.626\text{FA}_t$$

$$\text{S. E.} = (24,569.117) \quad (1.499)$$

$$R^2 = 0.683$$

$$F = (70.954)**$$

$$T = (8.423)**$$

$$\text{D-W} = 0.427*$$

(** *Five percent level of significance*)

In the above equation, since the coefficient of foreign aid is positive (i.e. 12.626), it means, there is a significant relationship between GDP and foreign aid inflows.

The model predicts that with 1 percent increment in foreign aid, GDP is increased by 12.62 percent. This indicates the important contribution of foreign aid in the Nepali economy. The value of R^2 is 0.683, which implies that above 68 percent of variation in dependent variable (i.e. GDP) is explained by the independent variable (i.e. foreign aid). The value of R^2 ranges from 0 to 1. As the value of R^2 is 0.683 or 68.3percent approaches to 1, the regression line thus estimated is good fit.

The above value of standard error of regression line is a good measure of precision in the prediction of dependent variable (i.e. GDP) based on the regression equation, given the value of independent variable (i.e. foreign aid). The coefficient of foreign aid is very

significant, it is indicated by its 't' value, which is greater than the tabulated value of 't' at 0 percent level of significance and a given degree of freedom. The value of 'F' is also significant, as the calculated value of 'F' is larger than the tabulated value of 'F'.

From the D-W table, we find that for n=35, and number of explanatory variable k=1 at 5 level of significance, $d_L = 1.402$ and $d_U = 1.519$. Since the value of D-W or d is less than d_L (i.e., $d = 0.427 < d_L = 1.402$), in other words, $0 < d < d_L$, there is positive auto correlation of the first order.

In logarithmic form the results are as follows:

$$\text{Ln GDP}_t = 3.767 + 0.902\text{LnFA}_t$$

$$R^2 = 0.942$$

$$F = (533.543)**$$

$$t = (23.099)**$$

$$\text{D-W} = 0.488**$$

*(** Five percent level of significance)*

The result shows that an increase in foreign aid has a positive effect on GDP. The above equation shows 1 percent increase in foreign aid inflow, GDP is increased by more than 0.90 percent. The 't' value and 'F' value is significant at 5 percent level of significance. The equation is good fit, with 94.2 percent of total variation in GDP is explained by foreign aid. The value of D-W is less than d_L , which shows that there is positive auto correlation. We have set null hypothesis for the purpose holds that, there no significant relationship between foreign Aid to Nepal and GDP growth in Nepal. The null hypothesis is rejected and alternative hypotheses accepted. But above result indicates that there is positive relationship between foreign aid to Nepal and GDP growth in Nepal.

CHAPTER -5

USAID IN NEPAL

5.1 Introduction

Travel in Nepal was almost exclusively by foot till 1951 as only 376 Kilometers of rough vehicle tracks existed in Kathmandu valley and also in the southern area bordered by India. Electricity was a fairy tale and there was a ceiling in food supplies. Unavailability of health services was a common phenomenon. Malaria was common diseases with an estimated 25percent of the population infected in the southern belt of the country, the Terai, at that time.

It was no more than two weeks after the announcement of the Rana Prime Minister for the introduction of constitutional reforms. The announcement was in consonance with the Delhi Agreement and it was about one week after the announcement of the decision to abandon the revolution for democratic movement, Nepal and the United States of America signed the point four assistance programs in January 23, 1951. USAID under this program was made available first to establish a Village Training Center in Kathmandu in 1952. The point four program began to take shape in the first half of 1952. The main motive of the program was framed to meet some of the urgent needs of Nepal. Under this program, the noteworthy activities were national public health program, increase in food supply, and introduction of new varieties of crops, improvements in the hard tools and machinery, and improvement to land, largely through irrigation.

Among the many accomplishments during the partnership's first hallmark decade (1950s), USAID and Nepal instituted malaria eradicated program, founded the college of education, graduated the first class of 12 public health nurses and created Kathmandu's very first modern telephone exchange. In the preliminary years, the US assistance concentrated on road expansion by which economic development would be facilitated. During the 1960s, USAID began to grasp the complex problem involved in changing backward economy into a modern one. At that time, USAID assisted Nepal

for building sustainable institutions; the framework for development and agreed upon an administrative reform program to refine government administration and promote economic growth. During this decade, USAID and Nepal established 104 health units around the country, expanded Bir Hospital to include a surgical wing, increased air sand largest industrial area, Balaju (www.usaid.gov/np, updated on May 17, 2011).

In the 1970's-integrating the elements throughout the decade, USAID / Nepal partnership focused on meeting the basic needs of the Nepali people through small-scale technical assistance projects. The major light was on consolidating on-going projects and initiating new ones focusing on longer-term planning. Great strides made during this time included: doubling primary school enrollment, linking the food-poor hills to the Terai's strong agricultural base with the western hills road, increasing the population served by health facilities from 16percent to 46percent, establishing family planning services to 62 districts and increasing the yearly use of agricultural fertilizer by 18percent. The 1980s- Tapping into potential during the 1980s, Nepal adopted the Basic Needs program, which set standards for items including food, drinking water and basic health services. USAID and Nepal focused on promoting the private sector and strengthening Nepal's Private voluntary Organization's capacity to design, implement and evaluate community based development efforts. (www.usaid.gov/np, updated on March 18, 2008). During the restoration of multiparty democracy in 1991, it focused on strengthening and promoting good governance to bring development to the grassroots level and assisted in the privatization of state-owned enterprises.

Since 1951 and through the end of FY 2004, the United States had provided more than \$791 million in bilateral economic assistance to Nepal: U.S contributions to multilateral organization working in Nepal to date approach an additional \$725 million. Including humanitarian assistance.(source USAID / Nepal). During its five decades of assistance to Nepal's development, U.S aid has made significant contribution in women's empowerment, strengthening democracy, agriculture, forestry, rural development, health, family planning education and training, transportation and communication, private sector, good governance and conflict mitigation. In the recent years, U.S aid has focused on peace and security, governing justly and democratically, investing in people, health, and economic growth of Nepal .

5.2 Objectives of USAID to Nepal

Since the donors started to assist the developing countries, they have been provided assistance for the various objectives. Generally foreign aid enters with three objectives: humanitarian, political-strategic and economic. It is not easy to divide the foreign aid into different objective. The objectives of aid may vary from donors and from time to time. More often, the motives of aid are shadowed by the other things. They are narrowly strategic, broadly political, basically humanitarian and certainly economic. From the America's point of view, U.S assistance is playing a crucial role in supporting the transition to peace, building strong and representative government, establishing the rule of law, ending human right abuses, strengthening equitable social services delivery, and addressing poverty (usaid.gov.com).

Even though the humanitarian motive of aid is widely published, it doesn't seem to be the only and the most crucial reason for foreign aid. The evolution of aid now seems to have been largely governed by political and economic interests of donors rather than the humanitarian considerations.

USAID/Nepal development four program goal for the 1990s, which combined aid's global assistance strategies with Nepal's own development needs and priorities.

These are as follows:

- a) Strengthening the development of sound economic policies which rely on competitive markets operating with the minimum of government regulations.
- b) Increasing the range of choice, availability, and use of the most essential child survival and family planning services through complementary public, private and NGO efforts.
- c) Accelerating the process of endowing private groups and users with control over and capacity to manage Nepal's economically important, renewable natural resources.
- d) Expanding access of farmers, rural groups and agro enterprises to market opportunities in order to increase their economic options and incomes.

In June 1995, the following strategic objectives were approved by USAID/Nepal:

- 1) Increased production and sales of forest base products and high-value agricultural products,
- 2) Reduced fertility and improved maternal and child health, and
- 3) Increased women's empowerment.

After 2001, the strategic objectives of USAID/Nepal are as follows:

- 1) Increase producing and sale of forest based product and high-value agricultural products.
- 2) Reduced fertility and improved maternal and child health.
- 3) Increased women's empowerment.
- 4) Increased private sector investment in environmentally and socially sustainable hydropower development and
- 5) Strengthened governance of nature and selected institutions.

The strategic objective taken by USAID is very realistic and actual need of the country. Women empowerment through education, income earning activities and reduction of child mortality rate is one of the key area where progress has been noticed. Private Public Partnership (PPP) model identified and emphasized by the USAID will help to boost the economic development of the country and at the same time it will also ease the role of Government to focus more on social and infrastructural development.

5.3 Total Magnitude of USAID to Nepal

Table 5.1 depicts the amount of American assistance to Nepal for sixty years through 1951 to 2010. The USAID office Nepal provided the data given in this table. It shows that during the last sixty years (1951-2010) of US- Nepal cooperation, the US has provided a total sum of US \$1075.3 million to Nepal to be the partner in the modernization of the Nepalese economy. From table 5.1, it can be seen that over the period of 35 years from 1951-1981, the US had provided US\$ 202 million, however in

the later 25 years from 1982 to 2010, it has provided US\$ 873.3 million. This is more than fold of the last 35 years. Furthermore, when concentrating on the last 10 years. The humanitarian motive, peace, economic growth of aid is widely published; the USAID inflow to Nepal is increasing.

Table. 5.1 Total Magnitude of USAID to Nepal (1981-2010)

(US\$ in million)

| Year | 1951 through Years covered | Amount if USAID | Total through Years covered |
|-----------|----------------------------|-----------------|-----------------------------|
| 1981-1985 | 35 | 123.40 | 272.00 |
| 1986-1990 | 40 | 146.40 | 418.80 |
| 1991-1995 | 45 | 113.10 | 531.90 |
| 1996-2000 | 50 | 115.50 | 647.30 |
| 2001-2005 | 55 | 186.70 | 834.10 |
| 2006-2010 | 60 | 241.20 | 1,075.30 |

Source: Appendix-VIII

5.4 Trends and Pattern of USAID

Table 5.2 projects the trend and pattern of US assistance to Nepal last twenty years. As shown in table 5.1, except some years, the US has provided more than US\$ 20 million as an aid to Nepal every years. The aid inflow has been fluctuating over the years. All the aid has been in the form of grants. There has been no loan component in the total assistance during these seventeen years. when we review period to period aid inflow, the USAID in 1981-1985 was US\$ 123.4 million and in 1986-1990 it was US\$ 156.40 million but it was decreased -22.75percent in the years 1991-1996 which is the cause of restoration of democracy process. But the trend is sharp increasing up to the year 1996. It increased to US \$ 115.5 million in the period 1996-2000. It is increased 2.12 percent, 61.65 percent and 29.19 percent in the time period 1996-2000, 2001-2005 and 2006-2010 respectively. This is the cause of helps for peace process and good governance of Nepal. The aid disbursement of Nepal is based on the government dealing power with the donor country and donor agency. The reason of increasing sources of USAID package of peace and good governance. According to the table 5.2,

in the year period the USAID is increasing very high because of the peace process of Nepal.

Table. 5.2 Trend and Pattern of USAID (1981-2010)

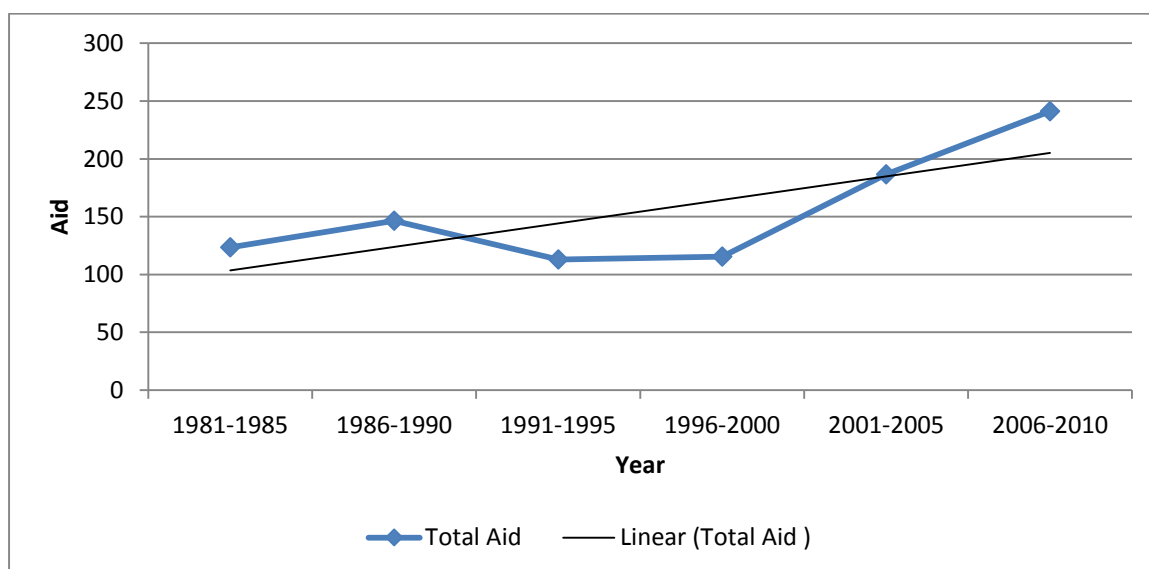
(US\$ in million)

| Fiscal years | Total Aid | Annual percent Change in Total Aid |
|--------------|---------------|------------------------------------|
| 1981-1985 | 123.4 | - |
| 1996-1990 | 146.4 | 18.64 |
| 1991-1995 | 113.1 | (22.75) |
| 1996-2000 | 115.5 | 2.12 |
| 2001-2005 | 186.7 | 61.65 |
| 2006-2010 | 241.2 | 29.19 |
| Total | 802.90 | |

Source: Appendix-VIII

Fig. 5.1 USAID Inflow to Nepal (1981-2010)

(US\$ in million)



Source: Table. 5.2

5.5 Sectorial Analysis of USAID in Nepal

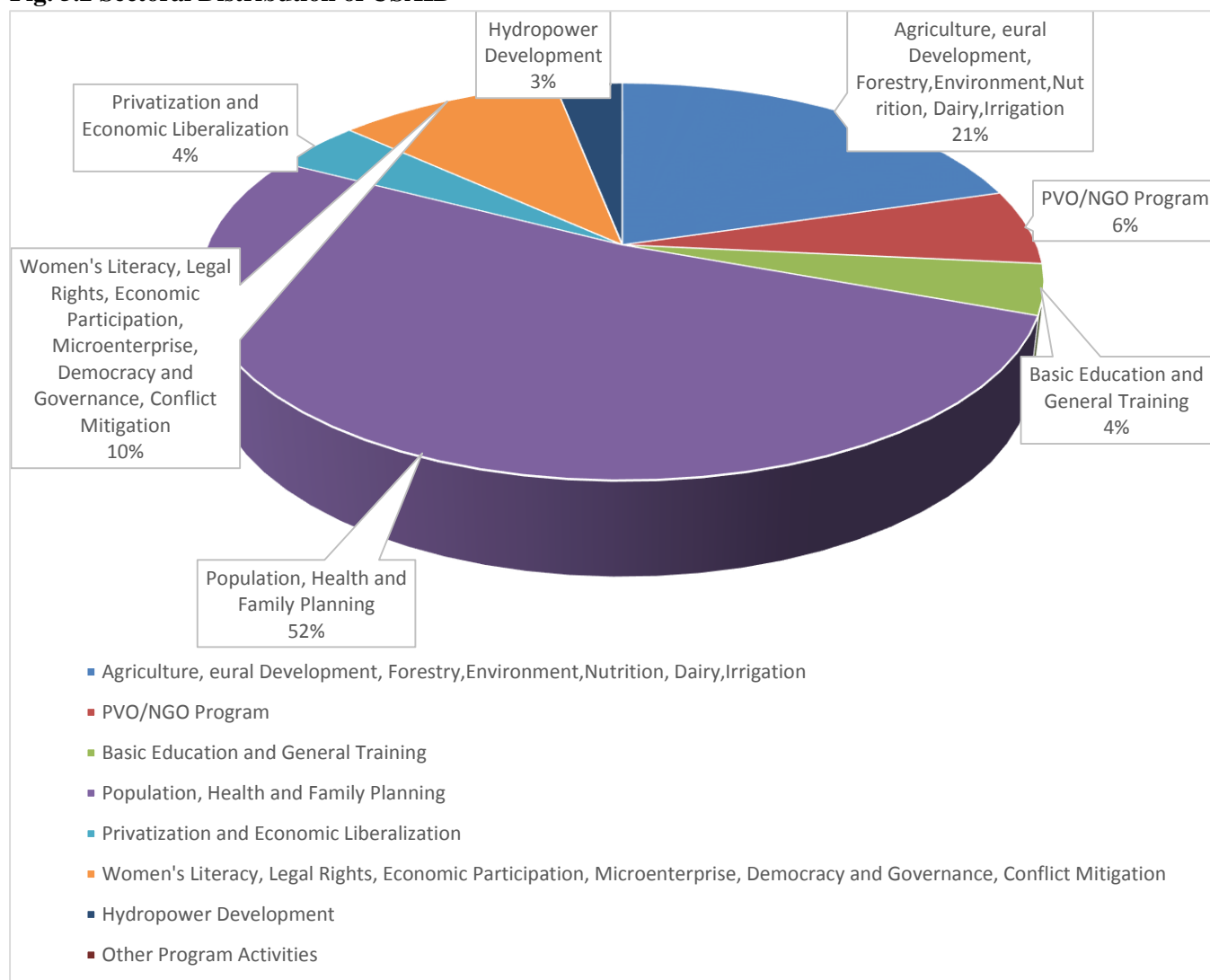
Since the initiation of the US assistance to Nepal, it has been covering all the major of our economy. The major beneficiaries sectors of American assistance in Nepal are agriculture, rural development, education, health and family planning, democracy and governance, hydropower development, conflict mitigation, disaster assistance, transportation, communication etc.

5.5.1 Sector-wise Distribution of USAID

The amount of USAID disbursed in diverse sectors has been given in the following two tables, one containing the data from the year 1991 to 2002 and another containing the remaining. The table 5.4 shows the amount of American assistance for last two years.

While going through sector-wise US assistance Nepal for about last 12 years since 1991 to FY 2002, 51percent of the total USAID has been provided to the population , Health and Family Planning, Secondly about 20percent of the total USAID has gone to the Agriculture, Rural Development, Forestry, Environment, Nutrition, and Irrigation Sector. Later on good governance, PVO programs, Educations, Conflict Mitigation, Privatization and Liberalization, Hydropower development, have received remaining 29 percent of the total USAID.

Fig. 5.2 Sectoral Distribution of USAID



Source: Appendix- IX

Sector-wise Distribution of USAID to Nepal (2006-2007)

Table 5.4 display that large amount of American assistance is absorbed by Health sector i.e. US \$ 20,603,000 in the year 2006 and US \$ 17,985,000 in the year 2007. This sector embraces improvement in the child and maternal health, controlling infectious diseases and HIV/AIDS, and family planning. The sub-sectors HIV/AIDS and family planning are in higher priority under the health sector. Rural infrastructure, job skill training, agriculture productivity, micro enterprises and girls’ scholarship are in the second priority which has got US \$ 7,128,450 in the year 2006 and US \$ 6,026,000 in 2007.

Similarly, Democracy and Governance scored third priority in 2006 and Transition Initiatives in 2007.

Table. 5.4 Sector-wise distribution of USAID to Nepal (2006 and 2007)

(Amount in US \$)

| Program Activities | Fiscal Year | |
|--|-------------------|-------------------|
| | 2006 | 2007 |
| A) Mitigate Conflict and Support peace | 4,176,603 | 1,550,000 |
| B) Livelihoods | 7,128,450 | 6,026,000 |
| C) Health | 20,603,000 | 17,985,000 |
| D) Democracy and governance | 6,787,385 | 2,975,000 |
| E) Strengthen Rule of Law | 1,485,000 | 1,500,000 |
| F) Transition Initiatives(OTI) | 2,000,000 | 5,000,000 |
| G) Disaster and Mitigation | 2,777,254 | 2,500,000 |
| Total | 44,957,692 | 37,536,000 |

Source: Appendix –X

5.5.2 Sector-Wise Allocation of USAID to Nepal in 2009 and 2010

Table 5.5 displays that large amount of US assistance is absorbed by investing in people i.e. US \$ 24,500,000 in the year 2009 and US \$ 26,500,000 in the year 2010. This sector embraces improvement in the child and maternal health, controlling infectious diseases and HIV/AIDS, and family planning. The sub-sectors HIV/AIDS and family planning are in higher priority under the health sector. Second priority is given on humanitarian assistance in 2009 i.e.15, 038,000 and economic growth in 2010 i.e.19,500,000.

Table. 5.5 Sector- wise Allocation of USAID of Nepal FY 2009 and 2010

(Amount in US \$)

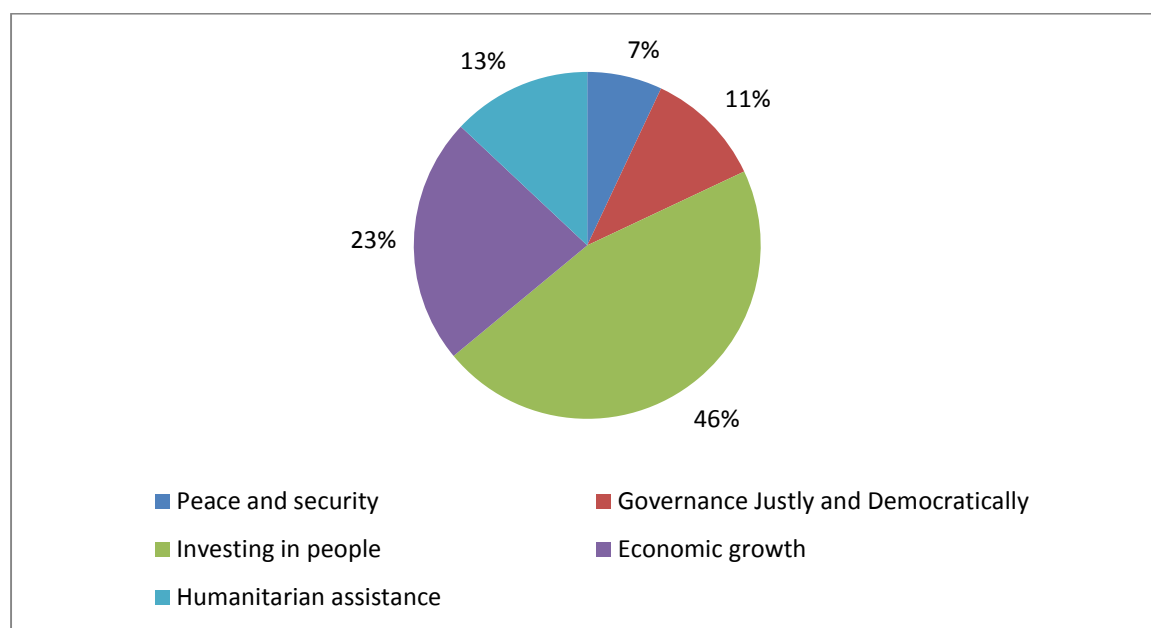
| Program Areas | FY 2009 | FY 2010 |
|--------------------------------------|-------------------|-------------------|
| Peace and Security | 4,775,000 | 3,000,000 |
| Governance Justly and Democratically | 9,925,000 | 3,000,000 |
| Investing in people | 24,500,000 | 26,500,000 |
| Economic Growth | 6,600,000 | 19,500,000 |
| Humanitarian Assistance | 15,038,000 | |
| Total | 60,838,000 | 52,000,000 |

Source: Appendix-XI

The table 5.5 shows that large amount of American aid is absorbed by investing in people that is Health (HIV/AIDS, Maternal and Child Health, Family planning and Reproductive, Health, Nutrition Education Social and Economic Services and Protection for Vulnerable Populations. The above data can be shown as pie chart.

Fig. 5.3 Sector-wise Allocation of USAID to Nepal (2009 and 2010)

(Amount in US \$)



Source: Table.5.5

5.6 USAID to Nepal in Different Sectors

US assistance is pointed on agriculture development, rural development, Health, Education, Transportation and Communication, Industrial and Capital Development etc.

5.6.1 Agricultural Development

In Agricultural sector, the point IV program had outlined ambitious goals such as: increased food production, sufficient irrigation to sustain three annual crops, land ownership to the tiller and establishment of an agricultural credit system. At that time, the first and biggest agriculturally oriented project was the village Development Program (VDP). The United States Operation Mission (USOM) developed an agricultural research center in the Terai. In this decade, USOM began signing agreements on irrigation projects opted by the then government of Nepal. The goal was to increase year-round water in selected areas for the production of three crops in a year. After 1955, the USOM expanded agricultural investment through various projects which comprised establishment of an agricultural implements workshop; development of fish farm at Janakpur, Godavari, Pokhara, and Kathmandu, and establishment of a farm to grow medicinal herbs for export. An Agricultural Extension Service and an agricultural Economic section to carry out market surveys were started in 1959 which received technical assistance, training and operational funding from USOM. It also provided loan funds for the Department of Co-operatives to lend to Rapti Valley farmers.

In 1960s decade, USAID assisted the Ministry of Agriculture in creating an effective Agricultural Extension Service. It Provided support for salaries and operational costs, and training for Department of Agriculture (DOA). In 1963, the Cooperation Bank was established under the support of USAID. In greatest production potential areas, USAID and the then government of Nepal initiated concentrating and agricultural service programs. In 1966, the US assistance helped Nepal to establish the agricultural supply cooperation for the purchase, treat and store of the improved varieties of seeds. US assisted about \$ 10.5 million in this sector at that time.

USAID continued its assistance in agricultural research and extension through its Food Grain Project (FGP). It supported a planning survey on developing an agriculture education institution, and the institute of Agriculture and Animal science (IAAA). America provided \$ 460,000 grant to the Agricultural Development Council for its improvement and new research work in agriculture. in the early 1970s, USAID and the

Nepal's government developed a field focused research system to begin the profound research needed to increase food grain production. 636 Nepalese were trained in agriculture and nature research under the US assistance during that period.

The programs of the Integrated Cereals Project (ICP) were extended until 1984 from 1981 with the American assistance of \$ 10 million and government funding of \$ 3.6 million. Seed project and Input Storage Project (SPIS) which was the sister project of ICP initiated in this decade with the USAID's fund of \$ 4 million and \$ 1.4 million from the Nepal government. It also supplied support for the institute of Agriculture and Animal Science (IAAS) with \$5.5 million. But one of the evaluation team concluded that the aid investment to IAAS had not been effectively used. In the late 1980s, US assistance brought into focus an analytical review of problems and opportunities in developing a market –led private sector agricultural strategy. It aided to the National Agricultural Research Center for its research activities in agricultural sector. Irrigation management project was also established with the American assistance of \$ 9 million and government contribution of \$ 4 million to sustain effective irrigation management practices.

5.6.2 Rural Development

In the 1950s decade, at the local level, there was minimal governmental organizational and no dialogue between villagers and the national government. In terms of rural development, Nepal was a blank state. Hence, USOM conceived a Rural Development Institution. Its main goal was to establish a nationwide system which would distribute increased services to villages, while providing a channel of communications through which people could express their wants to the government. After some years, USOM significantly expanded the Village Development Program (VDP). In 1958, the Village Development Service was transferred to Ministry of Planning and Development and reorganized as the Village Development Service Department. Training school faculty and program manager for this department were trained in US and other countries also. The first five years plan outlined an ambitious plan to expand the VDP nationwide with the support of USOM.

USAID supplied \$ 1.4 million to a collaborative two year design project for rural development. The Rapti Zone Rural Area Development (RAD) project was established to improve the income, health, education and agricultural sector of the people of the Rapti zone. Here USAID's project such as integrated Cereals Project, and seed production and input storage project worked with the RAD. USAID and the government of Nepal strongly directed their effort in order to design and initiate the RAD: phase II and its purpose was to increase household incomes and well-being through increased productivity and improved sustainable management of farm and forest resource system.

USAID had provided \$ 600,000 per year for three years in supporting administration, training and self- help development activities at village and district levels. District panchayat leaders and government officers were trained in panchayat Training Institutes with the assistance of America. It narrowed its assistance in this sector due to the increased domination of Panchayat System in late 1960s but total assistance in this sector was more than \$4.2 million in this decade.

The Sustainable Income and Rural Enterprise (SIRR) were established with the huge assistance of USAID. Its main objective was to increase rural household incomes through sustainable private sector agriculture and forestry enterprise. The Rapti Development Project, the Agro enterprise and Technology System Project (ATSP), the forestry Development Project, and the institute of Forestry were also included under the SIRE as the sub- project. SIRE funds provided \$ 1.36 million to the Rapti Development Project. The ATSP's purpose were; to link private agro- enterprises, farmers and public resources, in order to achieve medium term increase in farm incomes and in agriculture's contribution to economic growth, and to strengthen the role of private sector in expanding markets for Nepali farmer produce etc. Already USAID/Nepal had supported ATS project with \$ 13 million and later when it came under the SIRE, USAID also provided it \$ 3.5 million. The Forestry Development Project got support from USAID with 8 million and as being the umbrella project got support SIRE, USAID again provided \$0.14 million. This project had strengthen the capacity of Ministry of Forest and Soil conservation by training planning unit staff for policy implementation and planning and by developing a program to stimulate local production and marketing of efficient stoves.

5.6.3 Health and Family Planning

The emphasis of USOM was on expanding hospital based curative services and training a basic corps of health workers to expand service delivery. The major donors in health sectors were USOM and WHO. USOM provided operational cost assistance and technical advice for the country's first Nurse Training school. In this period, about 25 percent of the Nepal's population was plagued by Malaria. In 195 with the creation of a malaria control office, anti- malaria program was begun with assistance of US. To control most of the insect-borne diseases, the insect- Borne Disease Control Bureau (IBDCB) was initiated with the joint effort of the then government and USOM in 1954. To our dismay of poor supervision, program inefficiencies, and a shortage of competent personnel, hampered the attainment of the goal to malaria control.

The United States became a principle helping hand in providing assistance to the Health Education Project for the training of public health educators and also for preparation of educational materials. It did further improvement in the expansion of Education section Service to rural areas. With the request of Nepalese Ministry of Health, USAID provided 200,000 doses of dry vaccine and distributed in rural areas to control the smallpox. In 1968, it funded about 80 percent of the total budget of family planning project on Nepal. Further, it provided support for the maternal and child health section with health equipment's and continued its assistance for malaria eradication program.

During 1975, out of 75 districts, 43 districts were of bereft of hospitals. Most of the Nepalese did not have access to modern health services. In this time, USAID worked integrated with WHO and the government of Nepal for the improvement of health sector. It formulated the Integrated Health service Project and provided \$3.4 million. About 75percent of the budget of the family planning and maternal child health project was provided by USAID between 1968 and 1972. It provided \$3.6 million grant to malaria Control Project which was in action from 1975.

USAID carried on its effort to develop a nationwide integrated health system through the Integrated Rural Health and Family Planning Project (IRH/FP). Its main purpose was to assist in improving overall management of health services and in expanding delivery in rural areas. This project had supported clinic and hospital based health

services. USAID stretched its helping hand in family planning system through different PVOs funded by US. Like Nepal Red Cross Society, the mother's club and the Ex-servicemen's organization in distributing pills and condoms to villagers. American assistance also supplied support for the Nepal CRS Company in management and administrative system. USAID provided \$4.6 million for the insecticides to control malaria through IRH/FP.

USAID established the Nepal Nutrition Intervention Project in Sarlahi which provided high dose Vitamin A capsules to the children. This resulted in the 30 percent reduction in infant mortality there. In 1992, USAID financially supported the National Vitamin A Deficiency Prevention and Control Program in order to eliminate the Vitamin A deficiency in Nepal. Many donors including USAID supported the Acute Respiratory Infection Strengthening Program and Control of Disease program initiated by the Ministry of Health to reduce mortality in children through pneumonia and diarrhea. Through 1993, USAID, National AIDS Preventing and Control Project, and Family Health International started a new project to reduce the rate of sexually transmitted HIV/AIDS infection. To increase the contraceptive prevalence, to reduce the total fertility, and to reduce the under- five mortality, USAID had played a crucial role in Nepal.

5.6.4 Education

American assistance facilitated as the cornerstone role in facilitating the education development in Nepal. In the decade, about 70 percent of its assistance was allocated for education development. It provided financial and advisory support to the National Education Planning Commission (NEPC). USOM also supported the co-operative services for Education Development providing the cost of development distributing the textbooks and other educational materials and equipment's, and construction of schools. The main educational objective of USOM was to establish a basic education in order to provide a permanent means of meeting Nepal's need for education and

trained citizens. Its earliest primary education activities concentrated on infrastructure development as the simplest and most efficient means of providing universal access to education, financing the construction of 200 primary school classrooms. USOM assisted for the establishment of central library at TU, Laboratory school, Collage of education and contributed to the development of Amrit Science Campus. It also played an eminent role in adult literacy and radio education.

USAID provided about \$12 million on different education projects for the development of education. Its assistance was perpetual in different sectors of education in Nepal like College of Education, National Vocational Training Center, Primary education, Secondary education, Adult education and development of libraries. More than 50,000 books were supplied to the Tribhuvan University Central library and other rural colleges. American assistance gave more emphasis for the participant training in all segments of the education sector in 1960s decade.

USAID paid a focused attention on qualitative improvement of the education system through institutional development. Its assistance in this sector was channeled through Teacher and Technical Education project and Radio Education Teacher Training Project. American assistance facilitated the Institute of Education for the development of research and evaluation component, utilization of educational materials and improvement in the curriculum and teaching methods. “USAID also supported GON’s goal of increased access to education in rural areas, particularly for girls. By the end of decade, female enrollment in primary grades had increased to nearly 20 percent, an encouraging improvement over the extremely low levels of the early 1970s.” (Isaacson et.al., 2001). During this decade, American assistance continued to the secondary education, teacher training and radio education. Due to the effort of American assistance, the Government of Nepal and some other donors, Nepal achieved some improvement in this sector like literacy rate increased to 21percent, girls enrollment in primary level increased to 20percent, 18.4percent in lower secondary level and 16.5percent in secondary level.

“USAID’s strategy in the education sector during the 1980s was designed to take advantage of particular capabilities for technical transfer. USAID provided technical

assistance to upgrade government capacity to collect and analyze education statistics for more informed decision-making in the education sector; assisted with expansion of radio-based teacher training activities which aimed to expand its national literacy program and build a capacity within HMG to design, test, administer and evaluate activities to improve educational quality". (Issacson, 2001).

5.6.5 Transportation and Communication

The Regional Transport Organization (RTO) was formed under a tripartite agreement between the US, India and Nepal. Its primary goals were to stimulate trade and improve communications by developing a national road system. RTO was not a success and met completion only about 640 kilometers of road work. In this decade, USOM helped for the construction of the Hetauda-Kathmandu ropeway. US assistance of \$ 20.9 million was provided for the Nepal-India telecommunications project from which 1000 telephone lines were distributed in Kathmandu. USOM had supported for the construction of Radio Nepal.

The Road Development Project got support from USAID for the improvement of many short roads and Kathmandu valley, including the Dillibazar, Baluwatar and Maharajganj roads and construction of bridge over the Dhobi Khola. America also assisted for improving and expanding the Rapti Valley road linking Hetauda and Bharatpur. Not only for the construction of roads, it also supported for the construction of suspension bridges and airport construction in Nepal. The Western Hill Road (WHR) was established in 1969 with the involvement of USAID. The main purpose of WHR was to link the chronically food deficit hills and the more developed Terai. America supplied engineering assistance to it. During the construction of road, some part of it was affected by landslides. So, in 1979, USAID provided \$ 2.3 million to a landslide and soil stabilization project. The construction of road also provided the employment opportunities for the local farmers.

In the early decade, USAID provided \$3 million to the Terai Suspension Bridge project in order to build more than 24 bridges in rural Nepal. Its main goal was to increase the flow of goods and services. Under this 44 bridges were built. At this time, USAID's assistance in transportation mainly paid attention on project involving inexpensive alternative.

5.6.6 Industrial and Capital Development

“USOM's economic policy in the 1950s maintained that an increase in overall output, aided by elimination of policies restricted free markets, would naturally lead to broad based development. The Point IV program held that technical know-how combined with relatively small amounts of economic assistance, would catalyze economic and social development”. (Issacson et al.2001). USOM supported the Industrial Development Corporation (IDC) to disseminate information and technical services. Later it was converted into National Industrial Development Corporation (NIDC). American assistance also provided technical consultants, commodity support, operational support and sponsored extensive participant training for NIDC staff. USOM also financed tourism industry and provided capital to small industries. Since Nepal had large amount of forest, USAID gave more emphasis on forestry- based industries. Ground Water section was established with the assistance of America. American assistance supports for the operation of the Balaju Industrial District and Hetauda Industrial District. USAID gave concentration for the electricity generation for industries and private use also.

5.6.7 Institution Building

“Some of the more visible and successful example of USAID assistance to institutional development in the 1960s included programs designed to strengthen the Development of public Administration, which established standard administrative procedures and training for civil servants; the Central Bureau of Statistics, charged with gathering and compiling data to support improved economic planning; the Central Training

Department established with the Ministry of Economic Planning to improve Panchayat Training and Development, developed to encourage local leadership at the grassroots level. USAID assisted with the establishment of many other institutions in the Kathmandu valley and in rural areas to train technicians and administrators in agriculture, health and education” Isaacson (2001).

5.6.8 Decentralization

“USAID focused primarily on strengthening the capacities of local government and communities to plan and implement development activities. Decentralized development administration was encouraged through its regionally based integrated rural development projects, and through assistance to government of Nepal and PVOs (Private Voluntary Organizations). USAID sought to improve government administration by incorporating, monitoring and evaluation components in its project “Isaacson (2001), in 1980s decade.

5.6.9 Natural resource Management

At 1980s decade, USAID developed a large project of \$ 32.5 million called Resource Conservation and Utilization Project (RCUP). Its main goal was to assist the government of Nepal in the protection and restoration of the soil, water and plant resource upon which the rural population is dependent. It allocated its funds into energy alternatives, forest management, animal husbandry, agriculture improvement, watershed management, and irrigation etc. USAID funded \$ 8.7 million for the establishment of Institute of Forestry Project in 1987. USAID also facilitated in biodiversity sector such as the extension of Sagarmatha National park for the management of park, research, community resource conservation and development of tourism.

5.6.10 Economic Liberalization

In 1990s decade, USAID/Nepal provided theoretical and practical foreign exchange training assistance to Nepal Rastra Bank, Rastriya Banijya Bank, Nepal Bank Ltd., and Himalayan Bank in order to facilitate the liberalization process of Economic liberalization project. The International Executive Services corps provided the services of highly qualified consultants to improve Nepali companies' expertise in production, finance, marketing and management, with the grant assistance of \$895,390 through USAID/Nepal. It also provided technical assistance to improve the production of Nepali carpet producers. To strengthen and promote Nepal's private sector, it sub-contracted the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) to provide technical assistance in industrial sector.

5.7 Strategies and programs of US Agencies after 2000

Under the American assistance to Nepal after 2000, USAID has been giving priorities to peace and security, democracy and governance, health and family planning, economic growth, and transition initiatives with its other efforts. We discuss them in the following lines:

a. Peace and Security

USAID programs now support Nepal's national and peace building initiatives. USAID works with the ministry of Peace and Reconstruction to build capacity to manage peace and provide information worldwide. The conflict between the Moist and the Nepal government resulted in the deaths of nearly 13,000 people, and beyond human toll, the conflict has severely disrupted the national economy, with estimated losses to national poverty and economy at more than \$ 1.5 billion.(source: USAID)

US assistance programs tries to promote peace and mitigate the negative effects of the conflict through the provision of quick and visible benefits to under-served and conflict-afflicted populations. Some of the program activities under this topic are:

- Increased National capacity to Transition to peace by providing technical assistance and training to GON and civil society networks. It has given emphasis on promoting the participation of women, dalits, and under-represented ethnic groups in a national dialogue for peace.
- Strengthen commodity capacity for peace by uniting people around activities that benefit the commodity.
- Education and skills training to increase agriculture productivity, to rural incomes and promoting of human right.
- Expanded support for victims of the conflict by rehabilitating and providing comprehensive medical for them.

b. Democracy and Governance

U.S assistance is acting as one of the shoulder of responsibility to the re- establishment of representative democracy and restoration of the public faith in political institution.

The main goals of the Democracy and Governance Assistance in Nepal are:

- Strengthened Administration of justice: improving administration of justice in courts, and in public defense organizations.
- More Transparent, Accountable and Effective Governance: strengthening the integrity of government planning and implementation, improving anti-corruption system and legal frameworks for good governance reform.
- Electoral and political process strengthening.

Some of the program activities under this topic are:

- Assisted the national Election Commission to carry out election reform and prepare for elections.
- Supported civil society efforts to monitor and report on political and electoral reform process.
- Provided training to community resource groups to advance democratic governance practices.
- Supported UN and National Human Rights Organizations to promote respect for human rights

c. Health and Family Planning

In spite of the over ten years of insurgency, Nepal has achieved some great strides in key health areas. According to ministry of health, the child mortality rate and maternal mortality rate have been reducing. The people of Nepal have been facing a concentrated HIV epidemic. The HIV prevalence rate is believed to be about 0.5percent in the general population with pocket of higher prevalence among groups that have high risk behaviors such as injecting drug users and female sex workers. Although data are scarce, it is felt that the conflict had also exacerbated migration to India from many rural western, mid and far western districts with the result that higher numbers of migrants and their families have been exposed to HIV through migrants visiting sex workers when they are away from home.

USAID activities aim to reduce fertility and child mortality, and protect the lives of Nepalese families. US assistance have been supporting the voluntary family planning through training; reproductive health education/ literacy; and strengthening GON policies, systems. This agency trains health workers focuses on state-of-the-art community services, and provides appropriate equipment and commodities. US assistance supports essential programs that deliver high-quality HIV, family planning and maternal and child services to disadvantaged populations.

Family Health International (FHI) is a non-profit organization under the USAID program which was formed in 1971 with a mission to improve lives worldwide through research, education, and services in family health. It works with governmental and non-governmental organizations, research institutions, community groups, and private sector by applying flexible programmatic public health approaches and building local capacity to address the most pressing health needs of individuals and communities. FHI has been working in Nepal with the motives of: preventing the spread of HIV/AIDS and sexually transmitted infections and care for those affected by them. b) improving the people's access to quality reproductive health services, especially safe, effective, and affordable family planning methods, and c)improving the health of women and children, especially those who live in resource- constrained settings. FHI is supporting an ambitious and pioneering Community and Home Based Palliative Care (CHBC)

program in Nepal. Begun as pilot programs at several sites in 2005, palliative care was incorporated into FHI-supported integrated health services sites in 2006. From then, its services are rapidly expanding. FHI has offering technical assistance in HIV/AIDS prevention and care in different areas such as; behavior change interventions, condom promotion and community based social marketing, sexually transmitted infection management, voluntary counseling and testing, care and support of people living with HIV/AIDS and their families etc.

The implementing AIDS Prevention and Care (IMPAC) project was a global USAID program implemented by FHI and five other partners from 1997 to 2010 had mainly focused on controlling HIV/AIDS. It had provided comprehensive prevention, care, and treatment services to the numbers of people affected by HIV. During the project period, IMPAC expanded its focus on female sex workers and their clients concentrated along highway, injection drug users, men who have sex with men, and migrant workers in high migration communities in Nepal. ASHA project is another project under the FHI funded by USAID and work in partnership with the National Center for AIDS and STD control (NCASC), ministry of Health and Population. ASHA means hope on Nepali and contributes to the Government of Nepal's National HIV/aids Strategy and Action plan.

d. Economic Growth

US assistance strives to increase incomes and employment in rural areas. USAID is supporting a multi-faceted “Education for Income Generation” program, combining literacy and life skills, vocational education, agriculture training, and targeted scholarship for disadvantaged and conflict-ridden youths in mid-western Nepal. Currently, the economic growth programs of USAID/Nepal supplies efforts on: Education, Agriculture sector program, rural infrastructure, and hydropower.

Program activities under agriculture sector include small-scale farm and forest enterprise development, technical assistance in production and marketing of high value forest and farm crops, conducting research and studies on policy impediments to agriculture growth and trade, and support for private public partnership to access new technologies and new market.

Under the education sector, US Department of State has been sponsoring the Fulbright Program for the study in United States also with scholarship. It is the largest US international exchange program offering opportunities for students, scholars, and professionals to undertake international graduate study, advanced research, university teaching and teaching in elementary and secondary schools worldwide. The first Fulbright scholarship was awarded to Nepalese in the 1950s. The Fulbright supports graduate study and post-doctoral research in the US for Nepalese junior and senior scholars. Annually about ten Nepalese are getting the Fulbright Scholarship to the US. It awards with the grants of a maximum of two years duration to Nepalese students in any field except medicine, engineering, and agriculture to pursue Master degrees in the United States. Each year the Nepal Fulbright Commission awards four to six scholarship to Nepalese students through a nationwide competition. Annually the Nepal Fulbright Commission makes two or three Post-Doctoral grants to Nepali academics who wish to conduct research at US universities usually for six months. The Fulbright Commission organizes and conducts the first stage of selection for East- West Center awards also. East-west center awards include graduate degree scholarships and funding for short-term programs such as seminar and workshops.

USAID is encouraging socially and environmentally sustainable hydropower development in Nepal by creating enabling conditions for policy reform, transparency, good governance, and private sector investment. Through a bilateral agreement with the Government of Nepal for a five year (2001-2006) hydropower program, USAID had provided technical assistance and training to: set up a streamlined legal and regulatory framework and simpler licensing procedures, strengthen institutional capacity to address environmental and social impacts, and implement a new policy that promotes investment in both domestic and export markets.

e. Humanitarian Assistance

US humanitarian assistance has been supporting the conflict- ridden communities and tries to mitigate the effects of natural disasters on rural households. Under this topic, the program activities of USAID/Nepal are;

- Provided food assistance to drought- affected population and Bhutanese refugees.
- Provided reintegration and humanitarian assistance to displaced populations.
- Provided communities to develop natural disaster preparedness and response capabilities.

f. Transition Initiatives

Nepal had suffered from a decade –long armed insurgency which has profound economic, social, and psychological effects throughout the country. Until recently, the country suffered from continuing political instability. With the recent positive political momentum towards peace and democracy, the US Agency for International Development’s Office of Transition Initiatives (OTI) has established a two-year fifteen million dollar program through which for the first time in ten years, opportunities will exist to reinforce the peace process. Will build a stronger democracy and will bring more stability in development process. In close coordination with existing USAID programs, OTI’s initiatives will seek to positively support the political consolidation of Nepal’s government.

The OTI program goal is to support a peaceful democratic transition in Nepal. Its objectives are to: increase access to information and diversify public debate on issues critical to political transition, and increase effectiveness of key political transition institutions. OTI is currently planning on training radio journalists whose enhanced reporting skills will help bring local and national voices to a single platform. Additionally OTI is supporting partners that are targeting youths with public services announcements providing details of the peace agreement.

5.8 Program Summary of USAID to Nepal in 2011

a. Health and education (\$41.5 m FY 2011)

USAID improves the survival and quality of life of Nepalese through equitable and well- governed health systems. Our programs:

- Expand access to and the use of quality, voluntary family planning services.
- Reduce child and maternal mortality by increasing access to quality selected maternal and child health services.
- Support new and integrated efforts to improve nutrition and hygiene nationally with a special focus on food insecure areas.
- Prevent the spread of HIV and treating other sexually transmitted infections among most-at-risk groups and migrants.
- Increase consumer awareness and demand for quality health products and support small and medium sized Nepalese businesses to profitably manufacture, market, and sell these products.

b. Democratic Governance (\$11.835m FY 2011)

USAID supports and advances Nepal's political transition by strengthening citizen participation through programs which:

- Strengthen political institutions and structures such as political parties and the Legislature- parliament to make them more representative and effective.
- Assist the Election Commission of Nepal and other electoral stakeholders to more effectively undertake voter registration and education, and conduct credible elections.
- Raises citizens' awareness about the democratic transition, so that people better understand and more productively participate in democratic processes.
- Support community groups to better define, advocate for and implement development activities that meet local priorities.
- Train local citizens in community mediation, expanding citizen participation in the resolution of local conflict.
- Develop and strengthen lasting linkages between citizens and local government units.
- Enhance the ability of government and civil society institutions to engage in preventing and protection vulnerable populations, and increase the capacity of

the judiciary and law enforcement agencies to effectively enforce legal measures to prosecute human traffickers.

c. Economic Growth (\$27.0m FY 2011)

USAID works to increase incomes and employment in rural areas by addressing the lack of economic opportunities, inequitable growth, and social exclusion through programs which:

- Provide disadvantaged youth with literacy, life skills and employment linked job training. Improve the livelihoods of flood affected people.
- Increase food security, rural incomes, and agriculture productivity by improving access to and availability of new agriculture technologies, high yielding seed, and information, promoting the production of high- value crops, and supporting and facilitating access to markets.
- Improve the Government's Early Childhood Education Development services.

Improve Nepal's business environment for private sector-led growth; encourage competitiveness and export; enhance food security; improve trade and fiscal policies and practices; and strengthen microfinance policies and institutions by working with the government, the private sector, think tanks and the civil society.

Source; www.usaid.gov.com (24 February 2011)

CHAPTER-6

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

6.1 Summary of Findings

In the developing countries like Nepal, domestic resources are inadequate to meet the financial requirements of economic development. The present level of capital formation of Nepal too low and any substantial increase in saving is not possible due to extremely low level of income and wide spread poverty. At this situation, foreign aid is advantageous for the acceleration of growth mechanism. It is a supplement to poor domestic saving of less and backward economies. Developing countries in the world, including Nepal, are moving around the vicious circle of poverty. Still more than 25 percent people of Nepal are under the absolute poverty line, according to the government record. Every year, there is high resources gap in our budget. This budget is called deficit budget. There is higher expenditure than revenue, due to the high growth rate of population, lack of capital, technology and skilled manpower; there is high saving – investment gap in Nepal. In this situation, foreign aid is only way to fulfill this types of gap.

The second chapter is concerned to the literature review. The review was done in two headings; these are conceptual framework and review of related thesis. Foreign aid is viewed as a concept which refers to the flow of capital and technical resources either directly from the government of a donor country or through multilateral channels to government of Nepal. Multilateral and bilateral aid include all assistance either they are tied or not and technical or financial.

The third chapter is related to the research methodology. Research design, Nature and Source of Data, Sample period, Statistical, procedure Statistical Tools for Analysis, Hypothesis of the study and Statistical Test of Significance were included in this

chapter. Time series data has been used to analyze trend and pattern of foreign aid and USAID in Nepal.

In the Chapter four, foreign aid in Nepal includes history, trend and magnitude, sources, commitments and disbursement, foreign aid disbursement by the sectors and impact of foreign aid on GDP in the context of Nepal. In formal or official term Nepal received first foreign aid under “Point Four Programme” on 23rd January, 1951 A.D on the basis of disbursement, Nepal received Rs.414852.9 million of the total foreign aid since 1980/81 to 2009/10 which constitutes 52.2% (RS.216584.1) of grant and 47.8% (RS. 198268.9) of loan. Foreign assistance data for the period FY 1980/81 to FY 2009/10 shows that on an average about 59.44 percent of the committed foreign aid was actually disbursed. The impact of foreign aid on GDP, in the period between FY 1980/81 to FY 1984/85, the share of foreign aid to GDP was 6.15%. During the period, FY 1980/81 to FY 2009/10, the share of foreign aid in GDP, was around 44.28%. In total analysis, the share of foreign aid on GDP is increasing. In the empirical analysis, GDP is the positive function of foreign aid, i.e. with increase in one million on foreign aid; the GDP will be increased by 12.62 million. This indicates the important contribution of foreign aid in the Nepalese economy. The value of R² (unadjusted coefficient) is 0.683, which implies that about 68.3percent of variation in dependent variable (i.e. GDP) is explained by the independent variable (i.e. foreign aid). The value of R² ranges from 0 to 1. As the value of R² is 0.683 or 68.3 percent approaches to 1, the regression plane thus estimated is good fit. We have set null hypothesis for the purpose holds that, there no significant relationship between foreign Aid to Nepal and GDP growth in Nepal. The null hypothesis is rejected and alternative hypotheses accepted. But above result indicate that there is positive relationship between foreign aid received and GDP growth in Nepal.

Chapter five analysis trend, pattern and sectoral analysis of USAID. US have provided \$1075.3 million during the sixty years of aid to Nepal since 1951. After the restoration of multiparty democracy in Nepal (1990), US provided more than US \$ 20 million each year, altogether \$ 624.5 million till 2010 which is more than 58.6 % of total USAID to Nepal.

Large amount of US assistance is absorbed by investing in people i.e US \$24,500,000 in the year 2009 and US \$ 26,500,000 in the year 2010. This sector embraces improvement in the child and maternal health, controlling infectious diseases and HIV/AIDS, family planning. The sub- sectors HIV/AIDS and family planning are higher priority under the health sector. Second priority is given on humanitarian assistance in 2009 i.e. US \$15,038,000 and economic growth in 2010 i.e. US \$19,500,000.

Major Findings of the Study

Nepal has been receiving foreign aid since long time. It receives aid from various sources for various purposes. The major findings of this study are as follows:

- Inflow of foreign aid is not smooth. In the beginning the volume of aid has been seen increasing rapidly, later on the growth rate of aid inflow declines gradually. In the period of 1981-1990, it increased by more than 517 percent. But in the next decade (1991-2000) aid inflow increased by only more than 265 percent and later in 2001-2010 AD it increased by only around 100 percent. It shows that the trend of aid is fluctuated.
- Foreign aid has been playing a vital role in economic development of Nepali economy. The empirical analysis shows that the foreign aid and GDP are positively related means foreign aid has positive impact on GDP growth. The coefficient of foreign aid on GDP is 12.626, which means if there is one percent increment on foreign aid inflow it results in increment on GDP by the more than twelve percent.
- Nepal receives aid from various sources electricity, communication, agriculture, irrigation and forestry, industry, commerce and various social service sectors like education, health etc. This study finds that since the very beginning transportation, power and communication sector has been the biggest recipient of foreign aid. This sector has received greater amount of loans than grants. In the period 1980/81 to 1984/85, this sector received the largest portion of aid which was 40.45% of the total aid. Share of aid received by industry and commerce sector was relatively smaller than other sectors. The source wise annual aid disbursement indicated that

the percentage share of agriculture in 1980s was smaller in comparison to transport and communication sectors. Share of aid to agriculture, irrigation and forestry sector was quite high until 1980s after which it began to fall. Social service sector has also remained an important sector from the perspective of aid receipt. The increasing trend of aid into this sector is a reflection of donor priority. In the period 1980/81 to 2009/10, out of the total disbursed aid of Rs. 584,948.9 millions, 42.04% was distributed to social services, 20.86% agriculture, irrigation and forestry, 32.45% transport communication and power, and 4.68% to industry and commerce.

- US have provided \$1075.3 million during the sixty years of aid to Nepal since 1951. After the restoration of multiparty democracy in Nepal (1990), US provided more than US \$ 20 million each year, altogether \$ 624.5 million till 2010 which is more than 58.6 percent of total USAID to Nepal.
- Large amount of US assistance is absorbed by investing in people i.e., US \$ 24,500,000 in the year 2009 and US \$ 26,500,000 in the year 2010. This sector embraces improvement in the child and maternal health, controlling infectious diseases and HIV/AIDS, family US have provided \$1075.3 million during the sixty years of aid to Nepal since 1951. After the restoration of multiparty democracy in Nepal (1990), US provided more than US \$ 20 million each year, altogether \$ 624.5 million till 2010 which is more than 58.6 percent of total USAID to Nepal. planning. The sub- sectors HIV/AIDS and family planning are higher priority under the health sector. Second priority is given on humanitarian assistance in 2009 i.e., US \$15,038,000 and economic growth in 2010 i.e. US \$ 19,500,000.

6.2 Conclusion

Despite of its richness in natural beauties, Nepal is bereft (backward) of economic prosperity. Underdeveloped infrastructures, lack of good governance, political instability, lack of proper technical education etc. are the major hurdles in its economic development. It suffers from a serious resource gap problem. Foreign aid can play an important role to fulfill the development plan outlay and to narrow the resource gap

problem in Nepal. Nepal has been a recipient of foreign assistance since 1951 after the overthrow of Rana regime. All development plans of Nepal have heavily relied on foreign aid since Nepal embarked on a planned development. The first development plan was fully financed by foreign aid.

Foreign aid is widely accepted in developing countries for various sectors. In the developing countries like Nepal, the adequate mobilization of internal resources is not possible without foreign aid in order to accelerate the rate of economic development and growth, due to the deficiency of capital. If foreign aid is utilized properly, It can play a pivotal role in the overall development efforts of the country. But every developing country is not able to utilize increasing external aid effectively. In Nepal, economists and policy markets have realized the problem of foreign aid indigestion during the past few years.

Since 1980/81 to 2009/2010, amount of total foreign aid received by Nepal is RS.414852.9 million, out of which Rs.216584.1 million (52.2 percent) is of grant aid while Rs. 198268.9 million (47.8 percent) consists of total loan aid. In the initial period of aid to Nepal, most of the aid was in the form of grants but over the years, the share of grant assistance has been declining. In the FY 1980/81, the share of grant assistance was 55.62 percent and loan assistance was only 44.38 percent. But in the FY 1985/86, the share of grant assistance was only 32.09 percent and loan assistance was 67.90 percent. Similarly the share of grant assistance in the FY 2000/01 was 35.91 percent and loan assistance was 64.09 percent. This resulted in the increased burden on the economy of the payment of foreign debt and their interest.

It is visible that the foreign aid has not been utilized to its full extent according to the amount of foreign aid commitment. In the FY 1996/97, only 41.02 percent and in FY 2001/02, 43.3 percent of total aid commitment was disbursed. It shows the poor absorptive capacity of the economy and delay in the implementation of projects. But in the recent years, more than 60 percent of the committed aid has disbursed. In the past, foreign aid to Nepal had mostly emphasized on transport, power and communication but in the recent years it has given highest priority in social service sector.

US has provided US \$ 1075.3 million during the sixty years of aid to Nepal from 1951. After the restoration of multiparty democracy in Nepal (1991), US provided more than US \$20 million in each year, altogether US \$ 624.5 million till 2010 which is more than 58.06 percent of total USAID to Nepal. Since the beginning of the American assistance to Nepal, it has covered almost all sectors of our economy like agriculture, health and education, rural development, democracy and governance, transportation and communication etc. Among them, health and family planning sector has got higher priority, and agriculture sector has got second priority.

In the 1950s decades, US assistance had played significant role in agriculture development, rural development, health and education, and transportation and communication sectors. In the 1960s decade, it emphasized on institution building also. Decentralization of development activities was focused during 1980s through the American assistance. Similarly, in the 1990s decade, economic liberalization and women's empowerment had got equal priorities as other sectors. After the year 2000, US have focused its assistance in peace and security, and economic growth also.

The foreign assistance has helped to improve the Nepalese economy in many instances. The number of hospitals and health posts has increased. Quality as well as quantity of schools, teachers and students has added up. Drinking water, irrigation, electricity and road access have also got improvement in their supply. But we have to remember that most of the foreign aided projects were concentrated on urban areas only. The people of rural areas are beyond the reach of the service of these foreign aided projects except irrigation.

As foreign aid projects bring in advanced technology and sophisticated products catering to the needs of urban population, the economic dualism is found to increase further. In other word, the foreign aid, directly or indirectly has been increasing the gap between the haves and haves not, rural and urban. The foreign aided projects provide high salary to the working people than the government. This system has increased the corruption as well as haphazard urbanization. Also the saving – investment gap has not been reduced and more than 25 percent of people have to live below the poverty line. Hence, foreign aid including USAID also in Nepal seems to be less effective on

centralizing the needs of majority of the people. It has been unable to focus the specific problems of equity and justice, and also to ensure priority in the process of aid utilization. The aid underutilization has been the serious problem in Nepal. The more responsible factor for the underutilization of foreign aid is political instability immediately after the change of government, the working people as well as the working system of foreign aided projects also changes. Due to these reasons, Nepal is facing a difficult situation, the country can neither promote the economy without aid, nor has it been able to avoid the risk of entering into the debt trap.

6.3 Recommendations

Even though Nepal is one of the poor countries of the world, certain initiatives can play vital role in making it financially flowering. But to our dismay, our every policy has to be streamlined with the donor's policy. Because of the lack of independent economic policy in Nepal, the development process has still been stagnant. Foreign aid is no more exception in Nepal as every large projects demand high amount of financial resources that is not managed by Nepal. So from the very beginning of our planned development, we heavily depend on foreign aid. Now the quantum of foreign debt has reached its ceiling and there is no way out.

Although foreign aid did assist in other development efforts markedly, it did not substantially contribute to the economic development of Nepal. Hitherto, the importance of foreign aid can't be denied because the domestic resources mobilization of Nepal is still very low to fulfill the investment requirement. Many bottlenecks are found in utilizing the foreign aid but can be solved in the near future. For this, new visions and ways of aid should be brought into light from both donor and recipient countries.

Based on the above observations and conclusion, the following recommendations have been put forward:

- It will be very difficult to utilize the foreign aid unless there is a substantial improvement in our absorptive capacity. Hence there should be quick solution of present obstacles like delay in the approval of tender, weakness in administrative management and coordination etc.
- Foreign aid should be accepted in accordance with the development need and the development priority of the country instead of accepting anything that is available from the external source.
- The government should prepare priority list of visible projects and backward sectors according to the development need. Entire freedom in the selection of the projects should not be provided to donors. The project should be selected by the Government of Nepal according to the priority list.
- Priority should be given to grants rather than loans and be used to productive sectors.
- Project management efficiency should be improved and enhanced.
- Some countries provide aid with some conditions. This is why, the conditions should be properly studied and only those projects which are favorable for the country should be chosen. Bargaining capacity should be increased to make foreign aid more favourable.
- The United States should provide aid to Nepal for humanity and improvement of backward sectors of Nepal. It should be politically neutral, not for military ambitions and business interests.
- Under the US assistance, major projects are in urban areas i.e. only minor projects are in remote areas. So these projects should also be expanded in rural and remote areas.
- Nepal must develop internal market and promote export opportunities by promoting agro-based industries and enterprises with the participation of cooperative and private sector using the USAID effectively.

APPENDICES

Appendix-I

Foreign Aid Inflow and GDP

| Fiscal Year | Foreign Aid | GDP |
|--------------------|--------------------|------------|
| 1980/81 | 1562.20 | 27,307.00 |
| 1981/82 | 1723.20 | 30,988.00 |
| 1982/83 | 2075.50 | 33,761.00 |
| 1983/84 | 2547.50 | 39,390.00 |
| 1984/85 | 2,676.40 | 44,441.00 |
| 1985/86 | 3,491.50 | 53,215.00 |
| 1986/87 | 3,314.40 | 61,140.00 |
| 1987/88 | 5,078.50 | 73,170.00 |
| 1988/89 | 5,666.90 | 85,830.00 |
| 1989/90 | 6,427.10 | 99,702.00 |
| 1990/91 | 5,990.00 | 116,128.00 |
| 1991/92 | 7,800.40 | 144,931.00 |
| 1992/93 | 9,235.60 | 164,634.00 |
| 1993/94 | 11,557.20 | 191,596.00 |
| 1994/95 | 11,249.40 | 209,974.00 |
| 1995/96 | 14,289.00 | 239,388.00 |
| 1996/97 | 15,031.90 | 269,570.00 |
| 1997/98 | 16,457.10 | 289,798.00 |
| 1998/99 | 16,189.00 | 330,018.00 |
| 1999/00 | 17,523.90 | 366,251.00 |
| 2000/01 | 18,797.40 | 393,566.00 |
| 2001/02 | 14,384.80 | 422,244.00 |
| 2002/03 | 15,885.50 | 453,698.00 |
| 2003/04 | 18,912.40 | 474,919.00 |
| 2004/05 | 23,657.30 | 508,651.00 |
| 2005/06 | 22,041.80 | 556,879.00 |
| 2006/07 | 532,038.20 | 25,864.30 |
| 2007/08 | 564,516.50 | 29,300.60 |
| 2008/09 | 591,933.40 | 36,351.10 |
| 2009/10 | 616,250.00 | 49,769.40 |

Source: Various Economic surveys

Appendix –II

Total aid inflow in Nepal

(Rs. In million)

| Year | Grant Loan | Loan | Total Foreign | Percentage of Grant | Percentage of Loan |
|--------------|------------------|-------------------|-------------------|------------------------|-----------------------|
| 1980/81 | 868.90 | 693.30 | 1,562.20 | 55.62 | 44.38 |
| 1981/82 | 993.30 | 729.90 | 1,723.20 | 57.64 | 42.36 |
| 1982/83 | 1,090.10 | 985.80 | 2,075.90 | 52.51 | 47.49 |
| 1983/84 | 876.60 | 1,670.90 | 2,547.50 | 34.41 | 65.59 |
| 1984/85 | 923.40 | 1,753.00 | 2,676.40 | 34.50 | 65.49 |
| 1985/86 | 1,120.60 | 2,370.90 | 3,491.50 | 32.09 | 67.90 |
| 1986/87 | 1,078.30 | 2,236.10 | 3,314.40 | 32.53 | 67.47 |
| 1987/88 | 1,984.20 | 3,094.30 | 5,078.50 | 39.07 | 60.93 |
| 1988/89 | 1,478.20 | 4,188.70 | 5,666.90 | 26.08 | 73.92 |
| 1989/90 | 1,798.80 | 4,628.30 | 6,427.10 | 27.98 | 72.01 |
| 1990/91 | 1630.00 | 4,360.00 | 5,990.00 | 27.21 | 72.79 |
| 1991/92 | 1531.00 | 6,269.40 | 7,800.40 | 19.63 | 80.37 |
| 1992/93 | 3,273.90 | 5,961.70 | 9,235.60 | 35.45 | 64.55 |
| 1993/94 | 2,393.60 | 9,163.60 | 11,557.20 | 20.71 | 79.29 |
| 1994/95 | 3,937.10 | 7,312.30 | 11,249.40 | 34.99 | 65.00 |
| 1995/96 | 4,825.10 | 9,463.90 | 14,289.00 | 33.77 | 66.23 |
| 1996/97 | 5,988.30 | 9,043.60 | 15,031.90 | 39.84 | 60.16 |
| 1997/98 | 5,402.60 | 11,054.50 | 16,457.10 | 32.83 | 67.17 |
| 1998/99 | 4,336.60 | 11,852.40 | 16,189.00 | 26.79 | 73.21 |
| 1999/00 | 5,711.70 | 11,812.20 | 17,523.90 | 32.59 | 67.41 |
| 2000/01 | 6,753.40 | 12,044.00 | 18,797.40 | 35.93 | 64.07 |
| 2001/02 | 6,686.20 | 7,698.60 | 14,384.80 | 46.48 | 53.52 |
| 2002/03 | 11,339.10 | 4,546.40 | 15,885.50 | 71.38 | 28.62 |
| 2003/04 | 11,283.40 | 7,629.00 | 18,912.40 | 59.66 | 40.34 |
| 2004/05 | 14,391.90 | 9,266.10 | 23,658.00 | 60.82 | 39.18 |
| 2005/06 | 13,827.50 | 8,214.30 | 22,041.80 | 62.73 | 37.27 |
| 2006/07 | 15,810.80 | 10,053.50 | 25,864.30 | 61.12 | 38.88 |
| 2007/08 | 20,320.70 | 8,979.90 | 29,300.60 | 69.35 | 30.65 |
| 2008/09 | 26,382.80 | 9,968.90 | 36,351.10 | 72.58 | 27.42 |
| 2009/10 | 38,546.00 | 11,223.40 | 49,769.40 | 77.44 | 22.56 |
| Total | 221669.37 | 199,795.90 | 421,494.75 | 52.59 | 47.41 |

Source: Budget in Nepal since 1951/52 to 1984/85, GON

Economic Surveys from FY 1981/82 to 2009/10

Appendix- III

Bilateral and Multilateral Aid in the percent of Total Aid

(Rs. In million)

| Year | Bilateral | Bilateral as a percent of Total | Multilateral | Multilateral As a percent of total | Total |
|--------------|-------------------|--|-------------------|--|-------------------|
| 1980/81 | 858.10 | 54.90 | 704.10 | 45.10 | 1,562.20 |
| 1981/82 | 909.50 | 52.80 | 813.70 | 47.20 | 1,723.20 |
| 1982/83 | 947.20 | 45.60 | 1,128.70 | 54.40 | 2,075.90 |
| 1983/84 | 983.20 | 38.60 | 1,564.30 | 61.40 | 2,547.50 |
| 1984/85 | 1,,156.30 | 43.20 | 1,520.10 | 56.80 | 2,676.40 |
| 1985/86 | 1,481.10 | 42.40 | 2,110.40 | 57.60 | 3,591.50 |
| 1986/87 | 1,078.40 | 32.50 | 2,236.10 | 67.50 | 3,314.50 |
| 1987/88 | 2,251.60 | 44.30 | 2,826.90 | 55.70 | 5,078.50 |
| 1988/89 | 1,707.00 | 30.10 | 3,959.20 | 69.90 | 5,666.20 |
| 1989/90 | 2,544.90 | 39.60 | 3,882.20 | 60.40 | 6,427.10 |
| 1990/91 | 2,939.90 | 49.10 | 3,050.10 | 50.90 | 5,990.00 |
| 1991/92 | 3,597.30 | 46.10 | 4,203.10 | 53.90 | 7,800.40 |
| 1992/93 | 3,638.50 | 39.40 | 5,597.10 | 60.60 | 9,235.60 |
| 1993/94 | 2,627.10 | 22.70 | 8,930.10 | 77.30 | 11,557.20 |
| 1994/95 | 3,988.70 | 35.40 | 7,260.700 | 64.50 | 11,249.40 |
| 1995/96 | 3,533.30 | 24.70 | 10,755.70 | 75.30 | 14,289.00 |
| 1996/97 | 6,012.70 | 40.00 | 9,019.20 | 60.00 | 15,031.90 |
| 1997/98 | 6,297.70 | 38.30 | 10,159.40 | 61.70 | 16,457.10 |
| 1998/99 | 4,167.60 | 25.70 | 12,021.40 | 74.30 | 16,189.00 |
| 1999/00 | 4,,929.10 | 28.10 | 12,594.80 | 71.90 | 17,523.90 |
| 2000/01 | 2,771.20 | 14.70 | 16,026.200 | 85.30 | 18,797.40 |
| 2001/02 | 4,675.30 | 32.50 | 9,709.50 | 67.50 | 14,384.80 |
| 2002/03 | 10,044.40 | 63.20 | 5,841.40 | 36.80 | 15,885.80 |
| 2003/04 | 9,013.20 | 47.70 | 9,899.20 | 52.30 | 18,912.40 |
| 2004/05 | 9,230.80 | 39.00 | 14,426.50 | 61.00 | 23,657.30 |
| 2005/06 | 7,658.40 | 34.70 | 14,383.40 | 65.30 | 22,041.80 |
| 2006//07 | 16,406.40 | 64.20 | 9,447.90 | 35.80 | 25,854.30 |
| 2007/08 | 10,207.70 | 34.80 | 19,092.90 | 65.20 | 29,300.60 |
| 2008/09 | 9,333.10 | 25.70 | 27,018.60 | 74.30 | 36,351.70 |
| 2009/10 | 22,901.50 | 46.01 | 26,867.90 | 53.33 | 49,769.40 |
| Total | 157,891.20 | 38.00 | 257,050.80 | 62.00 | 41,4942.00 |

Source: Various issues of economic survey, MOF/GON

Appendix – IV

Foreign Aid Commitments and Disbursements

(Rs. In million)

| Year | Commitment | Disbursement | Disbursement as a percent of Commitment |
|--------------|-------------------|-------------------|---|
| 1980/81 | 4,012.60 | 1,562.20 | 38.93 |
| 1981/82 | 2,886.10 | 1,723.20 | 59.71 |
| 1982/83 | 2,959.20 | 2,075.90 | 70.15 |
| 1983/84 | 3,099.60 | 2,547.50 | 82.19 |
| 1984/85 | 5,991.40 | 2,676.40 | 44.67 |
| 1985/86 | 5,904.20 | 3,491.50 | 36.74 |
| 1986/87 | 8,727.50 | 3,314.40 | 37.98 |
| 1987/88 | 6,449.60 | 5,078.50 | 78.74 |
| 1988/89 | 10,403.00 | 5,666.90 | 54.47 |
| 1989/90 | 15,830.00 | 6,427.10 | 40.60 |
| 1990/91 | 5,665.40 | 5,990.00 | 105.73 |
| 1991/92 | 31,084.00 | 7,800.40 | 25.10 |
| 1992/93 | 20,527.00 | 9,235.60 | 44.99 |
| 1993/94 | 13,172.00 | 11,557.20 | 87.74 |
| 1994/95 | 12,877.00 | 11,249.00 | 87.36 |
| 1995/96 | 16,537.00 | 14,289.00 | 86.41 |
| 1996/97 | 36,643.00 | 15,031.90 | 41.02 |
| 1997/98 | 32,022.00 | 16,457.10 | 51.39 |
| 1998/99 | 18,353.00 | 16,189.00 | 88.21 |
| 1999/00 | 20,448.00 | 17,523.90 | 85.70 |
| 2000/01 | 31,287.00 | 18,797.40 | 60.08 |
| 2001/02 | 33,228.00 | 14,384.80 | 43.29 |
| 2002/03 | 43,203.00 | 15,885.50 | 36.77 |
| 2003/04 | 23,738.00 | 18,912.40 | 79.67 |
| 2004/05 | 38,152.00 | 23,657.30 | 62.00 |
| 2005/06 | 20,924.00 | 22,101.90 | 105.60 |
| 2006/07 | 36,563.00 | 25,854.37 | 70.70 |
| 2007/08 | 49,186.00 | 29,301.00 | 59.57 |
| 2008/09 | 47,975.00 | 36,351.70 | 75.76 |
| 2009/10 | 96,609.00 | 49,769.40 | 51.55 |
| Total | 698,056.00 | 414,902.50 | 59.44 |

Source : Various issues of economic Survey, MOF/GON

Appendix –V

Sectoral Allocation of Foreign Aid (1980/81- 2009/10)

(Rs. In million)

| Fiscal Year | Transport, Power and Communication | Agriculture, Irrigation and Forestry | Industry and Commerce | Social Service Sector |
|--------------|--|--|-----------------------------|--------------------------|
| 1980/81 | 1,000.00 | 322.60 | 67.70 | 146.40 |
| 1981/82 | 775.60 | 454.30 | 143.90 | 335.90 |
| 1982/83 | 648.30 | 599.20 | 211.20 | 612.40 |
| 1983/84 | 859.10 | 757.60 | 494.90 | 432.40 |
| 1984/85 | 969.10 | 1,053.10 | 191.80 | 435.30 |
| 1985/86 | 1,321.20 | 1,298.80 | 275.70 | 586.40 |
| 1986/87 | 1,473.70 | 1,037.60 | 183.40 | 585.40 |
| 1987/88 | 2,784.60 | 1,226.30 | 445.70 | 522.30 |
| 1988/89 | 3,120.10 | 1,466.80 | 191.20 | 845.00 |
| 1989/90 | 2,679.10 | 1,489.70 | 656.60 | 1,555.80 |
| 1990/91 | 2,575.60 | 1,253.20 | 1,391.00 | 1,575.80 |
| 1991/92 | 2,485.10 | 1,945.40 | 2,174.00 | 1,191.60 |
| 1992/93 | 3,939.60 | 1,927.40 | 696.90 | 2,667.60 |
| 1993/94 | 4,169.40 | 5,519.10 | 389.90 | 1,468.60 |
| 1994/95 | 4,574.90 | 3,462.40 | 480.30 | 2,680.10 |
| 1995/96 | 8,052.70 | 3,399.60 | 15.90 | 2,636.20 |
| 1996/97 | 8,504.50 | 2,827.50 | 23.40 | 3,665.00 |
| 1997/98 | 8,989.60 | 2,852.10 | 198.10 | 4,417.30 |
| 1998/99 | 3,383.90 | 3,383.90 | 404.70 | 4,446.40 |
| 1999/00 | 3,209.80 | 3,209.80 | 298.50 | 5,794.40 |
| 2000/01 | 3,774.80 | 3,774.80 | 19.90 | 5,759.50 |
| 2001/02 | 3,285.80 | 3,285.80 | 368.70 | 4,685.80 |
| 2002/03 | 2,177.90 | 2,177.90 | 401.20 | 5,321.00 |
| 2003/04 | 2,429.60 | 2,429.60 | 146.80 | 8,730.10 |
| 2004/05 | 2,595.70 | 2,595.70 | 123.90 | 10,746.80 |
| 2005/06 | 2,396.30 | 2,396.30 | 105.30 | 11,162.20 |
| 2006/07 | 2,882.40 | 2,882.40 | 6,662.00 | 15,159.40 |
| 2007/08 | 6,709.50 | 3,859.30 | 78.70 | 18,193.10 |
| 2008/09 | 6,297.70 | 2,291.20 | 160.70 | 24,695.70 |
| 2009/10 | 11,793.20 | 3,080.90 | 380.00 | 33,025.30 |
| Total | 109,859.00 | 68,260.00 | 17,382.00 | 174,079.20 |

Source: Various issues of economic survey, MOF/GON.

Appendix- VI

Resource Gap Situation in Nepal

(Rs. In million)

| FY | Total govt. expenditure | Total Revenue | Resource Gap |
|--------------|-------------------------|-------------------|-------------------|
| 1980/81 | 4,092.30 | 2,418.20 | 1,674.10 |
| 1981/82 | 5,361.30 | 2,679.50 | 2,681.80 |
| 1982/83 | 6,979.30 | 2,842.60 | 4,137.70 |
| 1983/84 | 7,437.40 | 3,409.30 | 4,028.10 |
| 1984/85 | 8,394.90 | 3,916.60 | 4,478.30 |
| 1985/86 | 10,097.10 | 4,644.50 | 5,452.60 |
| 1986/87 | 11,513.10 | 5,975.10 | 5,538.00 |
| 1987/88 | 14,104.90 | 5,350.90 | 8,754.00 |
| 1988/89 | 18,005.00 | 776.90 | 10,228.10 |
| 1989/90 | 19,669.30 | 9,287.50 | 10,381.80 |
| 1990/91 | 23,549.80 | 10,729.90 | 12,819.90 |
| 1991/92 | 26,419.20 | 13,512.70 | 12,905.50 |
| 1992/93 | 30,897.70 | 15,148.40 | 15,749.30 |
| 1993/94 | 33,597.40 | 19,580.80 | 16,166.60 |
| 1994/95 | 39,060.00 | 24,575.20 | 14,484.80 |
| 1995/96 | 46,542.40 | 27,893.10 | 18,649.30 |
| 1996/97 | 50,723.70 | 30,373.50 | 20,350.20 |
| 1997/98 | 56,118.30 | 32,937.90 | 23,180.40 |
| 1998/99 | 59,578.80 | 37,251.00 | 22,328.00 |
| 1999/00 | 66,272.50 | 42,893.80 | 23,378.70 |
| 2000/01 | 79,835.10 | 48,893.60 | 30,941.50 |
| 2001/02 | 80,072.20 | 50,445.50 | 29,626.70 |
| 2002/03 | 84,006.00 | 56,229.80 | 17,776.30 |
| 2003/04 | 89,442.60 | 62,331.00 | 27,111.60 |
| 2004/05 | 102,560.40 | 70,122.70 | 32,437.70 |
| 2005/06 | 110,889.20 | 72,282.10 | 38,607.10 |
| 2006/07 | 133,604.50 | 87,712.20 | 45,892.30 |
| 2007/08 | 161,350.00 | 107,620.50 | 53,729.50 |
| 2008/09 | 219,661.90 | 169,857.30 | 49,408.60 |
| 2009/10 | 259,689.10 | 218,491.70 | 41,197.40 |
| Total | 1,380,174.40 | 851,834.80 | 513,489.90 |

Source: Various issues of Economic Survey, MOF,/ GON.

Appendix –VII

Share of Foreign Aid in GDP and Government Expenditure

(Rs. In million)

| FY | Foreign Aid | GDP | Govt. Budget Expenditure | Share of foreign aid (in percent) | | |
|---------|-------------|------------|--------------------------|------------------------------------|-----------------------------|-------------------|
| | | | | Aid / GDP P ratio | Percent change in Total Aid | Govt. Budget Exp. |
| 1980/81 | 1,562.20 | 27,307.00 | 4,092.30 | 5.72 | - | 38.17 |
| 1981/82 | 1,723.20 | 30,988.00 | 5,361.30 | 5.56 | 9.00 | 32.14 |
| 1982/83 | 2,075.50 | 33,761.00 | 6,979.30 | 6.15 | 17.00 | 29.74 |
| 1983/84 | 2,547.50 | 39,390.00 | 7,437.40 | 6.47 | 19.00 | 34.25 |
| 1984/85 | 2,676.40 | 44,441.00 | 8,394.90 | 6.02 | 5.00 | 31.88 |
| 1985/86 | 3,491.50 | 53,215.00 | 10,097.10 | 6.56 | 23.00 | 34.58 |
| 1986/87 | 3,314.40 | 61,140.00 | 11,513.10 | 5.42 | (5.00) | 28.79 |
| 1987/88 | 5,078.50 | 73,170.00 | 14,104.90 | 6.94 | 35.00 | 36.01 |
| 1988/89 | 5,666.90 | 85,830.00 | 18,005.00 | 6.60 | 10.00 | 31.47 |
| 1989/90 | 6,427.10 | 99,702.00 | 19,669.30 | 6.45 | 12.00 | 32.68 |
| 1990/91 | 5,990.00 | 116,128.00 | 23,549.80 | 5.16 | (7.00) | 25.44 |
| 1991/92 | 7,800.40 | 144,931.00 | 26,419.20 | 5.38 | 23.00 | 29.53 |
| 1992/93 | 9,235.60 | 164,634.00 | 30,897.70 | 5.61 | 16.00 | 29.89 |
| 1993/94 | 11,557.20 | 191,596.00 | 33,597.40 | 6.03 | 20.00 | 34.40 |
| 1994/95 | 11,249.40 | 209,974.00 | 39,060.00 | 5.36 | (3.00) | 28.80 |
| 1995/96 | 14,289.00 | 239,388.00 | 46,542.40 | 5.97 | 21.00 | 30.70 |
| 1996/97 | 15,031.90 | 269,570.00 | 50,723.70 | 5.58 | 5.00 | 29.63 |
| 1997/98 | 16,457.10 | 289,798.00 | 56,118.30 | 5.68 | 9.00 | 29.33 |
| 1998/99 | 16,189.00 | 330,018.00 | 59,578.80 | 4.91 | (2.00) | 27.17 |
| 1999/00 | 17,523.90 | 366,251.00 | 66,272.50 | 4.78 | 8.00 | 26.44 |
| 2000/01 | 18,797.40 | 393,566.00 | 79,835.10 | 4.78 | 7.00 | 23.55 |
| 2001/02 | 14,384.80 | 422,244.00 | 80,072.20 | 3.41 | (31.00) | 17.96 |
| 2002/03 | 15,885.50 | 453,698.00 | 84,006.00 | 3.50 | 9.00 | 18.91 |
| 2003/04 | 18,912.40 | 474,919.00 | 89,442.60 | 3.98 | 16.00 | 21.14 |
| 2004/05 | 23,657.30 | 508,651.00 | 102,560.00 | 4.65 | 20.00 | 23.07 |
| 2005/06 | 22,041.80 | 556,879.00 | 110,889.00 | 3.96 | (7.00) | 19.88 |
| 2006/07 | 532,038.00 | 25,864.30 | 133,605.00 | 2,057.04 | 96.00 | 398.22 |
| 2007/08 | 564,517.00 | 29,300.60 | 161,350.00 | 1,926.64 | 6.00 | 349.87 |
| 2008/09 | 591,933.00 | 36,351.10 | 219,662.00 | 1,628.38 | 5.00 | 269.47 |
| 2009/10 | 616,250.00 | 49,769.40 | 259,689.00 | 1,238.21 | 4.00 | 237.30 |

Source: Various issues of Economic Survey, MOF, /GON.

Appendix –VIII

Total USAID to Nepal (1951-2010)

(US \$ in million)

| 1951 through | Years covered | Amount of USAID during the period covered | Total through years covered |
|--------------|---------------|---|-----------------------------|
| 1972 | 22 | 136.80 | 136.80 |
| 1976 | 26 | 12.20 | 149.00 |
| 1981 | 31 | 53.00 | 202.00 |
| 1986 | 36 | 88.00 | 290.00 |
| 1991 | 41 | 161.00 | 451.00 |
| 1992 | 42 | 16.60 | 467.00 |
| 1993 | 43 | 21.10 | 488.60 |
| 1994 | 44 | 17.50 | 506.30 |
| 1995 | 45 | 25.70 | 532.00 |
| 1996 | 46 | 23.40 | 555.50 |
| 1997 | 47 | 27.70 | 583.20 |
| 1998 | 48 | 27.60 | 610.70 |
| 1999 | 49 | 18.50 | 629.30 |
| 2000 | 50 | 18.30 | 647.60 |
| 2001 | 51 | 22.20 | 669.80 |
| 2002 | 52 | 37.20 | 707.00 |
| 2003 | 53 | 39.90 | 746.90 |
| 2004 | 54 | 43.60 | 790.50 |
| 2005 | 55 | 43.80 | 834.300 |
| 2006 | 56 | 44.90 | 879.20 |
| 2007 | 57 | 37.50 | 916.70 |
| 2008 | 58 | 46.00 | 962.70 |
| 2009 | 59 | 60.80 | 1,023.50 |
| 2010 | 60 | 52.00 | 1,075.50 |

Source: USAID, Office Record 2010, Kathmandu.

Appendix-IX

Sector-wise Distribution of USAID to Nepal (FY 1991 – FY 2002)

| Sector | FY 1991 | FY 1992 | FY 1993 | FY 1994 | FY 1995 | FY 1996 | FY 1997 | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002 | Total |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Agriculture, Rural development, Forestry, Environment, Nutrition, Dairy, Irrigation | 13,790,000 | 5,920,621 | 8,048,039 | 3,750,000 | 6,179,000 | 6,795,847 | 5,392,620 | 4,500,000 | 1,000,000 | 302,000 | 3,000 | 1,671,399 | 57,352,526 |
| PVO/NGO program | 2,130,518 | 3,823,000 | 1,273,000 | 6,448,284 | 16,970,255 | 200,343 | 0 | 0 | 0 | 0 | 0 | 0 | 15,572,400 |
| Basic Education and General Training | 1,635,000 | 1,050,000 | 1,329,000 | 5,100,000 | 2,368,218 | 1,000,000 | 30,000 | 0 | 0 | 0 | 0 | 0 | 12,512,218 |
| Population, Health and family planning | 5,840,478 | 2,450,000 | 5,200,196 | 1,000,000 | 13,005,745 | 12,422,000 | 19,059,730 | 18,299,890 | 14,458,945 | 13,871,668 | 15,750,000 | 21,200,000 | 142,558,652 |
| Privatization and Economic Liberalization | 2,250,000 | 1,810,000 | 3,100,000 | 450,000 | 1,533,000 | 1,800,000 | 0 | 0 | 0 | 0 | 0 | 0 | 10,943,000 |
| Women's Literacy, Legal Rights, Economic participation, Micro enterprise, Democracy and Governance, Conflict Mitigation | 95,194 | 1,049,894 | 1,988,500 | 641,569 | 925,000 | 1,102,110 | 3,220,000 | 3,298,50000 | 1,303,640 | 2,300,000 | 3,300,000 | 10,313,606 | 29,535,000 |
| Hydropower Development | 0 | 0 | 0 | 0 | 0 | 0 | 1,500,000 | 1,450,000 | 1,450,000 | 1,410,250 | 2,553,682 | 2,2205,871 | 9,119,903 |
| Other Program Activity | 796,153 | 503,990 | 208,000 | 49,840 | 49,840 | 100,000 | 0 | 0 | 305,409 | 419,745 | 625,804 | 1,999,771 | 5,137,353 |
| Total | 26,537,343 | 16,607,505 | 21,146,735 | 17,518,494 | 25,758,058 | 23,420,300 | 27,702,350 | 27,598,390 | 18,517,994 | 18,303,663 | 22,232,486 | 37,390,647 | 282,733,965 |

Source: USAID/Nepal 2002

Appendix- X

Sector-wise Distribution of USAID to Nepal (2006-2007)

(Amount in US \$)

| Program Activities | Fiscal Year | |
|--|-------------------|-------------------|
| | 2006 | 2007 |
| <i>A) Mitigate Conflict and Support Peace</i> | | |
| i) Peace process (national/ local) | 850,000 | 1,050,000 |
| ii) Mitigate conflict and support peace | 3,223,643 | 500,000 |
| iii) Assist victims of conflict | 102,960 | - |
| Sub- Total | 4,176,603 | 1,550,000 |
| <i>B) Livelihoods</i> | | |
| i) Livelihoods/ rural infrastructure | 2,232,450 | 2,950,000 |
| ii) Job skills training | 2,263,100 | 2,000,000 |
| iii) Agriculture productivity | 1,485,000 | 1,076,000 |
| iv) Micro enterprise | 350,000 | 0 |
| v) Girl's scholarship | 797,900 | 0 |
| Sub -total | 7,128,450 | 6,026,000 |
| <i>C) Health</i> | | |
| i) Infectious diseases | 315,000 | 400,000 |
| ii) HIV/AIDS | 7,326,000 | 7,019,000 |
| iii) Child health | 3,941,000 | 3,800,000 |
| iv) Maternal health | 1,710,000 | 1,165,000 |
| v) Family planning | 7,311,000 | 5,601,000 |
| Sub total | 20,603,000 | 17,985,000 |
| <i>D) Democracy and Governance</i> | | |
| i) Support political parties/elections | 2,990,000 | 1,000,000 |
| ii) Strengthen civil society | 1,567,000 | 1,583,000 |
| iii) Reduce trafficking in persons | 547,385 | 392,000 |
| iv) Protect human rights | 1,683,000 | 0 |
| Sub-total | 6,787,385 | 2,975,000 |
| <i>E) Strengthen Rule of law</i> | | |
| i) Strengthen the justice sector | 742,500 | 750,000 |
| ii) Anti- corruption reforms | 742,500 | 750,000 |
| Sub -total | 1,485,000 | 1,500,000 |
| <i>F) Transition initiatives (OTI)</i> | 2,000,000 | 5,000,000 |
| <i>G) Disaster Response and Mitigation</i> | 2,777,254 | 2,500,000 |
| Total | 44,957,692 | 37,536,000 |

Source: USAID, Office Record 2007, Kathmandu.

Appendix- XI

Sector-wise Allocation of USAID to Nepal (2009 and 2010)

(Amount In US \$)

| Program Areas | FY 2009 | FY 2010 |
|---|-------------------|-------------------|
| Peace and Security = Conflict Mitigation and Reconciliation | 4,775,000 | 3,000,000 |
| Governance Justly and Democratically = Rule of Law and Human Right = Good Governance = Political Competition and Consensus – Building = Civil Society | 9,925,000 | 3,000,000 |
| Investing in People = Health (HIV/AIDS, Maternal and child Health, Nutrition) = Education = Social and economic Services and Protection for Vulnerable Populations | 24,500,000 | 26,500,000 |
| Economic Growth = Macroeconomic Foundation for Growth = Trade and Investment = Agriculture = private Sector Competitiveness = Environment | 6,600,000 | 19,500,000 |
| Humanitarian Assistance = Protection, Assistance and Solutions = disaster Readiness = Migration Management | 15,038,000 | |
| Total | 60,838,000 | 52,000,000 |

Source: USAID Office Record 2010, Kathmandu

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