

**CONTRIBUTION OF FOREIGN AID IN AGRICULTURAL  
DEVELOPMENT OF NEPAL**

**A Thesis**

**Submitted to the Faculty of Humanities and Social Sciences,  
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Master of Arts in Economics**

**By**

**Kapil Aryal**

**Roll No: 347/064**

**TU Regd. No: 6-1-307-34-2002**

**Central Department of Economics**

**Kirtipur, Kathmandu**

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## LETTER OF RECOMMENDATION

This thesis entitled “**CONTRIBUTION OF FOREIGN-AID IN AGRICULTURAL DEVELOPMENT OF NEPAL**” has been prepared by Kapil Aryal under my supervision. I hereby recommend this thesis for examination by the thesis committee as a partial fulfillment of the requirements for the Degree of Master of Arts in Economics.

.....

Babu Ram Karki

Lecturer

Thesis Supervisor

## APPROVAL SHEET

We certify that this thesis entitled “**CONTRIBUTION OF FOREIGN-AID IN AGRICULTURAL DEVELOPMENT OF NEPAL**” submitted by Mr. Kapil Aryal 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 said degree.

### Thesis Committee

.....  
Dr. Ram Prasad Gyanwaly  
Acting Head

.....

External Examiner

.....  
Babu Ram Karki  
Thesis Supervisor

Date: .....

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## ACRONYMS

AAID	Australian Agency for International Development
ADB	Asian Development Bank
AIC	Agricultural Input Corporation
App	Agricultural Perspective Plan
ARD	Agriculture and Rural Development
CARE	Care International
CBS	Central Bureau of Statistics
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
EEC	European Economic Community
FINIDA	Finish Development Agency
FINIDA	Federation of Nepalese Chambers of Commerce and Industries
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
GON	Government of Nepal
GTZ	German Agency for Technical Co-operation
HDI	Human Development Index
HDR	Human Development Report
IBRD	International Bank for Reconstruction and Development
ICIMOD	International Center for Integrated Mountaineering Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INGOs	International Non-Governmental Organization
JICA	Japan International Cooperation Agency
MOF	Ministry of Finance
MOE	Ministry of Education
NGOs	Non-Government Organization
NIDC	Nepal Industrial Development Cooperation



NLSS	National Living Standard Survey
NPC	National Planning Commission
NRB	Nepal Rastra Bank
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting Countries
UDCs	Underdeveloped Countries
US	United States of America
USAID	United States Agency for International Development
USOM	US Operation Mission
UNDP	United Nation Development Program
WB	World Bank
WHO	World Health Organization

# CHAPTER I

## INTRODUCTION

### **1.1 Background of the Study**

In today's world, economy is one of the essential factors affecting the development of the country. The whole world is unified in a single unit and the countries are interdependent on each other in various aspects, mostly the developing countries like Nepal. In the developing countries, the developing process is not as it should progress due to various factors like high population growth rate, low economic growth rate, weak administrative capacities, policy failure etc which in turn creates a big gap between the demand and supply of resources. The internal resources of these countries aren't self sufficient for minimizing the gap in between. Thus, there must be some other factors to solve out these problems. Foreign Aid is one of the most important sources of capital for these developing countries.

Transfer of capital and technologies from the developed countries and the donor agencies to the underdeveloped countries either in the form of loans or grants from time to time is generally known as foreign aid. It is the explicit transfer of real resources to the less developed countries on concessionaire terms in order to uplift the developing economy and the living standards of the poor. According to Todaro, "Foreign aid is the international transfer of public funds in the form of loan or grants either directly by one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral agency (Todaro, 1988).

According to the specialists, aid refers only to those parts of capital inflow, which normal market incentive do not provide. It consists of long run loans, grants, soft loans, sale of surplus products for currency payment and technical assistance (Bhagwati, 1970). Foreign aid is usually intended either to provide humanitarian relief in emergencies or to promote economic development mainly in the developing countries, where the development process is not moving smoothly.

The history of foreign aid is not very old in Nepal. It began with the independence of Nepal from Rana regime in 1950. One month before the 104 years old Rana regime was brought to end in 1951, the government of USA under the Point Four Program, provided the formal foreign aid to Nepal in 1951. After the independence from the Rana regime, planned efforts of

agricultural development was initiated and in almost all economic planning, foreign aid has played a significant role. After US, India took an interest in providing assistance, though there were only two major countries during 1950's and early 1960's. In later years, Nepal received considerable amount of aid from USSR, China, France, Germany and Canada etc for various projects. After late 1970's Nepal has been receiving foreign aid mostly from Nepal aid group (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Japan, Saudi Arab, Sweden, Switzerland, UK, USA and eight multilateral donors ABD, IFAD, OECD, FD, UNDP, IDA, EEC and UNICAD). Nepal has been receiving foreign aid from various donors in, i) Bilateral and ii) Multilateral forms. Foreign aid received from countries such as USA, India, UK, China, Japan, France, Germany, Canada etc fall under bilateral aid. On the other hand, aid received from international organizations such as UNDP, ADB, WB, WHO, etc fall under the multilateral aid.

Since 1951, Nepal began to receive foreign aid and the size of aid inflow in began to expand steadily after 1956. The main reasons for the remarkable increase in the aid receipts of Nepal are:

1. Nepal's expanding international relations, and diversified the source of aid.
2. The introduction of development plan helped it to rationalize the demand for aid.
3. The bonus effect of cold war and feeling of the competition among some donors pushed up the level of aid to developing countries like Nepal.

When we received the year to year aid inflow, the trend was quite erratic up to FY 1972/73 but there after a consistently increasing trend was observed. The last five decade of foreign aid in Nepal shows the magnitude of foreign aid in Nepal has been bringing as a substantial change in composition of foreign aid.

Nepal is facing severe problems of deficiency in resources mobilization due to low saving and high consumption ratio. Taxation and public borrowings are in capable to meet the public expenditure because of the cloudy scenario and it has its own limitations. So, there is a serious resource gap problem therefore fiscal deficit is growing every year. Similarly, deficit financing is discarded because of its inflationary impact on the economy. Hardly, any sectors of the Nepal's economy exists which has been untouched by foreign aid. To pull the Nepalese economy out from the above deadlock; huge amount of foreign aid is the only alternative.

## **1.2 Statement of the Problem**

It is well known that the foreign aid has a vital role for the development of country like Nepal. Foreign aid is the must for the economic and sociological development of the country and to raise the living standards of the people. It is very hard to deny the importance of foreign aid in Nepal. But the main problem is the foreign aid has not been able to contribute in the development and uplifting the agricultural development of the country as expected. The major problem is that the disbursement of foreign aid has been increasing steadily resulting an increase in expenditure, while on the other hand Nepal has been facing a problem of under spending at the time. There is a huge gap between disbursement and commitment. Lame excuses made by the donors create uncertainty in the commencement of any related projects. It can be due to inefficiency of administration, non availability of suitable contractors resulting in the delay in the implementation of projects and also over calculation of donor countries.

Although aid in Nepal is used for various developmental projects, sometimes the donors are using aid to serve their own needs and motives rather than representing the interest of Nepal and Nepalese people. The recipient county should accept aid as per the desires of donor; they can not use that aid in their targeted programmed. They must employ the foreign staffs and pay them extremely high in dollars. There is an apprehension about the role of foreign aid that it doesn't trickle down effectively to targeted groups, for crude assessment estimates that 60 percent of the total foreign assistance driven back to the donor countries in the form of consultant fees and salaries. Apart from this a large chunk of foreign aid is siphoned up by the bureaucrats, project staffs and political leaders before it reaches to the targeted groups.

Thus for the proper utilization of the foreign aid, these sorts of problems have to be eradicated. For the effective utilization of the foreign aid it is necessary to study about the foreign aids, why foreign assistance is being increased in Nepal, what type of trend, pattern and volume of US Aid exists in Nepal, what is the contribution of US Aid in the economic development of Nepal.

### **1.3 Objectives of the Study**

The general objective of the study is to analyze the contribution of foreign aid in the agricultural development of Nepal. However the specified objectives are as follows:

1. To examine the trend and the structure of foreign aid to Nepal.
2. To analyze the trend and pattern of foreign aid in the agricultural development of Nepal.

### **1.4 Significance of the Study**

The study simply analyzes different foreign aid structure focusing on contribution of foreign aid in different sector of Nepal by using different statistical tools and technique. The important aspect of the study is to analyze the trend and structure of foreign aid flowed on different sector. It tries to explore the answer of the question of, “Is Contribution of foreign aid contributed to foster the development”? Thus, the important significance aspects of the study are policy recommendation for the effective implementation of contribution of foreign aid in development sector.

### **1.5 Limitation of the Study**

This study covers the period from FY1980/81 to FY 2011/12. Only agricultural development assistance during FY1980/81 to FY2011/12 has included. This study excludes private foreign investment, political assistance and military aid. The other limitations of the study are:

- ) This study is based on the data and information available from the secondary source.
- ) Aid received from other countries to Nepal in agricultural sector is totally excluded.
- ) This study will be concentrated on limited scope as data and information related to the study is acquired from the secondary source.

### **1.6 Organization of the Study**

The whole study has been categorized into six major chapters which are as follows:

Chapter I: Introduction

Chapter II: Review of the Literature

Chapter III: Research Methodology

Chapter IV: Foreign Aid in Nepal

Chapter V: Role of Foreign Aid in Agricultural Development of Nepal

Chapter VI: Summary, Conclusion and Recommendations

At the end of the chapters bibliography has been incorporated.

## CHAPTER II

### REVIEW OF THE LITERATURE

The concept of foreign aid is not a recent phenomenon. It is generally considered that Foreign Aid got its importance after the Second World War. After the great destruction of the Second World War most of the developed countries began to think about the balanced economic development. They realized that "Poverty anywhere is threat to prosperity everywhere". The continuity in the aid flows from the capable and developed to the weak and developing countries since the Second World War has made a distinct position in the global political and economic relations. After realizing the importance of foreign aid, many writers, Nepalese as well as foreigners have written on foreign aid in the context of Nepal in the form of books or articles in various journals, booklets, newspaper etc.

**Acharya (2002)** has estimated the return on foreign aid in the agricultural sector of Nepal. He has found that a dollar disbursed last year results in 48 cents increase in current years agricultural GDP. Similarly a dollar spent a year before contributes 23 percent increase in current year's agriculture GDP.

**Gurugharana (1992)** in his paper "Development Co-operation" remarks that external assistance for over 40 years has not appreciably succeeded in alleviating poverty, improving human development situation and fostering overall growth. He states that there is insufficient amount of aid relative to the requirements. Compared to the ad-hoc nature and changing priorities of aid on the one hand, the weak institutional and managerial capacity, in appropriate macroeconomic and sectoral policies, and lack of proper planning and commitment in government side on the other hand, made the amount of foreign assistance insufficient. Nepal has not yet received the quantum of aid comparable to those of Korea or Taiwan or Europe under the marshal plan, it is like giving a medicine for below the prescribed dose and the effect not only prolongs the disease, but also eventually increases its severity.

**Friedman (1958)** in his book "Foreign Economic Aid Means and Objectives" argued about foreign aid is to win over to oversize those uncommitted nations who are also underdeveloped and poor. In the cold war period immediately following the second world war when the piece was written, the threat of the "Red Menace" was still strong and the

domino theory had become a widely subscribed belief freedmen further puts forward that if other conditions for economic development are ripe, capital will be readily available if they are not capital made available is likely to be wasted. Foreign aid may serve to delay the inevitable and to provide the government with the false face with which it can postpone taking necessary measures like securing property rights, and maintaining a good environment for the private sectors.

**Little and Clifford (1965)** in their book "International Aid" have described the flow of official resources from rich to poor countries loosely referred to as aid. Aid is considerably greater than the flow of private forms and is also large in comparison with any deliberate transfer of resources that is likely to result from change in rich country's trade policy. He also defines "Aid in the form of transactions between rich and poor, but independent government was very restricted in scope before 1960. France and Britain had been helping their colonies for the development. . Since 1970, the USA had run a number of programs with increasing emphasis on development, but nevertheless concentrated heavily military strategy and supporting friendly governments. The Soviet Union has begun to lend on a small scale to non- communist developing countries with avowedly political objectives. Other countries were just beginning to be involved in aid for social infrastructures as well as economic development. The same write further write, "The use of subsidies and loans in diplomacy involved many of the problems which now face those who make decisions about foreign aid. There is difficulty that, once a donor has invested more than some than some crucial amount in practical recipient country its prestige (if not its financial interest) become so closely identified with that country's performance that the recipient acquires more influence over the donor than the donor over the recipient"

**Gurung** in his paper "Economic implementations of foreign Aid" argues that the foreign assistance to developing countries is related less with economic consideration but more with strategic and political implementation. The poor domestic saving rate and resources to finance the development expenditure requires the external assistance .Thus, there is excess reliance in meeting government expenditure. Country to the extreme pessimism expressed by Roger Riddle about the effectiveness of the foreign assistance Benjamin Higgins has a very bright picture of its effectiveness when he has a very bright picture of its effectiveness when he says; it is important to us and to the rest of the world. People in these areas realize that through perseverance, hard work and a little assistance, they can develop the means of taking

care of their material needs and at the same time can preserve and strengthen their individual freedom (Higgins, 1994)

**Khadka** examined the distortion brought about by the heavy reliance on foreign aid in three headings. They are:

- ) The first distortion is that aid has created an unrealistic expectation and hopes in the minds of the urban nucleons and government bureaucrats.
- ) The second distinction is that as the volume of aid goes on increasing so does the degree of negation of the rural population distortions. One of these is the feeling of relative deprivation among the rural population to leave rural areas.
- ) And the third distortion is that the growing reliance on aid on the one hand, and the failure to generate benefits from the past investment on the other, forces the government to go on increasing the dependence on aid, creating thus an aid dependence syndrome (Khadka, 1991)
- ) Narayan Khadka says, "Foreign aid is an offspring of the combination of cold and hot economic interest. When the cold war situation shifted from Europe towards the newly born voluntaries of the so-called third world, the concept of external foreign aid also well incorporated in the literature on international economics and international relations" (Khadka, 1991)

**Mahat** does not consider foreign aid as a "free lunch" and says that no one helps out of him feeling of pure humanitarian; there is some underlying interest beneath. So we have to detect it and accept foreign assistance only when it is beneficial to our cause (Mahat, 1998).

**Rodan (1961)** writes 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 a self-sustaining basis. He further says that the functions of outside capital in a development program is not directly to raise standard of living in the recipient countries but to permit them to make the transition from economic stagnation to self-sustaining economic growth. The main function of foreign capital inflow is to increase the rate of domestic capital formation up to a level which could, then, be maintained any further aid. He also asserted that a reasonable amount of aid is determined by the absorptive capacity of the developing countries economy.



**Chenery and Strout (1966)** have developed a "two-gap" model which shows the necessary of foreign assistance for underdeveloped economics. Here, two of the gaps that foreign aid is expected to fill are the saving- investment gap and the foreign exchange gap. The final result of two gap model is

$$I - S = M - X$$

This equation states that the excess of investment over savings should be balanced by the excess of imports over exports.

The left hand side of above equations is the saving investment that is thought to be required for the development of the country and the saving that has been generated within the country. This shortfall is the gap that foreign aid intends to fill. The right hand side, the foreign exchange gap, is the gap between import expenditure and export revenue. Trade balance of a developing country is negative, i.e. its import usually exceeds its exports since the foreign exchange that developing country possess might not be enough for such transactions, foreign aid is used to bridge this gap.

**Hirschman (1969)** in his book, entitled "The strategy of Economic Development", writes that foreign capital serves as a counterforce in a variety of ways. It solves the problems of deficiency of capital, acting on its own or jointly with local capital, seems to be better equipped than domestic capital alone. Foreign aid can have the important function of permitting the country to avoid relative price rise and to eliminate the bottlenecks in certain lagging sectors. He further says that foreign capital is likely to be needed to enable the sectors of an underdeveloped economy that have the highest potential for rapid growth to utilize this potential fully.

**Higgins (1969)** emphasizes the importance of foreign aid by saying that the availability or absence of foreign aid of the right kind and in the right amounts might makes the difference between successes or failure of a country's own efforts to launch a process of sustained economic growth. The most obvious things that foreign aid can do are to fill the gap between capital requirements for a take off into sustained growth and domestic capacity for savings and required investments.

**Friedman (1973)** in his article "Foreign Economics Aid" says that two question must be answered in judging government economics aid. First, is it likely in face to promote the

economic development of the countries to which aid is granted? Second, do its political effects in those countries promote democracy and freedom? He further says that aid policy and program has consisted predominantly of recipient countries for special or material directly to the government of recipient countries for specified projects regarded as contributing to economic development.

**Libenstein's** "Critical Minimum Effort" thesis holds the view that given a sufficiently large volume of technical and capital assistance, it is always possible to produce some initial increase in income that will become cumulative.

**Mikesell (1968)** analyzed the efficiency of foreign assistance in the context of developing countries. For the analysis, he used two years data as a sample and analyzed them by the descriptive method. His main conclusion was inflow of aid to developing countries did involve much more than economic theme; possibly it was an important instrument of foreign policy of the donors.

**Meier (1970)** in his book "Leading Issues in Economic Development" writes that capital accumulation is regarded as a core process by which all other aspects of growth are possible. Capital increases by investment and investment need more saving or foreign assistance. In his view, foreign aid might have some limited use; aid should be given to those who help themselves. In short run, calculation of aid requirement through the industrial assumption needs to be looked at very carefully. Over the long run, it is not much use indeed it may be more harmful.

Meier also writes that public financial aid i.e. concessional finance or the grant equivalent in the capital flow has two fold functions. It supplements the LDC's low domestic saving, hence helps to fulfill the resource gap or saving gap is filled and also provides additional foreign exchange and thereby helps filling the foreign exchange gap.

**Mihaly (1965)** in his study entitled "foreign Aid and politics in Nepal" explains about the foreign assistance to Nepal. He said that the success or failure of aid programmers depends upon the political economy of Nepal. While providing aid, donors assumed that Nepal is ready for social, economic and political changes. They thought that skilled men power is

available and they could easily learn new technology and methods. But this is not true because almost all the technicians and high skilled people are foreign to Nepal.

He further writes that, while providing aid to Nepal, donors assumed that the government is able and willing to administer development project but most of donors eventually learned that government lacked both the administrative capacity and political will to govern. There is no stability in civil service. Due to these problems, government has faced serious problem to the aid projects successfully. Hence, most of donor countries and Nepal failed to achieve their goal.

The “Aid question” written by Ramesh Manandhar puts a question whether Nepal can survive without aid? .To answer to this question is very difficult. According to him no one seems to be worried about what happens when the aid stops. He adds that Nepal is an agricultural country and industries, are recent phenomenon, when the flow of aid stops, there will be stagnation in industrial sector by lacking enough capital and modern technology (Mahander, 1983).

**Manandhar (1983)** forwarded a question to show its importance: Can Nepal survives without aid? He says that one seems to be worried about what happens when the aid stops. “Nepal is an agricultural country and industries are recent phenomena, When the flow of aid stops, their will be stagnation in the industrial sector by lacking enough capital and modern technology”. He further writes that if aid stops, there will be no scholarships provided under bilateral aid program, thus foreign aid is necessary for Nepal. Without aid, the overall economic situation will be frightening and alarming.

Dwelling in the effectiveness of foreign aid to overcome poverty Prof. John W Mellor some how supports the view expressed by Robert Cassen and Associates but his approach is different. His first priority is in accelerating growth in the agricultural sector. Developing programs to ensure participation of the poor in the growth oriented agricultural projects follows it. Finally he emphasizes the areas in which agricultural growth was expanding the market programs to assist micro participation of the poor in those operations (Mellor, 1998)

**Mishara (1999)** in the article in a Nepali magazine argues that the concept of foreign aid in Nepal has been modified since 1980s. Till the 1970s foreign aid was understood as a flow of

grants of soft loans in terms of goods or cash. Flows of technical assistance in small quantities were also aid. From 1980's foreign aid also encapsulated the donor nation's policy and programmes. This was become unless the recipients agreed to accept the donor's policies and terms and conditions loan or grants wouldn't flow at all.

**Pandey** through appreciates the role played by foreign assistance in construction of infrastructure is critical of the present trend. He criticized the imposition of donors will on the recipients. He laments even beggar has the power to decide where he should spent his money, which is lacking in Nepal's foreign assistance (pandey, 1981)

- J Pandey (1981) in the article "Foreign Aid in Nepal's Development" has said that not only the government but also the civil society including various professionals individually or collectively are becoming increasingly dependent upon foreign aid. The practices of social science profession are dependent on it for consulting and research activities. The media too, if accessing aid for improvements in the profession. The human rights movements through the protection of rights and status of women and children are also funded by foreign sources. The same I the case with the campaign for protection of environment. However he is skeptical about its effectiveness in the development scenario. In his recent book "Nepal Failed Development" he has mentioned the following facts about of foreign aid in Nepal.
- J Foreign aid is becoming not only unpredictable but also "autonomous" in the it is becoming more difficult to understanding more difficult to understand how it flows and what it is used for.
- J One-third of the fresh borrowing was used to service past loans in 1997.
- J A 10 percent deprivation of Nepali rupee is equivalent to an increase of Rs15 billion to the country's debt burden at present.
- J Since much of the external flows comprise loans credit, Nepal's external debt has reached more that 50 percent of GDP.
- J With recently incurred large loans from the multilateral bands maturing fast, the scenario can turn bleak very soon.

He further mentioned that at present the main agenda of the government leaders is foreign aid, their doctrine is foreign aid, and heir daily activities are overwhelmed by foreign aid. A prime Minister's main achievement is rewarded and vaunted publicly in terms of number of

foreign aid agreements signed and the amount of aid received. He has realized that for our backwardness and its continuations, and lack of performance or application, the donors blame the state. He realizes that maybe we cannot blame anybody; the donors have their own job to do in a difficult environment.

**Panta (1974)** in his seminar paper, "Foreign Aid and Agricultural Development in Nepal" argued that Nepal's agricultural sector is in the need of external assistance to bridge the winding resources gap, to remove the foreign exchange bottleneck for financing capital goods, inputs and manpower development and to generate and transfer relevant technology for sustained and accelerated growth of the agricultural sector. Although the proportion of Foreign Aid disbursement to the agricultural sector has fluctuated within a short span of time, the absolute size of the assistance has increased substantially but the achievement of the foreign aid agricultural projects has not been particularly satisfactory. Reported statistics indicate ineffectiveness of various efforts that include heavy inputs of foreign Aid and technical assistance in transferring appropriate technology so vitality required for agricultural development.

**Poudyal (1982)** made an effective research on "Foreign Aid in Nepal". He has made a depth study on different aspects of foreign aid like structure, motive and impact. In his analysis, he found that the impact of aid on the development of the country is lower than the nominal value of aid. He has stated that of the total aid provided, a large proportion is siphoned off by the donors by tying technology and manpower imports of their own origin, which would mean that the net amount available to be actually spent inside the country is far less than what is recorded.

Further he stated that foreign aid does not provide the final panacea in strengthening the economic capabilities of a poor and small nation like Nepal. Moreover, it provides a breathing space and a room for maneuvering certain economic ills of the economy. Therefore, to avert the consequences likely to emanate from this, he suggested the attention should be focused on strengthening the internal capabilities of generating resources, increasing investment in activities which complement the foreign aided projects in expanding the production base of the economy and ensuring effective utilization of aid.

**Poudyal (1983)** carried out a research study entitled "Impact of Foreign Aid in Nepal's Development" under CEDA, T.U, kirtipur, He writes, "foreign aid plus an important role in economic development of Nepal. In view of large share that it occupies in the total development expenditure of the country, foreign aid in Nepal is not only important but also essential. It is thus important for Nepal to maintain political stability, non alignment and its territory free from the area of international tension so as to keep up and promote the flow of foreign aid and international goodwill"

He also examines the basic features of foreign aid in Nepal and assesses the possible impact of aid on the development of the country in his issue "Foreign aid in Nepal ". He adds that the economic impact is very low, and on the other hand he says that the flow of aid appears to have severely obscured the prospect of raising internal capital. The growing dependence on aid indicates that the country suffers from disease of aid psychosis whereby the compulsion is felt to go asking for more foreign aid. He remarks that the increased dependence on aid without the expansion in the product base may eventually prove harmful to the country. According to him, attention should be centered on the following three issues.

*Firstly*, he suggests that the country should try to reduce its dependence on foreign aid and strengthen the internal capacity of generating resources. The way out for us does not lie in massive inflow of foreign aid but in the pursuance of right policies effectiiively geared towards accelerating growth increasing production, expanding export base, reducing imports and promoting indigenous technologies.

*Secondly*, he suggests that country should try to shift the concentration of foreign aid from transportation infrastructure to the industries.

*Thirdly*, he suggests that the utilization of foreign aid should be strengthened. He adds the presence of strong incorrupt and effective administration is required to develop the economy smoothly. Absence of these has led to wastage of such foreign assistance which retards the growth process.

**Darmdasani (1988)**, in his book "Dynamics of foreign aid in south Asia" Nepal has been taken as a main component in which study regarding foreign aid. In his study, an attempt has been made to analyze the nature, dimensions and implication of Nepal's dependence on

foreign aid to sustain its development process. The central theme of the study is that within the prevailing structure constraints of Nepalese's society, the process of development has itself contributed to the growth of external assistance.

The study has analyzed the data relating to foreign aid. In this context the study has examined the performance and role of foreign aid in periodic development plans upto the sixth plan. He has also examined the inflow of aid from India, USA, China, Soviet Union and other small and institutional donors. He has also analyzed the impact, impediments and implications of the foreign aids in Nepal. On his study about donors of Nepal, he says only a few countries among bilateral donors in Nepal have contributed in a manner that can lead to sustainable growth.

Darmdasini concluded that Nepal will have to be self-reliant and it has to find its' own development ideas not to remain at the perpetual mercy of the political and economic compulsion of aid donors. He emphasized that instead of visualizing the future without aid, Nepal should cease to be dependent on aid; ad the prime mover of the economy.

**Pouydel (1988)** examines the effect of overall foreign aid (Grant plus Loan) in the savings and growth of Nepalese economy. He employed the techniques of simple and multiple regressions with the time series data taken form the secondary sources covering the period FY 1964/65to 1980/81. His conclusion was that foreign aid to Nepal positively contributes to country's GDP growth, but substituted domestic savings. He also made a descriptive data analysis to know the contributing share of foreign aid in the total government expenditure. His study found that there was more than 50 percent contribution of foreign aid to financing g the development plans. There existed a gap between foreign aid commitment and disbursement, and aid utilization capacity of Nepalese economy was the main problem in this regard. His data analysis also found a noticeable shift of foreign aid from transport and industry towards agriculture, power and social services.

**Sharma (1992)** descried that, primarily, foreign aid was expected to supplement domestic resources, which were inadequate and in efficient in generation of the surplus required for reinvestment, Land productivity did not display a marked change, labor was not made more effortful and entrepreneurial talent too was underdeveloped. This contradiction arose mainly due to political system which encouraged the inflow of foreign aid, open economic structure

with India and an unattractive climate for the sustainable development of all the forces in the agriculture, industry and the service sector. Dominance of foreign aid was found in the government development budget, almost around 50 percent of which was spent for unproductive administrative purpose. As there was a linear expansion of public budget, the amount of aid in absolute terms increased so as to maintain its proportion used as a political parameter.

**Mailloux (1981)**, giving stress on the USA aid to Nepal, says that the assistance provided by US government to Nepal has made an important contribution in the development of Nepal,. Even with such aid, however, and with the continued assistance of others, Nepal will still face difficult. He further says that Nepal needs its national vision and firm commitment to make foreign aid more productive and to utilize it properly.

**Todaro (1974)** outlines major's reasons given in favor of foreign assistance.

- J The major reason is clearly economic and the rational for aid is based on the acceptance of the donors' perception of what poor countries require to promote their economic development.
- J The second reason is that both donors and the recipients see the aid as providing greater political leverage to the existing leadership to suppress opposition and maintain itself in power.
- J The final rational is that it is believed that rich countries have an obligation to support the socio- economic development of the developing countries, And both kinds of perception come under the broader theories of aid the economic theories and political theories.(Todaro1974)

Overall, having found out that foreign aid positively affects GDP, its importance to build in fracture in Nepal and its need to meet a large proportion of our development expenditure its importance to Nepal is enormous, there seems to be increased sectors that seek benefit from foreign assistance. But on the other side, not only the government but also the civil society including various professionals is becoming increasingly dependent upon foreign aid. The particular of social science profession depend on it for consulting and research activities



The disadvantage of foreign aid is that when foreign aid is easily available, the country doesn't make efforts to promote exports and substitute imports. In the absence of foreign aid, the government and the people of the country would try to promote export and substitute imports. Thus some economists regard foreign aid as anti- export promotion and anti- import substitution measure. Much of the foreign aid is in the form of loans rather than grants. We have to pay interest every year on them and when these loans mature we have to return the principle amount borrowed. Thus aid adds to the burden of the country which creates difficulties in the future.

Economists have criticized the foreign aid on the ground that it is mostly concentrated on the development of modern sector and as a result it has increased the gap between the rich and poor and has thus worsened income inequalities. Workers, who have been employed in modern sector, reveal higher productivity. On the other hand, workers employed in traditional sector have not benefited from foreign aid.

Analyzed all the writings and reports mentioned above one can safely come all the come to the conclusion that foreign aid is a good slave but a bad master. It is up the individual recipient to make the best use of it. It is like a stimulus to the economic growth of the nation. Otherwise there always remains the danger of being overwhelmed by it.

**Mahat (2005)** says that it is one thing to depend upon foreign aid for development finance and another to depend upon foreign aid for development itself. More aid doesn't necessarily translate onto greater external development. It becomes so when aid doesn't lead to corresponding enhancement of the development capacity of the recipient nation, and leads to some in the name of the need for many.

**Aryal (2007)** in his article "The Role of Foreign Aid in Economic Development of Nepal: An Econometric Analysis" try to measure the role of Foreign Aid in economic development. For this analysis he has used several econometric models.

His major findings are that Foreign Aid is significantly playing a positive role to increase the GDP per capita growth leads to the conclusion that increased Foreign Aid helps to increase the GDP per capita. Therefore foreign Aid needs to be increased in a country. A big amount of Foreign Aid doesn't necessarily mean a greater number of Foreign Aid agreements. Aid

agreement could be less in numbers but disbursement has to be higher. Past data, from FY 1975 to FY 2005, shows that in an average 60 percent aid is being disbursed from the total aid agreement amount.

Another important aspect of Foreign Aid is that recipient has to repay interest as well as principle if the aid is received in loan. More loans is always a big responsibility to recipient country because exchange rate could make the country to repay the loan and its interest in a higher amount in the figure.

**Dahal (2008)** states that foreign aid is highly competitive and conditioned to higher level of democracy, human rights, governance, liberalization and economic reforms backed by decelerating states of corruption and conflict in recipient countries. Unfortunately, Nepal does not have capacity to argue and campaign for more foreign aid as per requirements attributing to poor economic strength combined to a diminutive GDP. The prime concern of the foreign aid is of raising its productivity through effective utilization. Foreign aid need to be directed towards achieving the overarching national goal of inclusive growth.

He says that at the backdrop of theoretical underpinnings of foreign aid is important not only for sustaining development activities and poverty reduction, but also for improving efficiency to enhance competitiveness of both government and the private sector, which would be instrumental in maximizing benefits from globalization and liberalization foreign aid has played a crucial role in the process economic development and poverty reduction in Nepal for more than five decades since the inception of the first five year plan in 1956. The donor communities have been generous to provide external assistance to Nepal uninterruptedly during and after the political change in 1990. However, recent experiences with the performance of foreign aid have been frustrating attributable to both internal as well as external factor.

Finally he concludes that Nepal is passing through a critical juncture of poverty and stagnation, Nepal needs greater quantum of foreign aid from neighboring countries especially India and China and other industrialized economics not only to sustain inclusive growth and accelerate process of poverty reduction, but also for achieving enduring peace and stability in the country through implementation of reconstruction, rehabilitation and reintegration programs.

The quantum of foreign aid flow advanced economics to Nepal is relatively small and therefore, there is needed to increase the size of external assistance to a maximum level by improving the status of democracy, human rights, governance with scaling back of corruption. The foreign aid policy paradigm demands a shift from donor driven to demand driven. It is also necessary to revitalize the economic strength of Nepalese economy to galvanize multilateral loans on a greater scale to expedite mega projects ensuring inclusive, sustainable high growth.

Over all, having found out that foreign aid positively affects on GDP, its importance to lift every sectors of the economy in Nepal like infrastructure development, minimizing resource gap etc. But on the other side, the inefficiencies, misuses, cost of dependence syndrome aid has generated makes every concerned citizen to ponder about it existence in Nepal.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This study entitled "Contribution of Foreign-Aid in Agriculture Development of Nepal". In this study adopted methodology is purely a desk-top research type. This means this study is entirely descriptive by nature. This research is mainly based on the secondary data. This section discusses about the source of data, data collection procedure, data presentation, research design, data analysis, mathematical as well as statistical tools used to analyze the data in accordance with the object of the study.

#### **3.2 Sources of Data**

The present study is based on secondary data, which are collected from various publication of National planning commission (NPC), Nepal Rastra Bank (NRB), central Bureau of statistics (CBS), Ministry of Finance (MOE) etc. To achieve the goals of the study, official and unofficial books, magazines, newspapers, and journals have been studied. The required data are collected from various issues of economic survey, budget speech, and various plans of Nepal.

#### **3.3 Research Design**

The research design of the study is descriptive. It is designed to describe the increasing volume of Foreign Aid inflow and GDP growth in Nepal. It focuses on trend, magnitude, structure, impact and role of Foreign Aid in Nepal. For this purpose, we have developed various diagrams, trend lines and statistical figures.

#### **3.4 Data Processing and Data Analysis**

In the process of data analysis, the available required data from various sources are collected, classified and tabulated to fulfill the requirements of the study. Data are presented in percentage when required. Tables, diagrams, pie chart etc. are used according to situation and requirement of the study. The aid loans, grants and technical assistance which have been compared with total aid in flow in Nepal.

### **3.7 Description of Variables**

**Foreign Aid:** Refers to international transfer made at concessional term rather than at market rates for promoting economic development. The transfer includes both grants and loans.

**Foreign Grant:** A grant is the same as the provision of funds by a donor that does not require reimbursement from the recipient government or organization.

**Foreign Loan:** The provision of resources, excluding good or other bulk commodities, for the relief or development purposes, including important procurement programs, which must be rapid according to conditions established at the time of the loan agreement or as subsequently agreed.

**Donor:** It is the origin of fund for development assistance.

**Recipient:** Country that receives aid.

**Commitment:** A commitment is a form of obligation expressed in an agreement and supported by the availability of public funds, undertaken by the donor, to furnish assistance of specific purpose for the benefit of the recipient country.

**Disbursement:** Disbursement represents the actual international transfer of financial resources. They may be recorded at one of the several stages provision of goods and services, placing of funds at the disposal of the recipient in the embarked fund or account, payment by the donor of invoices on behalf of the recipient etc.

**Official Development Assistance (ODA):** ODA is defined as those flows to developing countries and multilateral institutions provided by the official agencies.

**Gross Domestic Product (GDP):** It refers to the market price of the total flow of goods and services produced by an economy over a specified period normally a year.

## CHAPTER IV

### FOREIGN AID IN NEPAL

#### 4.1. Historical Background

The history of foreign aid in Nepal is not very old. Before Second World War (or even before pre-democracy period or before over through of the Rana Regime in 1951) Nepal was isolated from the world. After the over through of the Rana regime, the monarchy was reinstated again as the supreme authority of the country. Nepal entered into the world arena and its strategic location between two major power blocks, Which started to interest foreign nations to provide assistance consequently, USA and India made the break through in 1951/52 by providing the first quantum assistance to Nepal in the form of grants. Formal aid program commenced in Nepal on the eve of the collapse of Rana regime in January 1951 with the “Point Four Program” of the US following which India also started its bilateral aid program. Both of these were in the form of Technical assistance. The first capital assistance came from India in 1952 and the US in 1956, the only two donors to Nepal till 1956.

After 1956, the sources and volume of aid to Nepal rapidly increased because of its strategic location between India and china, non aligned policy and friendly relation with all countries including the two superpowers, the importance of strategic location is evidenced by the fact up to 1979/80, the U. S., India, and China together provided more than three fourths of total bilateral grants. Before 1951, the flow of aid to Nepal was Negligible, almost were for the military purpose as we mentioned above because of the fact that the Rana Regime following a policy of Isolation of conservatism. After the democratic government in 1951, many bilateral along with multilateral agencies came into aid field. Besides these donors countries (USA, India, and UK) and agencies ford foundation and SATA (Swiss association for technical assistance) many countries like India, UK, Japan, Australia etc. begun to co-ordinate aid programs through the Colombo plane.

Nepal joined the Colombo plan of 1952 .This provides Nepal with a good forum to attract the interest of other friendly countries in the economic development efforts of the country. Under this plan, Nepal receives much technical assistance (scholarship) since 1952. Later Colombo plan aid gradually involved in to support for capital projects. Outside the Colombo plan, the

People's Republic of China began adding Nepal in 1956. Thus, Nepal became the first recipient country of Chinese among the South Asian States.

Therefore, it is obviously clear that although there were only donating countries during the early 1950's and during the late 1950's. After early 1960's Nepal got many opportunities to have from USSR, China, UK, France, Germany, Canada etc which started to contribute. Considerable amounts of aid various projects in Nepal. After the late 1970's Nepal has been receiving Foreign Aid mostly from Nepal aid group (Japan, Canada, Denmark, France, Germany, Italy, Netherlands, Norway, Switzerland, UK, USA, Sweden, Belgium, Saudi Arabia and some multi-donors ADB, IFAD, OECD, SFW, UNDP, IDA, EEC, UNCTAD. Besides these Nepal has received Foreign Aid from other bilateral donors as well as multi-national agencies like- IBRD, WFP, UNICEF, OPEC fund, JICA, DAD etc.

Foreign Aid has covered many fields like, education, public health, agriculture, poverty alleviation, transportation, communication, electrification, industrialization, public administration, democracy and governance, emergency relief as well as family planning and training progress and export services for socio-economic development in Nepal. Foreign Aid plays an important role in the economic development of Nepal. Everywhere that Foreign Aid transmits not only but also ideas, values and technologies. In Nepal linkage aid and development has become more pronounced. After all talk and action about development in the country started virtually simultaneously with the inflow of foreign assistance. The records of Nepal's development performance have thus become indistinguishable from that of Foreign Aid (M. D. Dharamadasani, 1984).

In the mid 1950's the United Nations assessed the need for aid in three less developed and landlocked countries of Asia: Nepal, Afghanistan and Laos. The report stated "It is clear that strictly limited domestic resources which they can mobilize at the present time are inadequate to support rapid economic development. Foreign Aid in the form of equipment, supplies and technical personal facilities provides an initial impetus towards growth. The necessity of such help is all the more apparent because recent expansion of investment in new productive capacity have strained both domestic finance and foreign exchange reserves. In all the countries, therefore the role of foreign aid has come to be highly important (Buchandra, P. R. Baidy, 1984)

#### **4.2 Trend and Structure of Foreign Aid**

The foreign aid has been playing a vital role toward fulfilling the Nepalese aspiration of development also strengthening the balance of payment situation in the country. In a country like ours which is unable to fulfill the needs of economic development only from the internal

resources, it is usual to have the necessity and importance of foreign aid (Budget Speech, 1999: 5).

Foreign aid to Nepal consists of loan and grant components. In the initial years grant has been a major component of foreign aid. But in the middle years of the study loan has been a major component of foreign aid. In the latest years grant has been major component of foreign aid table 1 shows the composition of foreign aid flow in Nepal.

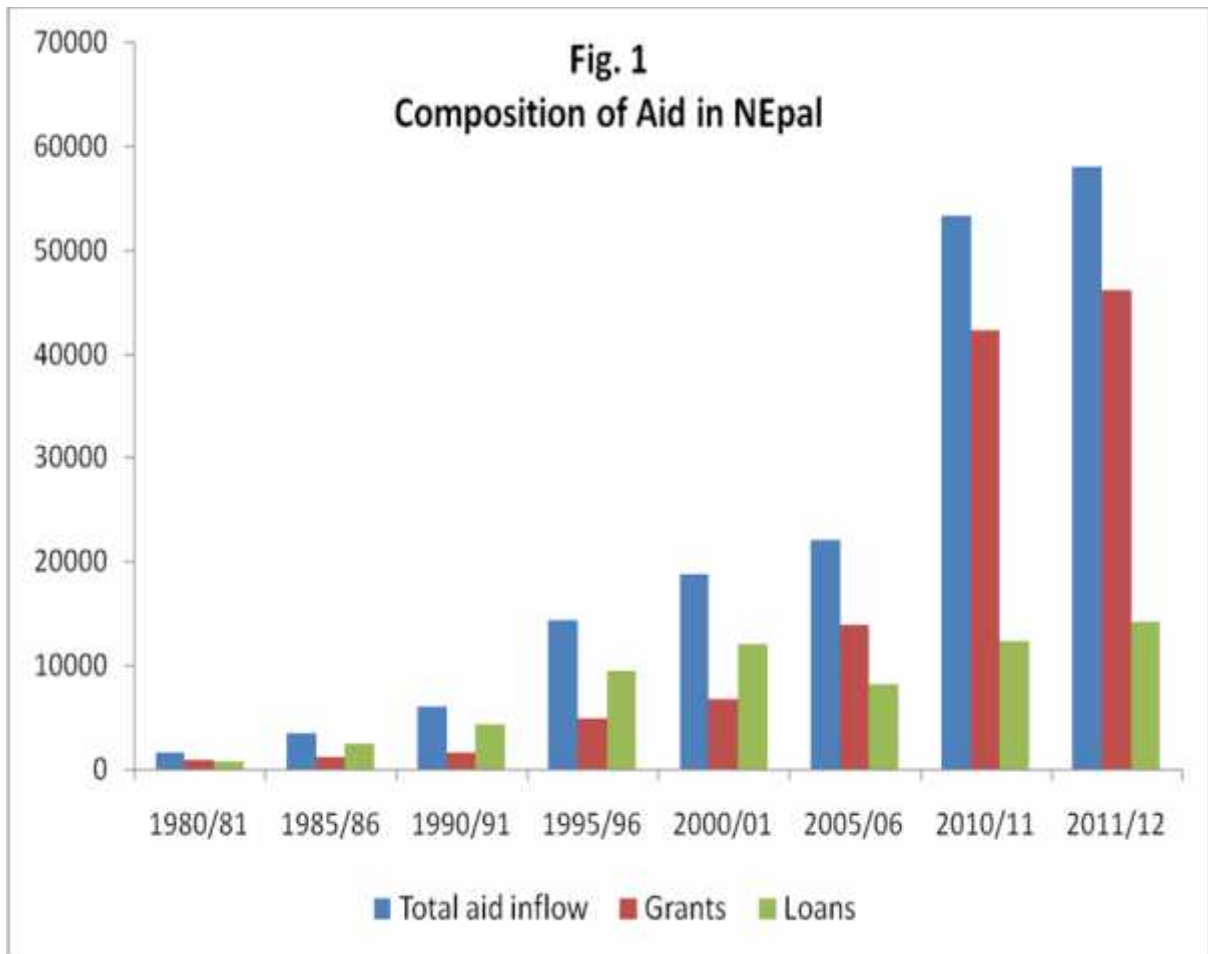
**Table 4.1**  
**Trend and Structure of Foreign Aid to Nepal**

(Rs in Million)

Fiscal year	Total aid inflow	Grants	Percentage of grants	Loans	Percentage of loans
1980/81	1562.2	868.9	55.6	693.3	44.4
1981/82	1723.2	993.3	57.6	729.9	42.4
1982/83	2075.9	1090.1	52.5	985.8	47.5
1983/84	2547.5	876.6	34.4	1670.9	65.6
1984/85	2676.4	923.4	34.5	1753.0	65.5
1985/86	3491.5	1120.6	32.1	2370.9	67.9
1986/87	3314.4	1078.3	32.5	2236.1	67.5
1987/88	5078.5	1984.2	39.1	3094.3	60.9
1988/89	5666.9	1478.2	26.1	4188.7	73.9
1989/90	6427.1	1798.8	28.0	4628.3	72.0
1990/91	5990.0	1630.0	27.2	4360.0	72.8
1991/92	7800.4	1531.0	19.6	6269.4	80.4
1992/93	9235.6	3273.9	35.4	5961.7	64.6
1993/94	11557.2	2393.6	20.7	9163.6	79.3
1994/95	11249.4	3937.1	35.0	7312.3	65.0
1995/96	14289.0	4825.1	33.8	9463.9	66.2
1996/97	15031.9	5988.3	39.8	9043.6	60.2
1997/98	16457.1	5402.6	32.8	11054.5	67.2
1998/99	16189.0	4336.6	26.8	11852.4	73.2
1999/2000	17523.9	5711.7	32.6	11812.2	67.4
2000/01	18797.4	6753.4	35.9	12044.0	64.1
2001/02	14384.8	6686.2	46.5	7698.6	53.5
2002/03	15885.5	11339.1	71.4	4546.4	28.6
2003/04	18912.4	11283.4	59.7	7629.0	40.3
2004/05	23657.3	14391.2	60.8	9266.1	39.2
2005/06	22101.9	13887.5	62.8	8214.4	37.2
2006/07	25854.3	15800.8	61.1	10053.5	38.8
2007/08	29300.6	20320.7	69.3	8979.9	30.6
2008/09	36351.7	26382.8	72.5	9968.9	27.4
2009/10	49769.3	38545.9	77.45	11223.4	22.55
2010/11	53221.7	42190.0	79.20	12302.1	23.11
2011/12	57981.2	46129.3	79.60	14111.1	24.33

Sources: Economic Surveys, MOF, Singhadarbar Kathmandu Nepal





The contribution of foreign loan in the Nepalese economy has been relatively higher during the review period. More than 50 percent of total foreign aid has been country through the loans. The contribution of foreign grants in the initial period was Rs. 868.9 million an it was 55.62 percent of total aid inflow, where as the contribution of foreign loan was Rs. 639.3 million, it was about 44.38 percent of total aid inflow. The total contribution of foreign aid, in fiscal year 1980/81, was Rs. 1508.2 million, which was 5.52 percent of GDP. In the fiscal year 1990/91, the foreign grant was Rs. 1630 million and it was two times more than that of the initial study year and the foreign loan was about Rs. 4360 million, which was a seventh time more than as compared to initial study year. In fiscal year 1990/91, the contribution of foreign aid was Rs. 5990 million which was 5.16 percent of GDP. After 2000/01, the amount of foreign grant has been increasing but the amount of loan is declining in each successive year. In the final year of the study the contribution of foreign grants was Rs. 46129.3 million and it was 79.6 percent of total aid inflow, on the other hand the contribution of foreign loan

was Rs. 12302.1 million, covering the 23.11 percent of total aid inflow. The contribution of total aid inflow was Rs. 57981 million and it was 4.25 percent of GDP.

### **4.3 Aid from Bilateral and Multilateral Sources**

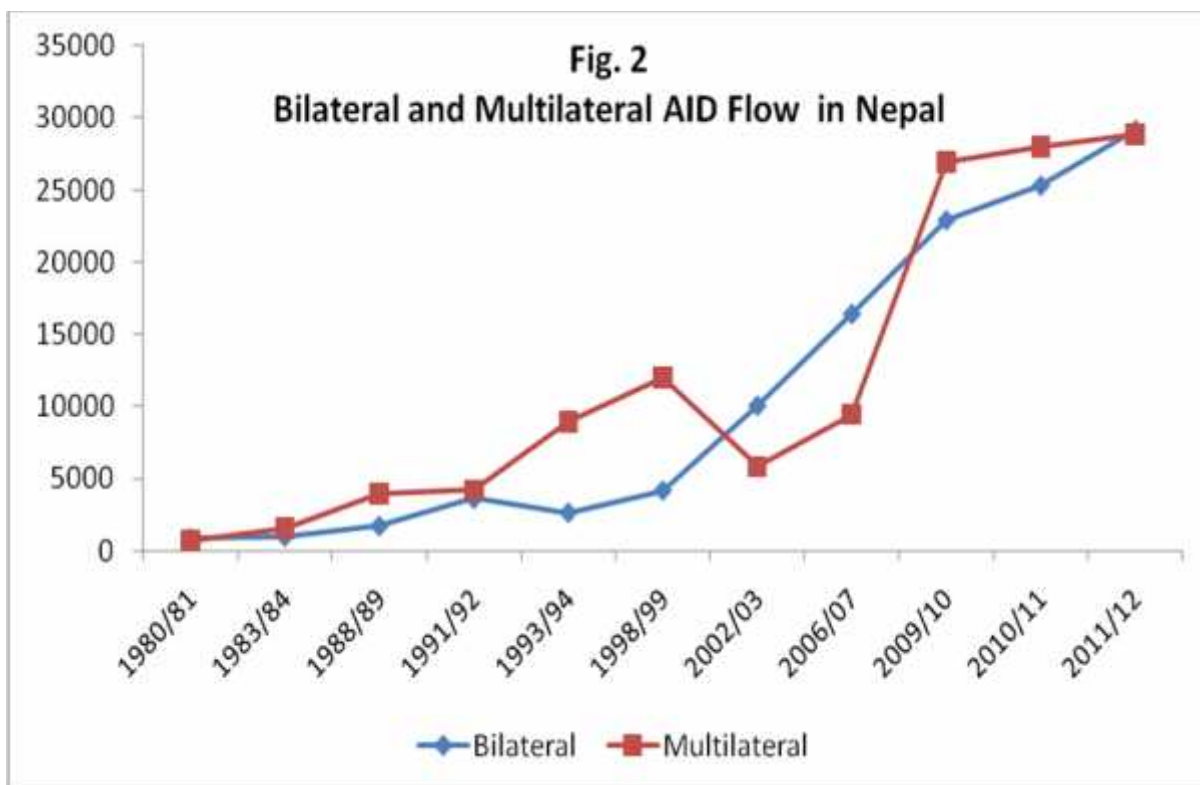
The post Rana regime of Nepal stressed the importance of non aligned policy since the country is sandwiched between two big neighbors China and India who were pursuing communism and democracy polar forms. Non-alignment has helped Nepal in acquiring aid not only from numerous sources but also from heterogeneous economic systems.

Three kinds of donors have been providing aid to Nepal over the past fifty years, bilateral, multilateral and international non-governmental organizations (INGOs). Bilateral aid depends on the mutual co-operation between two countries. However, sometimes it indirectly helps for the donor country to fulfill own political interest. The first refers to foreign government or their aid administering bodies in Nepal, such as United States' USAID, Japans' JICA, Germany's GTZ, Switzerland's SDC, Denmark's DANIDA Finland's FINIDA and the government of Indian, China, UK, USSR, France, Australia, New Zealand, Netherlands, Kuwait etc. Multilateral aid includes assistance from international agencies such as WB, IMF, ADB, UNDP, OPEC fund etc. And the third type includes private organizations such as plan international, CARE Nepal etc. The volume of aid from both sources has presented in Table-2.

**Table 4.2**  
**Foreign Aid from Bilateral & Multilateral Source (Disbursement)**  
**(Rs Million)**

Fiscal year	Bilateral	% of total	Multilateral	% of total	Total aid inflow
1980/81	858.1	54.9	704.1	45.1	1562.2
1981/82	909.5	52.8	813.7	47.2	1723.2
1982/83	947.2	45.6	1128.7	54.4	2075.9
1983/84	983.2	38.6	1564.3	61.4	2547.5
1984/85	1156.3	43.2	1520.1	56.8	2676.4
1985/86	1481.1	42.4	2010.4	57.6	3491.5
1986/87	1078.4	32.5	2236.1	67.5	3314.4
1987/88	2251.6	44.3	2826.9	55.7	5078.5
1988/89	1707.0	30.1	3959.2	69.9	5666.9
1989/90	2544.9	39.6	3842.4	60.4	6427.1
1990/91	2939.9	49.1	3050.1	50.9	5990.0
1991/92	3597.3	46.1	4203.1	53.9	7800.4
1992/93	3638.5	39.4	5597.1	60.6	9235.6
1993/94	2627.1	22.7	8930.1	77.3	11557.2
1994/95	3988.7	35.4	7260.7	64.5	11249.4
1995/96	3533.3	24.7	10755.7	75.3	14289.0
1996/97	6012.7	40.0	9019.2	60.0	15031.9
1997/98	6297.7	38.3	10159.4	61.7	16457.1
1998/99	4167.6	25.7	12021.4	74.3	16189.0
1999/2000	4929.1	28.1	12594.8	71.9	17523.9
2000/01	2771.2	14.7	16026.2	85.3	18797.4
2001/02	4675.3	32.5	9709.5	67.5	14384.8
2002/03	10044.4	63.2	5841.1	36.8	15885.5
2003/04	9013.2	47.6	9899.2	52.4	18912.4
2004/05	9230.8	39.0	14426.5	61.0	23657.3
2005/06	7658.4	34.7	14383.4	65.3	22041.8
2006/07	16406.4	63.4	9447.9	36.5	25854.3
2007/08	10207.7	34.8	19092.9	65.1	29300.6
2008/09	9333.1	25.6	27018.6	74.3	36351.7
2009/10	22901.5	46.02	26867.9	53.98	49769.4
2010/11	25299.5	47.53	27922.2	52.47	53221.7
2011/12	29158.9	50.29	28822.3	49.70	57981.2
Total	96984.51		231367.72		315622.4

**Source: Economic Survey, MOF/Nepal**



Nepal has received the first bilateral aid from USA under the point four programs. Recent trend indicates that bilateral aid has been declining from 54.9 percent of total aid in F.Y. 1980/81 to 34.47 per cent of in FY 2005/06. Japan was the largest bilateral donor country providing 30.29 percent of total bilateral assistance in 1999. Other major bilateral donors are USA, Denmark, United Kingdom, Germany Switzerland Canada Finland, Netherlands s and Norway. Also in terms of grant assistance, Japan was the largest bilateral donor 23.04 percent of total bilateral aid. Multilateral assistance begins with the establishment of international labor organization (1919) and then international Monetary Fund (IMF), IBRD, after the 1960's the number of regional multilateral donors increased. Nepal has a strong support from various multilateral donors and the trend of multilateral aid has been increased from 45.1 percent of total aid in F.Y. 1980/81 to 85.3 percent in F.Y. 2000/01. The significance of multilateral assistance is more effective in terms of program delivery and less political motive (Shrestha 1990), of the total foreign aid in F.Y. 2005/06 34.74 percent is bilateral and 65.25 percent is multilateral aid. The proportion of bilateral and multilateral aid in total aid up to FY 2005/06 is 20.8 percent and 79.2 percent respectively. In the final year, the proportion of

bilateral and multilateral aid in that aid upto FY 2011/12 is 50.29 percent and 49.70 percent respectively.

#### **4.4 Sectoral Disbursement of Foreign Aid**

In case of Nepal, Foreign Aid is needed in order to mobilize the available resources for implementation national plans and programs. Nepal is a rich country in national plans and programs. Nepal is a rich country in natural resources, which are mostly unexploited due to scarcity of capital, lack of skilled manpower, appropriate technological, lack of commitment and other reasons. Therefore Foreign Aid is one strong weapon for better utilization of international resources of Nepal for the economic development.

Foreign assistance has been provided for each and every sectors of Nepalese economy. In case of Nepal, foreign aid is needed in order to mobilize resources available for implementing National plans and programs. Nepal is rich in natural resources which are mostly unexploited due to scarcity of capital lack of skilled manpower, appropriate technology, lack of commitment and many other reasons. Therefore, foreign aid is one of the strong weapons for better utilization of internal resource of Nepal for her economic development.

The sectoral distribution of allocation of foreign aid is not smooth and has a fluctuating nature. Sometimes it seems that foreign aid actually had not been allocated according to the plan targets. This is due to the strategic interest of some major donors. All in all, donor countries were competing for "prestige projects" which have high extrinsic demonstration effective both for donor community and the population of Nepal. Some donors, who haven't direct strategic interests in Nepal provided aid for agriculture and institution building.

In 1956, when Nepal embarked on planned development, it did not have required infrastructure like transportation and communication in the country, there was an indispensable need to link country through a modern transportation system, realizing its importance road construction emerged as the priority investment at the initial periods.

Some general information on sectoral aid priority is available from 1980 on words. Sectoral allocation of aid is presented in Table - 3.

**Table 4.3**  
**Distribution of Foreign Aid by Major sector in Nepal (1980/81 -2011/12)**  
**(Rs in Million)**

Fiscal year	Total Aid Disbursement	Agri, Irrig.& Forestry	Trans, power & commun	Industry & Commerce	Social Service	Others
1980/81	1562.2	322.6	100.0	69.7	146.4	23.5
1981/82	1723.2	454.3	775.6	143.9	335.9	13.5
1982/83	2075.9	599.2	648.3	211.2	612.4	4.2
1983/84	2547.5	757.6	859.1	494.9	432.4	3.5
1984/85	2676.4	1053.1	969.7	191.8	435.3	26.6
1985/86	3491.5	1298.8	1321.2	275.7	586.4	9.5
1986/87	3314.4	1037.6	1473.7	183.4	585.4	34.3
1987/88	5078.5	1226.3	2784.6	445.7	522.3	99.6
1988/89	5666.9	1466.8	3120.1	191.2	845.0	43.9
1989/90	6427.1	1489.7	2679.1	656.6	1555.8	45.9
1990/91	5990.0	1253.2	2575.6	1390.9	667.9	102.4
1991/92	7800.4	1945.4	2485.1	2174.3	1191.6	4.0
1992/93	9235.6	1927.4	3939.6	696.9	2667.6	4.1
1993/94	11557.2	5519.1	4169.4	389.9	1468.6	10.1
1994/95	11249.4	3462.4	4574.9	480.3	2680.1	51.7
1995/96	14289.0	3399.6	8052.7	15.9	2636.2	184.6
1996/97	15031.9	2827.5	8504.5	23.4	3665.0	11.5
1997/98	16457.1	2851.1	8989.6	198.1	4417.3	----
1998/99	16189.0	3383.9	7892.2	404.7	4446.4	61.8
1999/00	17523.9	3209.8	8159.3	298.5	5794.0	62.3
2000/01	18797.4	3774.8	9235.1	19.9	759.5	8.1
2001/02	14384.8	3285.8	5905.7	368.7	4685.8	139.0
2002/03	15885.5	2177.9	7774.1	401.2	5321.0	211.3
2003/04	18912.4	2429.6	7570.8	146.8	8730.1	35.1
2004/05	23657.3	2595.7	9860.0	123.9	10746.8	330.9
2005/06	22101.9	2396.3	7142.5	105.3	11162.2	1295.6
2006/07	25854.3	3721.5	6661.9	116.8	15181.0	173.1
2007/08	29300.6	3859.2	6709.5	78.7	18193.1	46
2008/09	36351.7	2291.2	6297.7	160.7	24695.7	2906.4
2009/10	49769.4	3080.9	11793.2	38	33025.3	149
2010/11	53221.7	4782.3	12231.8	40.7	33980.3	92
2011/12	57981.2	5384.3	13322.2	39.8	47223.8	123

**Sources: Economic Survey, MOF, Kathmandu Nepal**

The trend analysis of foreign aid disbursement between 1980/81 and 2005/06 shows that the transport, power and communication is the major recipients of foreign aid. There has been a substantial increase in the amount of aid provided to this sector. The share received by the agriculture, irrigation, forestry, industry, commerce and social service although erratic is quite significant. Sector allocation of foreign aid can be analyzed in the following ways.

The contribution of foreign aid is not consistent during the Panchyat period. In FY 1980/81 the foreign aid allocation in the transport power and communication is 64.0 percent which is more than other sectors 4.5 percent in industry and commerce, 10.9 percent social service and others and 20.7 percent in agriculture irrigation and forestry. In FY 1984/85 the foreign aid allocation in the transport power and communication is 36.2 percent, and industry and commerce is 7.9 percent and social service and others 17.1 percent. In this period the allocation of foreign aid in agriculture, irrigation and forestry sectors is 39.3 percent which is more than that of the other sectors. At the end of the panchyat period (1989/90), the allocation of foreign aid in transport power and communication is 41.7 percent of the total foreign aid which has the highest contribution than the other sectors, and less allocation of foreign aid is in industry and commerce i.e. 10.2 percent.

After the restoration of democracy the allocation of foreign aid in power and communication sector is also higher than that of the other sectors. In comparison to Panchyat period, the allocation of foreign aid in industry and commerce is lower and the contribution foreign aid in social service and other sector is relatively higher. On the other hand the trend of allocation of foreign aid in agriculture, irrigation and forestry is same as the Panchyat period.

In FY 1990/91 transport, power and communication sector received Rs.2575.0 million foreign aid which is 43.0 percent of total aid. The allocation of foreign aid in industry and commerce is 23.2 percent, agriculture, irrigation and forestry is 21.0 percent and social service and others 12.9 percent. In FY 2000/01 the allocation of foreign aid in transport, power and communication is 49.1 percent of total aid and industry and commerce only received 0.01 percent, agriculture, irrigation and forestry received 20.8 percent and social service and others received 30.7 percent. In the final year of the study, the total disbursed aid

of Rs. 288586.9 million is distributed to the following way: agriculture, irrigation and forestry 10.2 percent, transport, power and communication 32.13 percent, industry and commerce 0.48 percent, social service and others 56.5 percent of the total.

#### **4.5 Foreign Aid commitment and Disbursement**

Aid commitment shows that expression of donors to provide financial support of specified amount under agreed terms and conditions for specific purpose to the recipient country where as disbursement shows the time lag. Aids for many projects are committed in one year and committed aid is disbursed in subsequent years. Besides, failure to receive the committed is due to the political instability and lack of commitment on the part of recipient government. Bureaucratic delays and inefficiency, absence of institutional station of development administration, corruption and poor management of development projects, the capacity to utilize committed amount of aid productivity continues to remain as a crucial problems for the Nepalese's government ever since it began to receive aid. In 1990/91, when actual disbursement exceeded commitment, was an exceptional year? In recent years, however, overall absorptive capacity improved to 88.2 percent in 1998, and 85.7 percent in 1999/200. It subsequently decreased to percent in 2002/03 and 79.67 percent in 2003/04 and 62 percent in 2004/05. But in 2005/06 disbursement was 105.34 percent of committed aid. Table 4 shows the status of foreign aid commitment and disbursement.



**Table 4.4**  
**Foreign Aid Commitment and Disbursement (Rs. in Million)**

Fiscal year	Commitment	Disbursement	Disbursement % of commitment
1980/81	4012.6	1562.2	38.9
1981/82	2886.1	1723.2	59.7
1982/83	2959.2	2075.9	70.2
1983/84	3099.6	2547.5	82.2
1984/85	5991.4	2676.4	44.7
1985/86	9504.2	3491.5	36.7
1986/87	8727.5	3314.4	38.0
1987/88	6449.6	5078.5	78.7
1988/89	10403.0	5666.9	54.5
1989/90	15830.0	6427.1	40.6
1990/91	5665.4	5990.0	105.7
1991/92	21084.1	7800.4	37.0
1992/93	20526.7	9235.6	45.0
1993/94	13172.2	11557.2	87.7
1994/95	12876.9	11249.0	87.4
1995/96	16537.3	142389.0	86.4
1996/97	36643.0	15031.9	37.1
1997/98	32022.1	16457.1	51.4
1998/99	18352.5	16189.0	88.2
1999/00	20448.0	17523.9	85.7
2000/01	31287.0	18797.4	60.1
2001/02	33227.7	14384.8	43.3
2002/03	43202.7	15885.5	36.7
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.0
2005/06	20924.2	22041.7	105.34
2006/07	37022.9	25854.3	69.8
2007/08	49186.2	29300.6	59.6
2008/09	47975.3	36351.7	75.8
2009/10	96609.0	49769.4	51.52
2010/11	82322.70	53221.7	64.64
2011/12	99270.20	57981.2	58.42

**Source: Economic Survey, MOF, GON/N.**

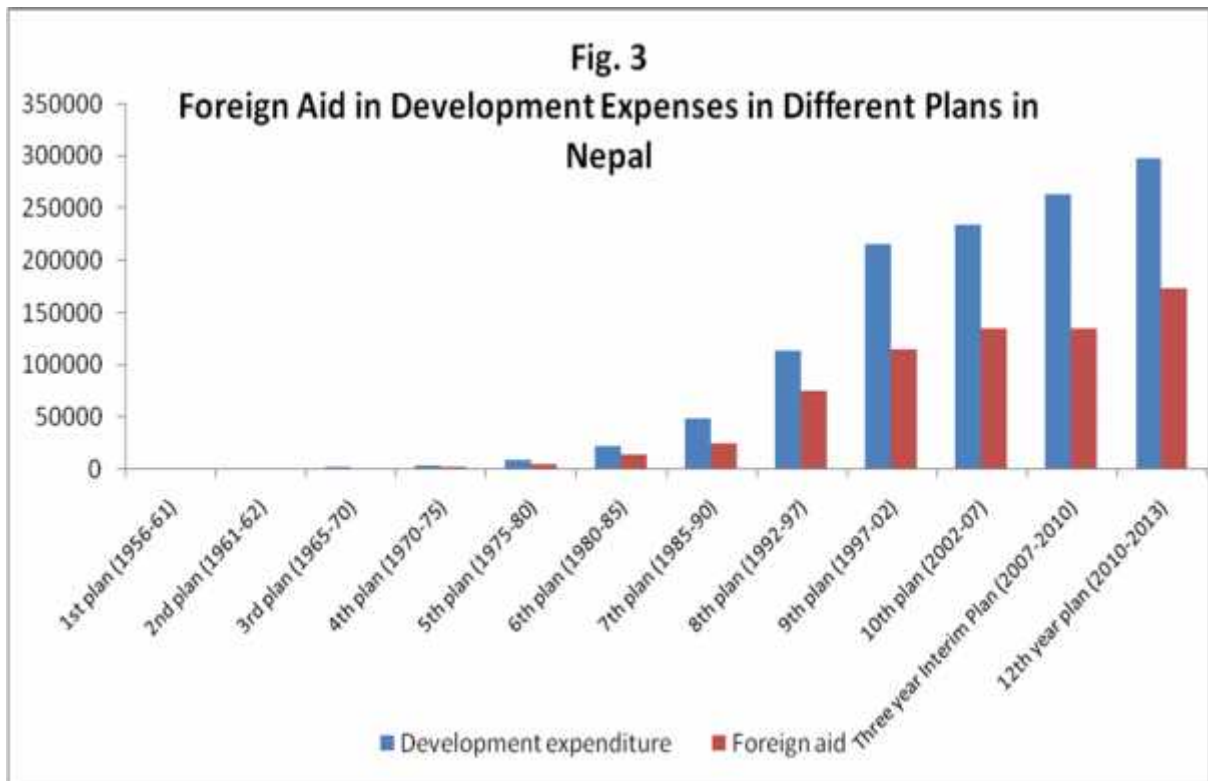
The difference between aid commitment and disbursement is mainly due to the poor absorptive as well as non-performance on the side of Nepal. Every donor wants to provide assistance according to its own priority and installment basis and they also observe the performance in implementing projects.

Foreign aid has played a significance role in the process of development of the Nepalese economy in different plans to solve the different problems of the country. Contribution of foreign aid in public sector development expenditure in different plan periods shown in Table 5.

**Table 4.5**  
**Foreign Aid in Development Expenses in Different Plans in Nepal**

Plan period	Development Expenditure	Foreign aid	% of foreign aid
1st plan (1956-61)	382.9	382.9	100.0
2nd plan (1961-62)	614.7	478.3	77.8
3rd plan (1965-70)	1639.1	919.8	56.1
4th plan (1970-75)	3356.9	1509.1	45.0
5th plan (1975-80)	8870.6	4264.1	48.1
6th plan (1980-85)	21750.0	13260.0	61.0
7th plan (1985-90)	48345.4	23978.5	71.6
8th plan (1992-97)	113519.1	74355.0	65.5
9th plan (1997-02)	215154.4	114290.0	53.1
10th plan (2002-07)	234030.0	134620.0	57.5
Three year Interim Plan (2007-2010)	262090.0	133923.0	53.09
12 <sup>th</sup> year plan (2010-2013)	297298.7	172273.0	57.94

**Source: Various Issues of Economic Survey MOF, HMG/N.**



The contribution of foreign assistance as a percent of development expenditure had gradually declined from 100 percent in the first plan, to 45 percent in the fourth plan. The percent has been fluctuating after the fourth plan. In the fifth plan it was 48.1 percent while in the sixth plan it increased to 61 percent. No specific improvement in the utilization of foreign aid seemed to have been growth about in the sixth plan period. In the seventh plan, the percentage of foreign aid out of development expenditure was 49.6 percent in the eight plans it was decreased to 44 percent. Though it was estimated that the total amount of foreign assistance during the eights plan period would reach to Rs. 74355 million at 1991/92 prices, it reached to Rs. 49203 million which is only 66.2 percent of the target. During the Ninth plan period (1997/02) was 53.1 percent (Rs. 114290.0 million) to the total development expenditure of Rs. 215154.4 million. In the tenth plan, the foreign aid is estimated to finance 57.7 (Rs. 134620.0 million of the total development expenditure 234030.0 million for 6.2 percent growth rate. For 4.3 percent growth rate foreign aid is estimate to finance 67.1 percent Rs. (119690.0 million) of the total development expenditure of Rs. 178350 million.

#### **4.6 Burden of Foreign Aid**

If foreign aid is not property used, further generation of recipient countries will be forced to bear heavy burdens. Foreign loan posed burden to the country mainly due to their debt servicing requirement. The globule experience shows that debt servicing drains the public budget and reduces the availability of counterpart funds and additional domestic resource required for operating and maintaining aid investment facilities. However, when returns from

loans exceed the debt servicing burden, there is no cause of concern. Otherwise, foreign debt becomes a long term burden to the recipient country. Greater the amount of foreign aid required, greater the burden to be face. Moreover, if foreign assistance is not used properly, foreign grants also become burdensome to the recipient economy. Nepal has been borrowing external capital only since the early 1960s; debt servicing began only in the late 1960s. Nepal has been receiving foreign loans with very low rate of interest and the time of maturity period is very long ranging from 25 to 40 years, the debt burden has been growing consequently. Table 6 shows foreign loan and debt servicing situation.

**Table 4.6**  
**Foreign Loan and Debt Servicing**

Fiscal year	Net out siding debt	Repayment	Interest payment	Total debt service
1980/81	2451.3	31.1	28.7	59.8
1981/82	3177.8	35.5	28.7	74.0
1982/83	4717.6	47.5	47.2	94.7
1983/84	6321.1	55.5	72.7	128.2
1984/85	9203.2	69.2	120.3	189.5
1985/86	10330.2	160.5	125.3	285.7
1986/87	15171.9	250.6	236.4	487.0
1987/88	20826.0	297.5	293.5	591.0
1988/89	29216.9	388.6	312.7	701.3
1989/90	36800.9	701.8	421.8	1123.6
1990/91	59505.3	589.0	479.5	1086.5
1991/92	70923.9	942.2	722.7	1664.9
1992/93	87420.8	1252.9	879.0	2131.9
1993/94	101966.8	1468.2	1020.0	2488.7
1994/95	13000.9	1828.2	1156.5	2984.7
1995/96	128044.4	1987.7	1316.6	3304.3
1996/97	132086.4	2102.4	1247.0	3349.4
1997/98	161208.0	2780.2	1421.0	4201.2
1998/99	169465.9	3196.5	1549.0	4745.5
1999/00	190691.2	3681.1	1640.3	5321.4
2000/01	200404.4	4500.6	1700.8	6201.4
2001/02	220125.6	4751.4	1816.1	6567.5
2002/03	223433.2	5497.5	2021.7	7519.2
2003/04	232779.3	5767.1	2141.8	7908.9
2004/05	219641.9	5953.2	2146.8	8100.0
2005/06	233968.6	6987.5	2163.9	9151.4
2006/07	216628.9	7538.8	2055.7	9594.5
2007/08	249965.4	7869.4	2145.3	10014.7
2008/09	277040.4	10120.3	2373.7	12494.0
2009/10	256243.3	10743.0	2458.1	13201.1
2010/11	265392.3	10302.9	2379.2	12682.1
2011/12	259221.7	10920.0	2939.3	13859.3

**Source: Economic Survey MOF, HMG/N.**

The rate, at which Nepal is acquiring loans from abroad, is increasing over time. Net outstanding foreign debt was just 2451.3 million in 1980/81. Total debt service is increasing trend in 1980/81 was 59.8 million in FY 2005/06 was Rs. 9151.4 which is more than 153 times. Net outstanding debt and repayment amount also increased in smoothly. FY 1980/81 repayment was 14.8 million, Rs. 6987.5 million in 2005/06.

**CHAPTER IV**  
**ROLE OF FOREIGN AID IN AGRICULTURAL**  
**DEVELOPMENT OF NEPAL**

**5.1 Background of Nepalese Agriculture**

Nepal covers area of 147181 square kilometers out of this agricultural lands constitute an area of 3364139 hectares (Nepal in figure 2007) of the total, the Himalayan region covers 15 percent and the middle mountain region 17 percent of the total land area respectively. Nepal is predominately agricultural country. Above 90 percent of the total population derive its livelihood from agricultural. Main food crop are paddy maize, millet, barley, wheat, jute, sugarcane and oil seeds. Tea and tobacco is also an important product of cash crops. According to the 2001 census report, the total population of Nepal is 26494504 (population Census, 2010). The 90 percent of total population is based on agricultural and this sector contributes more than 40 percent to the gross domestic product. Out of total export of the country, 15 percent is supplied from the agriculture sector.

On the one hand agricultural sector had major role in economic development and the other hand, the development of this sector is not so satisfactory. Unequal distribution of land is the major problem of the agricultural sector of Nepal. Majority of the people, who are totally dependent upon the agricultural sector and actually involved in farming have very small pieces of land. According to be 1991/92 national sample census for agriculture in Nepal (NSCA) there around 2.7 million agricultural holding operating over 2.6 million doctors of land (nearly 18 percent of total area of country).

**5.1.1 Topography**

Nepal is a mountainous country. Geographically the country is divided into three regions; Himalayan region, Hilly region and Terai region. Himalayan region lies at the northern side of Nepal. Hilly region is in the center with several fertile valleys including Kathmandu.

The country has great varieties of topography, which is reflected in the diversity of weather, micro thermal, taiga and tundra type of climate. The climate of Terai region is sub-tropical and altitude goes up to 1000 feet and the Terai region belongs to major portion of agricultural area of the country. In fact the entire Terai region shares 60% of the total rearing area of the

country. In comparison to this the Hilly and Himalayan region cover 40% of the total farming area of the country while the Terai region covers 17% of the total area of the country. Geographical factors have many implications for the development of agricultural sector in Nepal especially in the Hilly and Himalayan region.

### **5.1.2 Irrigation Facilities**

The production of agriculture increases when the monsoon is favorable and falls down it is not uncertainty of monsoon makes the irrigation situation is very poor. According to the “Nepal in Figure 2007” published by Central Bureau of Statistics, Only 854010 hectares of total agricultural land are under the irrigation facility which is only 31% of the total cultivated land. The extension of additional irrigation facility during 1980/1981 to 1999/2000 is 6025.7 hectares.

In the eighth plan period, the physical target was set to provide irrigation facility to an additional 193.895 hectares of land through various new and under construction irrigation projects. Of that target, irrigation facility has been provided only to the 206.401 hectares of land, which is 19.9% of the total target. This situation shows the very slow of the irrigation sector development in Nepal. Unless the irrigation sector of Nepal is properly developed it is almost impossible to meet the target of agricultural growth.

In the Ninth plan, the physical target was set to provide irrigation facility to an additional 249859 hectares of land through the various construction projects. During the preceding three years of ninth plan, 106164 hectares of land had got irrigation facility. This condition also clearly shows the irrigation sector had lagged behind the other sectors.

Government agencies and ADB/N are implementing irrigation development projects and schemes. In FY 2005/06, a total of 11823 hectares of arable land received irrigation water. Of this total 10427 hectares were irrigated by government built irrigation projects and 1396 hectares by ADB/N schemes. As the pace of providing irrigation to additional land has been too slow, major part of cultivated land still remains out of access to irrigation facility. Irrigation programs, therefore, need attention for prioritization, in the review period of FY 2005/06 irrigation facilities were extended to a total of 2238 hectares of additional land including 238 hectares under ADB/N schemes and 2000 hectares under government schemes.

Additional irrigation facility has not increased continuously; it has been fluctuation with respect to time. It may be the result of instability of government after 1990.

**Table 5.1**  
**The additional irrigation facility during 1996/97 to 2009/10**

FY	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
IRR	21447	49015	35702	29661	17587	11823	12753	11325.5	18402

...

2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
26967.5	16613	25850	30718	40263.2	48322.3

Source: Economic survey 2011/12. (IRR:-Irrigation)

### 5.1.3 Technology Used

Mechanization of agriculture in Nepal is at a very low level. The most common agricultural household owned plough. Similarly, less than one percent of the farmers owned a thresher, 3% of the farmers owned pumping set. About 16% of the farmers had been containers for grain storage.

### 5.1.4 Uses of Fertilizer and Important seeds

Improved seeds have to be accompanied by chemical fertilizer to obtain the maximum yield. Nepalese agricultural soil has been under cultivation for a long period of time. Farmers only use traditionally produced fertilizer in their cultivated land which can only generate less productivity, than improved chemical fertilizers.

After 1990, the distribution of improved seeds has increased by the increment of the participation of private sector. In 2004/05, the national seeds company Ltd, has distributed 3348Metric Ton of seeds of rice, maize, wheat vegetables and jute. In 2004/05 this company has been distribution 1847 Metric Ton of seeds.

Following tables shows the use of fertilizer and improved seeds.



**Table 5.2**  
**Uses of fertilizer and improved seeds during 1999/2000 to 2010/11**  
**(Metric Ton)**

FY	Chemical Fertilizer(Nutrients)				Improved Seeds			
	Total	Nitrogen	Phosphorous	Potash	Total	Rice	Maize	Wheat
1999/2000	37250	25034	12031	185	2585	326	25	2234
2000/01	23623	16397	7191	35	1894	231	7	1656
2001/02	19713	10610	8562	514	2654	89	41	2524
2002/03	38950	21838	15332	1780	2053	353	20	1680
2003/04	11711	5465	5233	1013	2190	504	20	1666
2004/05	18458	8118	8941	1399	2749	510	2	2237
2005/06	8136	2856	4994	286	3514	644	11	2859
2006/07	12751	8781	3970	0	3380	900	30	2450
2007/08	3285	1939	1346	0	3781	897	1	2883
2008/09	3157	2918	239	0	3947	931	0	3016
2009/10	42178	28407	12356	1415	4337	850	0.1	3487
2010/11	9322	5321	3921	80	4922	1020	40	3862
2011/12	48212	35322	8822	4068	5632	1250	3	4379

Sources: - Economic Survey 2011/12

The table shows that chemical fertilizer and seeds have been fluctuating each year and with respect to time.

### 5.1.5 Climate

Like water, climate is also very important part for the agriculture. In Nepal, major portion of agriculture is dependent on sky. Weather condition varies from region. Summer and late spring temperature range from more than 36 degree C in the mid section of the country, In the winter , average maximum and minimum temperature in Terai range from 23 degree Celsius to 7 degree of Celsius while central valley's experiences 12 degree Celsius maximum and the temperature falls to freezing points. Much colder temperature prevails in higher elevations. The annual rainfalls in the Kathmandu Valley generally exceed 1700 millimeter varying monthly between 1500 and 2500 millimeter of rainfall predominant over most of the country on monsoon period. So the climate conditions of the different regions (Statistical Book 2005)

## **5.2 Contribution and Important of Agriculture in the Nepalese Economy**

Nepal is predominantly an agricultural country where 80% of the total population depends upon agriculture. Agriculture is only the sector, which plays a vital role in the economic development of the country like ours. This sector alone contributes 38% of GDP, more than 50% of the household income and has a significant bearing on the manufacturing and export sectors. That is why agriculture sector is considered to be the backbone of the Nepalese economy.

According to National living Standard survey (NLSS) 2005, approximately, 30% of the total population of Nepalese is under the poverty line. So to alleviate such percentage of poverty, agriculture sector requires change from subsistence status to industrial process.

More people live in rural area in underdeveloped countries with agriculture as their main occupation so that food production dominates the agriculture sector in developing countries like Nepal. There is high rate of agriculture sector in developing countries like Nepal. There is high rate of population growth (2.24% per year according to macroeconomic indicators of Nepal published by NRB) in developing countries. The income of farmer increases when per capital productivity increases. This leads to increase in export which ultimately leads to increase the industrial goods, then industrial development take place. Developing countries like Nepal have specialization in the production of a few agricultural goods for exports. When the output and productivity of exportable agricultural goods increases, export of such goods increases and automatically the foreign exchange earnings also increases. Thus increase in productivity and exportable goods lead to capital formation with agricultural surplus. Agriculture provides employment to the large majority of the Nepalese population, only little portion of population are engaged in trade, industrial and other economic activities. The major portion of population engaged in agriculture; it means it is the major sources of income.

### **5.2.1 The share of Agricultural Sector in GDP of Nepal**

Nepal is predominantly an agricultural country where more than 90% of total population is engaged in agriculture for its livelihood. Agriculture sector contributes the highest share to total GDP of Nepal 40% of GDP being derived from this sector. This sector's GDP comprise of farming, fisheries and forestry. Non- agricultural sector comprise of Mining Quarrying

Manufacturing Electricity gas water, trade, restaurant, hotels transport, communication and social services.

The real agricultural GDP at factors cost was estimated to grow 2.4% in FY 2004/05. In the previous year such a growth was 2.2%.In 2004/05, total production of principle food grains stood at 7460 thousand metric ton, which was following table shows the share of agricultural and non- agricultural sector in Nepal’s GDP.

**Table 5.3**  
**GDP at current price from 1997/98 to 2009/10**

FY	Total GDP at Factor Cost	Agriculture		Non- Agriculture	
		GDP at FC	% of Total	GDP at FC	% of Total
1997/98	289798	112495	38.8	177303	61.2
1998/99	330018	132373	40.1	197587	59.9
1999/2000	366251	145131	39.6	221120	60.4
2000/01	394052	151059	38.3	242993	61.7
2001/02	406138	160144	39.4	245994	60.6
2002/03	437546	171104	39.1	266442	60.9
2003/04	474919	183117	38.6	291802	61.4
2004/05	48034.5	17981.0	37.4	30053.5	62.6
2005/06	49954.0	18301.5	36.6	31652.5	63.4
2006/07	51512.7	18479.6	35.9	33033.1	64.1
2007/08	54530.3	19555.9	35.9	34974.4	64.1
2008/09	56568.9	20146.4	35.6	36422.5	64.4
2009/10	58787.5	20401.4	34.7	38386.1	65.3
2010/11	60120.0	21209.2	35.27	39322.61	65.40
2011/12	63363.3	21989.3	37.70	42231.20	66.64

Source: Economic Survey 2011/12

The table shows that the agriculture is the single sector which contributes the highest share to the total GDP of Nepal. The agricultural sector GDP comprises of farming, fisheries and forestry. Non- Agricultural sector comprise of mining, communication, transportation, transport, construction and hotel. So it is clearly depicts that importance of agricultural sector to the total GDP of Nepal.

The contribution of agricultural sector to the total GDP during the period 1997/98 to 2005/06 has been increasing and decrease it shows the fluctuation. The non- agricultural sector before 2001/02 it is fluctuation but after 2001/02 it is increase slowly. The share of agriculture sector is less than the non- agricultural sector.

### **5.2.2 Employment opportunity in Agricultural sector**

Total agricultural land holding is 259870 hectares out of total of the Nepal. Only a little percent of population are engaged in trade, industry and other allied economic activities. So, agriculture is the major sources of income of the majority of the people. So agricultural has been the major sector of employment because of the low literacy rate. Due to the lack of technical education with modern knowledge, the pressure of ever increasing population directly goes to the non- elastic agricultural land.

### **5.2.3 Export of Agricultural Commodities of Nepal**

Nepal is one of the least developed countries of the world because of its static condition of industrialization most of the industries are in poor conditions. So the contribution of agricultural sector to the GDP is higher than the industrial sector. Agricultural products like rice, sugarcane, tobacco, oilseeds, most of them are in poor condition. Dry ginger, species, pulses, jute, tea are the main exporting products of Nepal. Besides this animal, vegetable oil fats are also the expanding commodities of agricultural sector.

Agricultural is the main supplier of raw materials to agro- based industries, The small and cottage industries as well as large – scale industries depend on agriculture for raw materials. Jute, Sugarcane, tea, tobacco, oilseed& rice are the most important raw materials. Jute, sugarcane, tea, tobacco, oilseed, rice are the most important raw materials in running agro-based industries on Nepal. When agro-based industries are established within Nepal, when endogenous workers and unemployed people get employment, which ultimately generates production, reduces imports increase exports and makes the nation economically strong

Agricultural production has been the major of food sources for every increasing population. In this way, if agricultural sector because strong then our agro- based economy will automatically because strong. So it has the great importance in the Nepalese economy. The following table shows the export of major agricultural commodities of Nepal

**Table 5.4**  
**Total export of major commodities of Nepal**

(In Million Rupees)

FY	Food and live Animal	Tobacco and Beverage	Mineral, Fuels and Lubricants	Chemicals and Drugs	Miscellaneous Manufactures Article
1997/98	3123.2	22.8	20.9	1968.5	236.9
1998/99	3724.5	50.0	0.5	2804.0	667.2
1999/2000	4240.4	117.2	2.2	3933.2	4323.5
2000/01	4776.6	75.6	1.3	4041.7	4228.6
2001/02	5094.2	145.7	1.6	3308.3	1979.5
2002/03	6100.9	138.7	5.5	3279.0	2225.7
2003/04	6276.9	55.2	14.5	3865.9	2262.5
2004/05	6993.5	31.6	4.2	3677.6	2876.2
2005/06	7192.0	25.0	3.2	3686.9	3477.7
2006/07	5944.3	12.0	0.0	3977.4	2217.2
2007/08	7617.4	10.7	0.0	2696.3	1783.7
2008/09	10151.1	329.5	40.6	2990.8	4213.1
2009/10	8598.6	0.0	0.0	1576.6	1471.3
2010/11	9982.7	22.32	43.09	1180.8	3290.0
2011/12	11222.8	10.72	2.78	980.0	2380.0

Sources: Quarterly Bulletin of NRB, Mid – April 2012, Vol 45

This table shows that the export of food and animal is increase per year. Export of tobacco and beverage has some fluctuation, mineral, fuels and lubricants have slightly fluctuates in FY 1997/98 20.9 million to 3.2 million in FY 2005/06. Export of chemical and drugs and miscellaneous manufactures article has also increased after FY1997/98 to 2000/01 and after FY2001/02 to 2002/03 it starts to decrease and after FY2002/03 to 2005/06 it starts to increase. Overall situation of agricultural exports slightly increased from 1997/98 to 2005/06.

### **5.3 Agricultural Development and Total Expenditure on Agriculture Sector in Various Plan Periods**

According to M P Todaro planning is “Agricultural deliberate government attempts to co-ordinate decision madding (over the long run) and to influence, direct and to some, extent, control the level and growth of a nations principle economic variables”.

The objectives of planning in an underdeveloped economy is to remove the unemployment and disguised unemployment and in the developed countries it is to remove the unemployment and disguised unemployment and in the developed countries it is to raise the level of income saving and investments. It is only possible through the capital formulation, The expansion of domestic and foreign market, development of Agricultural and industrial sector and the establishment of social and economic overheads are the basic requirements for the rapid economic development of the developing countries which is possible only when resources are mobilized in Agricultural planned manner.

With an increasing labor forces in agricultural sector, it is difficult task to provide employment opportunity due to the scarcity of land and capital only planning can solve this problem. Nepal introduces development planning as agricultural vehicle for overall socio-economic development in 1956. This plan was first year plan. Now the country is implementing tenth periodic development plans. Realizing the importance of agricultural sector to the national economy, every plan has give top priority to this sector from the very beginning. In spite of high priorities the development of this sector has kept up with the desired speed. During the eight plan- period, the agricultural perspective plan has been prepared to streamline this sector and continued in the tenth plan.

### **5.3.1 The First Five Year plan (1956-1961)**

The First plan couldn't make any important contribution on the development of the country because of some constrains. But this plan has been agricultural basic pillar for the refinement of subsequent plans. The first constraint was the lack of statistic on carious facts of the economy. Secondly, required technical knowledge for carrying out the program did not exist in that time. Thirdly, the political set up was most unstable.

In this period, the overall fulfillment was not satisfactory due to the lack of resources, capital expenditure and administrative and technical efficiency, Rs 300 Million was estimated for the first plan outlay but the actual expenditure was only Rs 21.44 million. In the total estimated expenditure, the share of foreign aid was 36%. However, the hundred percent of development expenditure was financial from Foreign Aid. Out of the total expenditure, only 19.24% was allocated for the agricultural sector.

**Table 5.5**  
**Priority and allocation of expenditure in the first five year plan**

S.No	Priorities sector	% of total expenditure	Total Expenditure
1	Transport and communication	33.80	1115
2	Irrigation, forestry	21.21	700
3	Agriculture and agricultural	19.24	635
4	Social service	17.22	563
5	Industry, Mining and Tourism	7.57	250
6	Miscellaneous	1.60	35
Total		100.0	3300

In the first plan, transport and communication was given great importance and first priority which can be seen the table. The second priority was irrigation and forestry sector and the third priority was the agricultural sector.

### **5.3.2 The Second Plan (1962-65)**

During the second plan period (Three –Year plan) national income increased by 7% whereas population increased by 6% showing only slow and unsatisfactory result. In this plan period, the total amount allocated agricultural sector was Rs 147.40million, which was 24.5% of total outlay of the plan. However actual expenditure on agriculture remained lower at Rs124.53 million. The distribution of improved seeds and implementation of chemical fertilizers have a positive impact on agricultural development. In this plan period, significant progress was made in the field of agriculture development

The following table shows the priorities sector and Allocation of expenditure during the second plan period.

**Table 5.6**  
**The sector wise expenditure of table expenditure in the second plan**

S.No	Priorities sector	Total Ex	% of Total
1	Transport and communication	143.5	23.92
2	Social Service	102.7	17.42
3	Industry, Mining and Tourism	102.0	17.00
4	Agricultural, Irrigation, Forestry, & Drinking water	94.1	15.68
5	Power	91.0	15.16
6	Miscellaneous	66.7	11.12
Total		600.0	100.00

### 5.3.3 The Third Plan (1965-1970)

This plan period put emphasis on the development of infrastructure for the future economic development of different sectors of the economy. The plan was formulated in agricultural view of long term perspective of 15 year, aimed at raising the growth rate to 3.8% annually and per capita income at 1.8% annually. This plan aimed to rise by 15% to the production of food crops and cash crops by 73%. The total outlay of this plan was of Rs 2500 million and the total outlay estimation for the agricultural sector was Rs 37705 million.

**Table 5.7**  
**The sector wise expenditure of total expenditure in the third plan**

S.No	Sector	Total Exp	%of Total Exp
1	Transport & communication	87.50	50.3
2	Agricultural & Irrigation	37.75	21.7
3	Industry	12.50	7.2
4	Social Service	29.25	16.8
5	Miscellaneous	7.0	4.0
Total		174.00	100.0

In this plan out of the total outlay only Rs 174.00 million was actual expenditure.



### 5.3.4 The Fourth Plan (1970-75)

In this plan period, allocation on agriculture comprised on 25.99% of the total outlay. The objectives of this plan were to maximize output to establish the preconditions for sustained, to create exploitation less society and to mobilize internal resource for the development. The second priority was given to the agricultural sector development.

**Table 5.8**  
**Total allocation of expenditure on the fourth plan**

S.No	Sector	Total Expenditure	% of total Exp
1	Transport & communication	1252	35.37
2	Agricultural, Irrigation, Forestry & Mining	1171.80	33.10
3	Trade, Industry, Electricity & Mining	720	20.34
4	Panchayat Education & Health	381.50	10.78
5	Statistics	14.70	0.42
Total		3540	100.0

There was fluctuation in agricultural production in the Forth plan. It was planned to increased production by more than 17% but only 9.57% increased in food grain and 10.225 increase crops was realized at the end of the plan compared to the third plan. In this plan period most of the plan target was achieved satisfactorily.

### 5.3.5 The Fifth Plan (1975- 80)

The main objective of this was to increase the agricultural product in the one hand balanced development on the other. This plan was divided into two programs (minimum program and maximum program). The total outlay was set spend Rs 9197 million under minimum program and 11404 million under maximum program. Out of this total outlay under maximum program 34.4% & 34.8% for minimum program was set to be spent on agricultural development. The following tables shows the total allocation expenditure on maximum program

**Table 5.9**  
**The total allocation of expenditure under the maximum program of the fifth plan**

S.No	Sector	Total Expenditure in public sector	Panchayat sector	Private sector	Total sector	% of total Exp
1	Agricultural, land reform, Irrigation	2278.70	356.10	1336.00	3970.00	34.0
2	Industry Com. & Electricity	156.00		534.00	2040.00	17.0
3	Trans & communication	1990.30	593.50	801.60	3385.40	29.68
4	Education & Health	1770.00	237.40		112007.40	10.58
Total		7547.00	1187.00	2672.00	11404.00	100.00

The fifth plan aimed to raise the domestic product by 5% in the plan period. It aimed to increase the agricultural output by 19.2%. In the agricultural sector itself, food grain production was targeted to rise up by 16.7% per year wherever the cash crop estimate to increase by 68.1% per year. Irrigation facility was extended to 95425 hectares of the total cultivated land in the plan period.

### **5.3.6 The sixth plan (1980-85)**

To increase productive employment opportunity and to attain higher growth rate were the two basic objective of the Sixth plan. The main objectives of this plan were to fulfill the basic needs of the people. So, its priority was given to agriculture sector to fulfill the objectives of the plan. Total outlay of this plan was set at Rs 3.94 billion but the actual expenditure was 45.9% the plan period. The following table 5.10 shows the expenditure of sixth plan period in agricultural sector.

**Table 5.10**  
**The allocation of expenditure in sixth plan period**

S.No	Sector	Total Exp	Percentage
1	Agricultural, Irrigation, Forestry	10570	31.1
2	Industry, Transport, Electricity	8810	26.0
3	Communication	5870	17.3
4	Social services	8690	25.6
5	Total	33940	100.0

During the sixth plan period, out of total targeted development expenditure, 31.1 were allocated to agriculture, irrigation and forestry. In this plan period, the growth rate of overall production was expected to be 30% annually. The production of food grains and cash crops was expected to increase annually by 2.8% and 3.0% respectively. The actual growth rate of GDP in this plan period was 4.4%, where the share of agricultural sector was 4.70% & non-agricultural sector was 4.0% respectively.

### 5.3.7 The seventh Plan Period (1985-90)

The total expected expenditure was Rs. 5041 million in this plan and expenditure for the agricultural sector was 26.5% of the total development expenditure. The main objective of this plan was increase productivity. The other objective was to reduce the dependency on agriculture by increasing the non- agricultural sector's contribution to the economy. The annual growth rate of agriculture sector was 6.4% and that of major agriculture crops was 6.8%. The actual growth rate of GDP was 4.6% in this plan period. The following table shows the allocation of total expenditure in the seventh plan period

**Table 5.11**  
**The sector wise expenditure in the seventh plan**

S.No	Sector	Total Expenditure	% of total Exp
1	Agricultural, Irrigation, Forestry	1728	34.3
2	Industry, Electricity, Mining	1084	21.5
3	Transport & Communication	126	14.4
4	Social services	1503	29.8
Total		5041	100.0

In this plan period of total target expenditure 34.3% was allocated to agriculture, irrigation and forestry.

### 5.3.8 The Eight plan (1992-97)

The total development expenditure in the eight plans was set at Rs 113479.0 million. The expenditure for the agricultural sector had been set at Rs 2919.0 million (25.7) of the total development expenditure. The main objectives of this plan was to attain sustainable economic growth, alleviating poverty and reducing regional disparity. To attain objectives,

agricultural sector was given the top priority. In order to expand the participation of private sector in the economic activities, new policy measures consistent with liberal economic system in monetary, fiscal, industrial and commercial sector were introduced.

During this plan period, 3.0% of growth in agricultural production was achieved against the target of 3.7%. Irrigation facility to an additional 293895 hectares of total land was targeted. Only 72.2% progress was made. The contribution of agricultural sector to the total GDP was 44.89% in 1991/92 which decreased to 41.02% in 1996/97, last year of the eight plans. The following table shows the sector wise expenditure of the eight plans.

**Table 5.12**  
**Allocation of expenditure in the eight plans**

S.No	Sectors	Total Expenditure	% of total Ex
1	Agricultural, Irrigation & forestry	29193.0	25.7
2	Industry & Mining	2245.0	2.0
3	Electricity	23719.0	20.9
4	Tourism & Trade	1481.0	1.3
5	Transport & Communication	20030.0	17.7
6	Social Service	35808.0	31.5
7	Miscellaneous	1003.0	0.9
Total		113479.0	100.0

### **5.3.9 The Ninth plan (1997-2002)**

The single objective of the Ninth plan was to alleviate poverty. To achieve high economic growth rate and other special programmers was the strategy adopted for the poverty alleviation. Of the total development expenditure, Rs 18958 million was set for agricultural sector and remaining 72.15% for non- agriculture sector. Ninth plan was implemented in between 1997 to 2002. It had adopted long term development prospective for poverty alleviation. The objective of long term development is to create cultured, modern ad skillful society through the reduction of poverty. It has targeted to reduce poverty from 45% within five plan period and below 10% within 20 years.

In order to achieve the objective, the plan fixed the target of achieving 6% annual economic growth rate consisting of 4% growth rate of agriculture sector and 7.3% growth rate of non-agriculture sector. It seems hard to meet the target because of the uncertainty of monsoon. The target of this plan is to provide irrigation facility to total 149400 hectares of land. During the last years of the plan 42.57% of land has got the additional irrigation facility of the total target. The following table shows the sector- wise allocation of development outlays in the ninth plan.

**Table 5.13**  
**Sectoral Allocation of Development Expenditure**  
**Normal Case (Rs billion in 2001/02 Prices)**

S.No	Sector	Amount (total Exp in billions)	%of total Exp
1	Agricultural, Irrigation & forestry	32.7	19.2
2	Industry and Mining	2.7	1.6
3	Electricity, Water and Gas	30.8	18.1
4	Trade, Hotel & Restaurant	3.2	1.9
5	Transport & Communication	29.8	17.6
6	Finance & Real State	6.6	3.9
7	Social Service	61.1	36.0
8	Miscellaneous	2.9	1.7
	Total	169	100

The table shows that of the total development outlays, topmost priority was given on social services, for which 33.30% of the total development outlays were allocated and second priority was accorded to agriculture, irrigation & forestry.

### 5.3.10 The Tenth plan (2002- 2007)

**Table 5.14**  
**Sectoral Allocation of Development Expenditure**  
**Normal Case (Rs billion in 2001/02 Prices)**

S.No	Sector	Amount (total Exp in billions)	% of total Exp
1	Agricultural, Irrigation & forestry	56.2	24.0
2	Industry and Mining	2.3	1.0
3	Electricity, Water and Gas	36.0	15.4
4	Trade, Hotel & Restaurant	3.5	1.5
5	Transport & Communication	36.4	15.6
6	Finance & Real State	2.7	1.2
7	Social Service	90.4	36.8
8	Miscellaneous	6.5	2.8
	Total	234	100

Tenth plan constitutes the first of Nepal in the 21<sup>st</sup> century. It is in implementation from the fiscal year 2002/03. It has adopted the long term development prospective to reduce poverty below 30% from current level of 38%

### 5.3.11 The Three Year Interim Plan (2007- 2010)

**Table 5.15**  
**Sectoral Allocation of the Development Expenditure of the Three Year Interim Plan**  
**(At 2006/07 Constant Prices)**

S.No	Sector	Amount(total Exp)	% of total Exp
1	Agricultural, Irrigation & forestry	36018	12.85
2	Industry, Geology and Mining	1676	0.60
3	Electricity, Water and Gas	54602	19.48
4	Wholesale and Retail Trade	3239	1.16
5	Hotel & Restaurant	1970	0.70
6	Transport, Communication and Storage	50195	17.91
7	General Administration and Defense	8639	3.08
8	Social Service	116348	41.51
9	Miscellaneous	7595	2.71
10	Total	280301	100

## CHAPTER – VI

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **6.1 Summary**

Nepal received foreign aid formally after the fall of Rana regime in 1951. Nepal experienced its first official assistance with signing of the point Four Agreement on Technical Assistance with the United States on 23 January 1951. Although it was by Rana ruler, the American aid landed in the kingdom only after the historical change in Nepal's development. Nepal's development plans have heavily relied on external assistance since Nepal embarked on a planned development. The First plan was fully financed through foreign aid. In the later plans, the portion of foreign aid was decreased. Although the percentage of aid was declined with every plan later on, the total volume of aid remained increasing. In the Ninth plan 57.3 percent of the total development expenditure was financed through the foreign aid.

During the initial period of aid to Nepal, all the aid was in the form of grants and was bilateral in nature. But over the years, the structure of aid has undergone sea changes. The volume of aid has increased over 150 times. Bilateral aid during the year 1990-2006 decreased to one third of the total aid while multilateral aid increased to two third of the total aid. Similarly, the grants component in the total aid is heading towards extension where as the loans component in increasing by leaps and bounds. In 1970, loans comprised less than three percent of grants. By 1980, loans constituted nearly two- third of grants. The scenario revised by 1990 when the amount of grants slightly increased to 46.5 percent and the share of loans decreased to 53.5 percent. It indicates increasing burden of foreign debt in the economy.

Though the amount of external assistance has been increasing, Nepal has not been able to use the entire committed amount yet. As of example, in the FY 2001/02 only 43.3 percent of total aid has been used. It shows the poor absorptive capacity of the economy and delay in the implementation of projects. While concentrating on the US assistance to Nepal, the US continues to be a major contributor to economic progress of Nepal although annual total

bilateral assistance level in real terms has been reduced. During the fifty- three years of US aid to Nepal, US \$747091622 has been provided. When concentration on the last thirteen years of the US aid to Nepal after the restoration of multiparty democracy (1990-2004), the US has provided US \$322628965 to Nepal which is more than one third of the total US aid in the form of grant. During this period, the US aid was mostly concentrating on “Health and Family plan” and agriculture sectors which collectively absorbed nearly 70 percent of the total aid.

During the last fifty- three years of US Nepal cooperation the field of agricultural institution techniques, promotion of agriculture education and extension services, development of agricultural research centers and trainings for Nepalese technicians and professionals and opening up of new lands for cultivation through eradicating malaria in Terai. Besides, the Foreign Aid has also supported in the establishment of Agriculture Development Bank (ADB) Nepal, and Institution of Agriculture and Animal Science (IAAS) in Rampur. IAAS is Nepal’s first agriculture and animal science campus which has produced highly skilled professionals for agricultural sector development.

Foreign Aid has also helped to expand access of farmers, rural groups and agro- enterprises to market opportunities in order to increase their economic option, income and employment through the market for the commercialization and diversification of the agricultural products. Similarly, during the fifty three years of US cooperation in the field of health sector, USAID has extended financial as well as technical support to develop this sector. Aid extended to this sector was crystallized in the form of improved health service.

Foreign Aid malaria eradication project in Terai was a landmark in the history of US Nepal cooperation. It changed the lives of millions of Nepalese people. Today the Terai is home of more than half of Nepalese population and produces more than 65 percent of Nepal’s food grains. Similarly, in the field of maternal and child health and family planning, it brought great change in the quality of life in the country. The life expectancy has doubled, infant mortality rates has dropped dramatically and contraceptive use has increased. At present the acceptors of contraception has reached 511 thousand couples, infant mortality rate has decreased to 91 per 1000 live births and life expectancy at birth has reached 62.8 years in 2005( Nepal in Figure, CBS). It has been thousands of children every year from pneumonia,



diarrhea and other infectious diseases through its Vitamin A Field Support Project, Control of Diarrhea Disease (CDD) and National Pneumonia Control Program (NPCP).

Further, the Foreign Aid has helped to established various hospitals, health centers and health posts in different parts of the country at present, the number of hospitals, health centers, and health posts has reached 8310 and 700 respectively. Similarly, the number of hospital beds (Government sector) has reached 5250(Nepal in Figures 2005, CBS). Similarly, the Foreign Aid Female Community Health Volunteer (FCHV) project created more than 50 thousand dedicated, semiliterate unpaid village volunteers who have made a big contribution by serving millions of villagers in the country.

## **6.2 Conclusions**

Since 1950, foreign aid has been helping to overcome financial and technical constraints of the economic development of Nepal. Prior to 1951 Nepal was virtually a traditional economy. There was no significant infrastructure required for the rapid economic development. The USA, the first official donor has helped to open the new avenues in the development process of Nepal. During the fifty- six years of cooperation, the US has made significant contribution to bring the benefits of modernization to the Nepalese people assisting the development of agriculture, health, education, transport and communication. Still all these areas are not fully developed. Even after a half century of development practice with continues foreign assistance, Nepal ranks as one of the poorest country with a per capita gross national product of US \$ 220 a year.

Foreign aid has definitely brought a significant change in a socio- economic life of the Nepalese people. More people now have access to education, health and communication than a decade ago. The number of the schools, hospital and communication facilities has increased significantly. The road network has also significantly expanded enabling a large number of towns and village in peripheral areas to participate more fully in the country's economic and social life. But a large number of people still live below the poverty line. According to the UNDP country Cooperation Framework Second for Nepal ( 2002-2006), the incidence of poverty is estimated to be about 42 percent with percent of the population estimated to be "very poor" while another 25 percent considered to be "moderately poor". The overall adult literacy rate is estimated to be about 40 percent, but for women it is even less than 30 percent.

Similarly, infant mortality rate is around 75 per 1000 live births. However, in mountain area, infant mortality rate is around 180 per 1000 live births, while is a striking evidence of poor health facilities. The maternal mortality rate is 475 per 100000 live births in Nepal. It is distasteful to mention that Nepal's maternal mortality rate is one of the highest in the world. One of the major causes of poor health is malnutrition that pervades suffer from parts of the country. Around 50 percent of the Nepalese households suffer from inadequate food consumption, and in the mountains the figure goes up to percent.

Therefore, foreign aid in Nepal has been less effective in bringing the desired level of benefits to the Nepalese people. Among the various projects under foreign aid, few of them are successful to fulfill their indicated aim but in aggregate they has been less successful to fulfill their indicated aim but in aggregate they has been less effective in bringing expected level of economic development. Moreover, it has led us to greater aid dependency. While looking at the recent trend of foreign aid in Nepal especially after the restoration of the multi-party democracy, on could easily see that the country's dependency on foreign aid is increasing the Nepalese economy is now beset by the cultural of aid dependency.

### **6.3 Recommendations**

Despite the half a century of development practice with continued foreign assistance, it has not brought any remarkable improvement in the economic scenario of the country. Nepal still ranks as one of the poorest country with a per capita gross national product of US \$220 a year. This shows that there must be something wrong in the utilization of aid money. Many donors provide aid to Nepal under certain condition. The conditions are like; purchase of equipment of consultant agency use of technology should be that of donor country. As a result, Nepal has to pay higher price for these services and equipment than that prevalent in the international market. Consequently, significant portion of the foreign aid flows back to the donor country in the form of compensation to the consultants, import of equipment and technology. But actual amount siphoned off by the donors by trying aid is not known because of the unavailability of the data. In this respect, new visions and new ways of aid utilization have urgently required for both donors and recipients countries. Specially, recipient countries have to analyze foreign aid resources by considering aid not as a free lunch. On the basis of the study, following recommendations are suggested.

1. Government should pay proper attention towards the efficient and effective utilization of foreign aid in order to win the heart of donors.
2. Make the priority list of viable agricultural projects according to the development need of the country.
3. Nepal should have up to date information on her own development situation in various sectors of economy especially in agriculture sector for proper utilization of foreign aid.
4. All the required data and information on US aid are not organized systematically and are not available in foreign aid division of Ministry of Finance, Nepal which creates problems for research work and monitoring system of government. This should be resolved.
5. By making formal agreements, emphasis should be given on employing local labors while implementing the projects.
6. Foreign aid technical assistance includes high salaried foreign aid experts which causes the high cost of project, in appropriate to Nepalese context and reduces the possible employment opportunity for the local people. Government should consider seriously in this matter.
7. As foreign aid is flowing in a variety of sectors of Nepalese economy, Nepal government should prepare priority projects and request to finance in those project.
8. Emphasis should be given over minor types of projects from which re-investment can be made possible during short periods.
9. Foreign aid policy should be aimed to reduce the dependency of Nepal to pursue every development projects.

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