

**SECTORAL CONTRIBUTION OF WORLD BANK  
AID IN NEPAL**

**A Thesis**

**Submitted to the Central Department of Economics, Faculty of  
Humanities and Social Sciences, Tribhuvan University,  
in Partial Fulfillment of the Requirement for  
the Degree of Masters of Arts  
in  
Economics**

**By**

**Narendra Bahadur Chand**

**Roll No. 200/066**

**Exam Roll No. 280142/068**

**T.U. Reg. No. 3-2-327-476-2006**

**Central Department of Economics**

**Tribhuvan University**

**Kirtipur, Kathmandu**

**November 2014**

## LETTER OF RECOMMENDATION

This Thesis **Sectoral Contribution of World Bank Aid in Nepal** has been prepared by Narendra Bahadur Chand under my supervision. I hereby recommend this thesis for the evaluation by the thesis committee as a partial fulfillment of the requirements for the Degree for Master of Arts in Economics.

Date : 4/11/2014

---

Babu Ram Karki  
Thesis Supervisor

## **APPROVAL LETTER**

This Thesis **Sectoral Contribution of World Bank Aid in Nepal** submitted by Mr. Narendra Bahadur Chand to the Central Department of Economics, Faculty of Humanities and Social Science, Tribhuvan University, in partial fulfillment of the requirement for the Degree of Master of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

### **Thesis Committee**

Dr. Ram Prasad Gyanwaly  
Act. Head of the Department

\_\_\_\_\_  
Chairman

Prof. Dr. R.K. Shah  
Central Department of Economics  
Tribhuvan University, Kirtipur

\_\_\_\_\_  
(External Examiner)

Mr. Babu Ram Karki  
Central Department of Economics  
Tribhuvan University, Kirtipur

\_\_\_\_\_  
(Thesis Supervisor)

Date : 02/08/2071 B.S.

18/11/2014 A.D.

## ACKNOWLEDGEMENTS

This Thesis entitled **Sectoral Contribution of World Bank Aid in Nepal** has been prepared for the requirements for the Degree of Master of Arts in Economics.

First of all, I would like to express my sincere gratitude to my thesis supervisor and respected teacher Mr. Babu Ram Karki, Central Department of Economics, Tribhuvan University for this generous encouragement and undertaking of the supervision of my entire research work. This study is the result of his continuous encouragement, many helpful suggestions and comments.

I wish to express my deep sense of gratitude to Prof. Dr. Ram Prasad Gyanwaly, Head of the Central Department of Economics for this valuable suggestions. I am very much grateful to my other respected teachers of the Central Department of Economics for providing me valuable suggestions and information.

I wish to acknowledge my parents Kalu Chand and Jandhara Devi Chand, my wife Pratima Chand, brothers Mohan Chand, Bir Bahadur Chand, Ramesh Chand and Balbir Chand for their sacrifice and internal encouragement, which inspired me in every stage of my life. I also like to thank K.M. Computer, Kirtipur for helping in desktop printing of this thesis.

Despite my almost care and efforts, I bear the full responsibility for any errors and discrepancies that might have occurred in this study report.

Narendra Bahadur Chand

## TABLE OF CONTENTS

	<b>Page No.</b>
<b>CHAPTER - I : INTRODUCTION</b>	<b>1-7</b>
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	6
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
<b>CHAPTER - II : LITERATURE REVIEW</b>	<b>8-13</b>
2.1 Theoretical Perspectives	8
2.1.1 International Context	8
2.1.2 National Context	9
2.2 Empirical Aspect	12
2.2.1 International Context	12
2.2.2 National Context	13
<b>CHAPTER - III : RESEARCH METHODOLOGY</b>	<b>14-15</b>
3.1 Nature and Sources of Data	14
3.2 Data Collection	14
3.3 Data Processing and Analysis	14
3.4 Used of Variables	14
3.5 Research Design	15
<b>CHAPTER - IV : FOREIGN AID TO NEPAL</b>	<b>16-28</b>
4.1 Background	16
4.1.1 Historical Background of Foreign Aid in Nepal	17
4.2 Foreign Aid Policy	18
4.3 Objectives of the Foreign Aid Policy	20

4.4	Sources of Foreign Aid	20
4.5	Magnitude and Trend of Foreign Aid in Nepal	21
4.6	Foreign Aid Commitment and Disbursement	24
4.7	Foreign Aid in Nepalese Periodic Plan	26
<b>CHAPTER - V : WORLD BANK AID IN NEPAL</b>		<b>29-43</b>
5.1	Historical Background of World Bank Aid	29
5.2	World Bank Group Strategy and Approach for Nepal	30
5.3	Trend and Pattern of World Bank Aid	33
5.4	World Bank Aid Commitment and Disbursement	34
5.5	Sector-Wise Contribution of World Bank Aid	36
5.6	World Bank Supported Programs and Projects	39
<b>CHAPTER - VI : SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>		<b>44-48</b>
6.1	Summary and Conclusion	44
6.2	Recommendations	46
<b>REFERENCES</b>		<b>49-51</b>

## LIST OF TABLES

		<b>Page No.</b>
Table 4.1	Total Aid Inflow to Nepal	22
Table 4.2	Pattern of Foreign Aid Commitment and Disbursement	25
Table 4.3	Foreign Aid and Nepalese Plan Period	27
Table 5.1	Total Lending Commitments by Theme to Nepal	32
Table 5.2	Trend and Pattern of World Bank Aid	33
Table 5.3	Pattern of World Bank Aid Commitment and Disbursement	35
Table 5.4	Sector-Wise Contribution of World Bank Aid	37
Table 5.5	Sector-Wise Contribution of World Bank Aid	38
Table 5.6	Programs Activity	39

## LIST OF FIGURES

		<b>Page No.</b>
Figure 4.1	Foreign Aid and Nepalese Plan	28
Figure 5.1	Trend Line of World Bank Aid	34
Figure 5.2	Pattern of World Bank Aid Commitment and Disbursement	36
Figure 5.3	Sector-Wise Contribution of World Bank Aid	38



## ABBREVIATIONS AND ACRONYMS

ADB	:	Asian Development Bank
AMP	:	Aid Management Platform
CBS	:	Central Bureau of Statistics
FACD	:	Foreign Aid Coordination Division
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GoN	:	Government of Nepal
HDI	:	Human Development Index
IMF	:	International Monetary Fund
ISNs	:	Intterim Strategy Notes
LDCs	:	Least Development Countries
MDGs	:	Millennium Development Goals
MoF	:	Ministry of Finance
NRB	:	Nepal Rastrya Bank
OPEC	:	Organization of the Petroleum Exporting Countries
PSD	:	Community Driven Development
UK	:	United Kingdom
UN	:	United Nations
UNDP	:	United Nations Development Program
UNICEF	:	United Nations Children's Fund
USA	:	United States of America
WB	:	World Bank
WDR	:	World Development Report
WHO	:	World Health Organization
WTO	:	World Trade Organization

# **CHAPTER - I**

## **INTRODUCTION**

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

Nepal is one of the landlocked and developing country in the world with an agriculture based economy. More than 67 percent of the total population depends on the agriculture (CBS, 2011). The economic development of the country heavily depends upon the improvement of the agriculture sectors and can not be imagine without the development of trade, industry, tourism, forestry, water resources, commerce.

The term economic development is continuous process of change in a number of conditions affecting human life. It depends upon the availability of resources. The higher will be the rate of economic development. But the per capita income of Nepal, as compared to other not only developed countries but with other developing countries is very low. Almost all the under developed countries including Nepal concerned with the problem of growth of National income. Which is nearly related with development of economy. So developing and least-developing countries are substantially constrained by their poor social economic base; mass poverty, wide spread illiteracy, hunger and starvation still remains common features of such countries.

Nepal's per capita GDP is only US\$ 717. Growth rate of population is about 1.35 percent, literacy rate 65.9 percent and GDP growth rate is about 3.5 percent. Lack of resources, trade deficit, inflation, high consumption, low level of saving, low level of income etc. are the features of Nepalese economy. GDP growth rate is very low due to the affecting external and internal factors like strike, high demand of labors, higher wage, lack of utilization of natural resources etc. In such a

condition, foreign aid can play a very significant and vital role in the proper utilization of natural and human resources (MoF, 2013 & CBS, 2011).

The situation of developed countries shows that the developments of countries are not only because of their domestic resources but also with the inflow of external capital. For instance the flow of Dutch capital was one of the most responsible factors for the industrialization of Britain during the 17<sup>th</sup> and 18<sup>th</sup> century. In the same way the role of foreign capital in the economic development of USSR is also great. After the second world war USSR became a heavy recipient of economic as well as military aid under Lend-Lease followed by post war credit by UN relief and rehabilitation administration program.

If a country is sufficient in every sector, foreign aid is not necessary but it is not in the practical world. So, foreign aid is necessary to develop every sector of the economy of the developing and less developed countries. Foreign aid helps an undeveloped country to fill its savings as well as its technology gap. Yet there are people who see in foreign aid a kind of dependence which does not only help the recipient country in any real sense but also weakens its desire and its economy. Policy and society which are needed for social transformation. Nepal relies heavily on foreign aid, and donors coordinate development aid policy through the Nepal development forum, whose members include donor countries, international financial institutions (Such as the World Bank).

The term 'foreign aid' can be defined as the administered transfer of resources from one country to another especially from developed to developing countries. The transfer of resources takes place in various forms like financial, technical or commodities. "It is given at a

confessional term and with a view, when it is purely economic, to promoting development and general welfare of the people in the recipient countries" (Khadka, 1991).

Todaro (1979) has analyzed that foreign aid is the international transfer of public funds in the form of loan or grant either directly by the one government to another or indirectly through the vehicle of multilateral agencies. In 1960s, United Nations (UN) defined foreign aid as, all transaction for a country or international organizations which result in a permanent net addition to total resources available for economic development of another country.

Whatever the ways foreign aid is defined, it does not make any difference because its main theme is economic aid or external assistance or economic assistance. It is generally provided either for humanitarian relief for the country or for the accelerating economic development mainly in the developing the LDCs, where the development process is not moving smoothly. In other words it refers to the assistance that is given to by richer countries to poorer countries. Thus sort of assistance consists of grants, loans, technical assistance etc. It can be provided multilaterally as well as bilaterally.

There are two components of foreign aid: Grants and Loans. Grants components of aid are free resources for which no repayment is required. A loan with at least 25 percent of grant component is considered as foreign aid. Grants components are measured in term of interest rate, maturity and grace period interval to first repayment of capital of a loan. It measures the concessionality of a loan in the form of the present value of an interest rate below the market rate over the life of a loan.

Nepal has been getting foreign aid from different countries in different ways. Nepal has been getting foreign aid for the donor in two ways (i) Bilateral and (ii) Multilateral. The bilateral donor's such as USA, UK, Japan, India, China, France, Germany, Netherland, Canada and Russia etc. and WB, IDA, ADB, UNDP, UNICEF, WHO, OPEC, etc. are the multilateral donors (MoF, 2012).

The foreign aid in Nepal started from Rana Regime when the aid had been used for Pherping and Sundarigal hydro-electricity project (British support). However, aid officially started from January 23, 1951, after the second world war, with an agreement on 'point four program' with the US.

World Bank (WB) Nepal's largest multilateral donors which provide grants and loan. The WB has been a development partner in Nepal for the past four decades, providing financial, technical assistance and advice. Over the years the banks support has evolved in focus and from to meet the changing needs of Nepal. But this partnership has always maintained a primary purpose the reduction of poverty to raise the living standards of the Nepalese people.

The WB provided it's first technical assistance grant to Nepal in 1964 to finance and organize a transport survey. But the first credit was approved in 1969 for a telecommunications, highways power, water supply, sanitation, education, health, human resource, poverty alleviation, forest management and delivery of public services.

## **1.2 Statement of the Problem**

The world is characterized by a minority of rich and majority of poor countries. The developing countries face huge resource gap. This gap is the difference between expenditure and total revenue of the government. In order to fulfill this gap internal source are inadequate due to low level of income and poverty or saving-investment gap. For this, external assistance is required. Therefore, in the developing countries, desired economic growth is possible only if domestic saving is supplemented by foreign aid. It has become an important source to meet saving investment gap because it has inspired the nation left behind the technological revolution to mobilize these resources of economic growth. It has also produce a transfer of resource on an unprecedented scale from richer to poor countries. In this way foreign aid has been taken as a means of reducing saving-investment gap.

Foreign aid has been playing a crucial role for the economic growth of Nepal. But the problems are that foreign aid has not able to bring economic growth and development as expected. Because Donor's are not providing their committed aid due to various reasons such as lack of clear commitment from the government, donor's own strategic interest rather than economic development, corruption, ineffective monitoring system of recipient country etc. It also creates uncertainties to start projects. The next problem is that the donor's are using aid as an instrument to serve their own interest rather than representing the interest of Nepal and Nepalese people. Similarly there is also the problem that the large amount of foreign aid flows back to donor's in the form of compensation to expatriate consultants and imports of equipment. The large portion of aid is misused by the bureaucrats, project staffs and political leaders without reaching the targeted groups. Utilization of foreign aid is very low in Nepal due to the country's low absorptive capacity, low productivity and so on. Regarding WB aid to Nepal it is gradually increasing and it covers the most important sectors such

as education, health, agriculture, environment, energy and forestry etc. The main significance of this study lies in the analysis of the WB aid trend and the volume to the economic development of Nepal through various economic sectors.

In this context, this study seeks to answer the following research questions:

- ) Whether the WB aid is balanced or not ?
- ) Whether or not WB aid is sufficient to meet resource gap in Nepal?
- ) If sectoral contribution of World Bank AID in Nepal sufficient or not?

### **1.3 Objectives of the study**

The objectives of the study are to analyze the sectoral allocation of WB aid in Nepal. The major objectives of the study are:

- a) To illustrate trend and pattern of foreign AID to Nepal.
- b) To study the trend and pattern of WB aid in Nepal.
- c) To present the sectoral contribution analysis of WB aid in Nepal.

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

Nepal, a land locked country, is a blessed yam between Asia's two strong stones, China and India. Being supplied to a developing country, foreign aid plays an important role in the development of Nepalese economy. In most of the developing countries, income, saving and investment are very low without increasing the rate of these three crucial factors; no country could achieve steady growth. So the overall aim of aid is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth.

Nepal has a high degree of foreign aid as a percentage of government expenditure. Except few years, trend of aid is inclining. Aid and GDP ratio is approximately 10 percent and in development finance, aid ratio is still more than 60 percent.

Nepal has been continuously receiving foreign aid during the past five decades and WB is one of the largest multilateral donors of Nepal.

In this regard this study analyzes the total foreign aid and WB aid to Nepal in past and present. This study will help to other scholars to study about the composition, direction, contribution and motives of economic assistance and particularly of WB aid to Nepal.

As most of the research is done under aggregate foreign aid concerning to Nepal and very few studies have been made about WB aid to Nepal.

This research study has a greater significance to provide an overview of foreign and WB aid to Nepal. Updated information regarding trend, pattern and motives of WB aid provides the basis to review the economic diplomacy with this country.

### **1.5 Limitations of the Study**

To achieve the specific goal of the study, there are some limitations.

- ) The study is based on secondary data only.
- ) This study is focused on WB aid in Nepal covering the period of fiscal year 2001/02 to 2012/13 only.
- ) Private foreign investment and exchange gap have not taken into consideration.
- ) Political as well as military aids have not taken into consideration.



## **CHAPTER - II**

### **LITERATURE REVIEW**

#### **2.1 Theoretical Perspectives**

##### **2.1.1 International Context**

Rodan (1968) assumed that the international aid would have two basic impacts : mobilization of domestic saving and increasing the rate of investment. Aid should be allocated where it will have a maximum catalytic effect of mobilizing additional effort or preventing a fall in national effort.

Meir (1984) pointed out various ways to improve the process of transferring resources from rich to poor countries - whether this transfer is in the form of public financial aid, loans from foreign banks, private foreign investment or monetary transfer of managerial and technical knowledge. This is not only a matter of greater amount of resources, there is now also a concern over the appropriateness of the transfer from the developed countries to least developed countries.

He agreed public financial aid - that is, concessional finance or the 'grant equivalent' in the capital inflow has a twofold functions. It supplements the LDCs low domestic saving and hence helps to fill the resources gap or "saving gap" and also provides additional foreign exchange and thereby - helps to fill the "foreign exchange gap."

Higgins (1968) has analyzed that economic development problems, principles and policies views that aid is given for moral obligation to help the poor, the threat to national security entailed in the widening gap allies and the possibilities of expending world traders have all been cited as

reason for helping the underdevelopment countries with their development program.

Lebenstein (1957) considered that foreign aid is essential for the critical minimum efforts. In term of the investment that would increase the level of income creation environment and the neutralize the income depression one. David and Clifford (1965) study shows the word refers to nominal value of the direct or indirect flow of financial and other resources from governments of rich countries to those of poor countries. Aid is in the form of transaction between rich and poor but independent government was very restricted in scope before 1960. The growth of aid from colonial powers has followed a very different pattern from that in the major power.

Economic development should be the sole purpose of aid. They believe that the donors self interest is not always best served by trying to maximize economic development. Donors do not give aid without expecting to achieve something. Lastly the concluded that, the subsidized transfer of capital or skill, which is properly called aid (Paudel, 2009).

### **2.1.2 National Context**

Baidya (1998) argued that foreign aid for economic development is largely a post war innovation in international relations. The evolution of assistance is closely associated with the growing world wise awareness of the poverty of the less developed countries as independence units in the communities of nations after world war II marked a big change in the international political scenario. Politically, these countries gradually constituted a significant force but there economic development remained subjected to several constraints internal and external. The less developed countries becoming increasingly conscious of their poverty and the

disparity between them and the developed countries, adopted economic development as their main post independence Slogan, and the developed countries responded to them by the way of extending economic aid.

Gradually over the years foreign aid has emerged as an important component of international relations. At present, each and every nation of the world is involved in the program of aid either as donor or recipient or both.

Mass poverty is the common problem of all less developed countries. Their ability to induce a big push or critical minimum effort required to break the vicious circle of poverty is constrained poor economic and technical resources on the one hand the ever - increasing consumption demands of the rapidly growing population on other. Their prospects of development therefore, do not appear to be encouraging unless they are supported by resources transferred from the developed countries.

Misra & Sharma (1983) pointed out various ways in the context of a country like Nepal, development through foreign aid essentially becomes a Metaphor for the maintenance and strengthening of the traditional native power structure. Define social classes in such recipient countries play a decisive role in determining, in collusion with the donors both the context and the channel of foreign aid inflow. The upper social classes of such countries drive the major benefits from foreign aided development. Foreign aid, therefore, enhances the positive of the upper social classes who benefit from the maintenance of the existing system of political and economic power. The need to legitimize such a power gives foreign aided development the halo of a 'people oriented development' while at the same time increasing the dependence of the lower classes.

This facade, in turn, sets up a major contradiction within the nature social structure.

Mihaly (1965) argued that Nepal has attracted unusual from aid donors. Hence, Nepal received aid from so many bilateral as well as multilateral sources. The main donor countries are United States, India, China the Soviet Union, Israel, Switzerland, West Germany, Japan, Australia and Newzealand, but in Nepal. There are tribes and groups of people, diversity of religion and language that are barrier to national unity and to national affects to advance economic growth. Hence the aid giving country has to face various difficulties.

He further argues the impact of the minor aid program provided by different donor countries. According to him, in minor aid program, few of them are successful to fulfill their indicated aim, but in aggregate they created serious problems of Nepal. In addition, he has shown the impact of two types of foreign aid in Nepal. Short-term and long-term impact. In short-term impact, aid product did not improve political consciousness as hoped by donors. In long-term impact, aid not only failed to give a significant boost of Nepal's economy, but also, it may even make growth more difficult to achieve.

Karna (2007) has introduced the Nepalese economy as facing recession and is passing through a critical phase of low level equilibrium trap circumscribed by mass poverty and stagnation. Similarly, there is a manifesting of an acute disguised unemployment and subsistence farming with limited prospects for mechanization. Nepalese society is moving towards three headed crisis that are constituting existence of poverty on a large scale, threat to national environments resources base and high population growth. There is an existence of conflict, corruption, policy

failure, instability and other short coming which affect the rate of capital formulation resulting huge gap between supply and demand resources.

Finally, he suggested that to make foreign aid more effective and efficient, there must be the following aspects which need to be considered priority list for proper utilization of foreign aid, selection of projects with full commitment regarding their objectives substantial improvement in the absorptive capacity of foreign aid, control of corruption, formulation of proper co-ordination, evaluation and monitoring mechanism.

## **2.2 Empirical Aspect**

### **2.2.1 International Context**

Fuchs & Vadhamannatic (2012) in a study outlined that it is puzzling to note that India, which has a large domestic constituency of impoverished population that suffers from underdevelopment, chronic poverty and mal-governance, has jumped into the bandwagon of the development aid business. Given this backdrop, it is ironical that India provides development aid to other developing countries.

With the intension to learn why poor countries such as India provide foreign aid, their paper made an attempt to analyze econometrically India's aid allocation decisions. Their found some interesting points. Indian aid is largely driven by commercial and political interests, while recipient need is no key determinant of India's allocation of technical assistance. They concluded that the "needy donor" mainly cares about its own needs rather than the needs of others.

### **2.2.2 National Context**

Aryal (2008) in his thesis has done an overall assessment of the role of foreign aid in economic development of Nepal. The objective of the study was to analyze the relationship between foreign aid, GDP and Human Development Index (HDI). In order to see the relationship OLS method has been used to estimate the model and F-test, t-test,  $R^2$  test were used in order to check the statistical significance of results.

Aryal has found an increase in foreign aid has the effect on the GDP with 1 percent increase in real foreign aid causes the 2.92 percent increase in GDP value in Nepal. The result of his study also shows that there is the association between real foreign aid and HDI, with one million rupees increase in foreign Aid increase HDI ranking of Nepal by 0.000003. His study provided an empirical foundation that the role of foreign aid in Nepal is playing positive increase in GDP as well as HDI.

Sigdel (2004) in his study found that there is a significant relationship between resource gap and foreign aid during the period 1981/82 - 2001/02. The study found that the role of foreign aid to bridge the resource gap in Nepal has been crucial which is estimated to be more than 60 percent of total resource gap. In addition, that study concluded that foreign aid has become a foundation to North-South (China - India) relation.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

#### **3.1 Nature and Sources of Data**

This study is descriptive as well as analytical. The study is entirely based on secondary data. The source of data used in this study are the published materials and records of various offices, NRB, CBS, WB publication, Economic survey of different time period of MoF.

#### **3.2 Data Collection**

Secondary data are used in this study. They are collected from published materials, book, booklets issued from time to time by ministry of finance (MoF), NRB, CBS, etc. Besides unpublished information has been collected from these offices. The collected data are processed and tabulated according to the need of the study.

#### **3.3 Data Processing and 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, figure etc. are used according to situation requirement of the study. The aid loans and requirement of the study. The aid loans and grants are compared with total aid inflow in Nepal applying descriptive techniques.

#### **3.4 Used of Variables**

In this study, different variables are used like: sector wise allocation of foreign aid, grants and loans. The total foreign aid especially

WB aid, allocated into the different sectors they are agriculture, irrigation, transport, power and communication, sanitation and drinking water and others, during this analysis period, the portion of total foreign aid and WB aid no those different sectors and examine the percentage increased or decreased and it's fluctuation ratio in this study by using the various data.

### **3.5 Research Design**

The study is an economic research for analysis of sectoral contribution of WB aid in different indicators, GDP and other social things are used. For this purpose some statistical tools an analytical research design has been applied. To examine the fact in the form of data and descriptive technique has been adopted.



## **CHAPTER - IV**

### **FOREIGN AID TO NEPAL**

#### **4.1 Background**

The concept of foreign aid is not a recent phenomenon; it has global significance especially in the developing countries. The scope of foreign aid became more prominent and played pivotal role in aftermath of Second World War with the growing independence of many developing countries.

The term "foreign aid" is defined in the economic dictionary as the administered transfer of resources from the advanced countries for the purpose of encouraging economic growth in the developing countries. It is usually intended to either provide humanitarian relief in emergencies or to promote economic development.

In Nepal, foreign aid has been considered as the important source of financing, implementing different socio-economic programs. However, the accessible external aid has not always been utilized in formulation and effective implementation of effective programs. While a judicious use of external assistance has been instrumental in achieving accelerated development of many LDCs of the world, many nations have failed to use it aptly and optimally. As a result such countries have accumulated significant amounts of debt with not many benefits in terms of economic growth and living standard of the poor.

Nepali economy has under gone many changes since 1951, when Nepal received foreign aid for the first time. The donor was United States of America (USA) (Khadaka, 1991). Donor have been reported as losing

confidence in Nepal as a result of political interference and corruption as well as the country's apparently poor capacity to utilize aid.

Many aid recipient countries that are least developed failed to use the foreign aid effectively due to the inadequate absorptive capacity, donor driven aid, lack of transparency and corruption, etc.

#### **4.1.1 Historical Background of Foreign Aid in Nepal**

The history of foreign aid in Nepal has been a recipient of foreign assistance since 1952 A.D. when it joined the 'Colombo plan' for cooperative, economic and social development in area of the pacific. The plan was established under a slightly different name by the common wealth of Nations in 1951. During the 1950s many Nepalese received scholarship through the Colombo plan to go for different countries for studies in technical and professional areas. During that time, all other aid was in the form of grants. The bulk of assistance was directed towards developing agriculture, transport, power generation and infrastructure. Other areas targeted for assistance were communication, industry, education and health.

In 1952, Nepal joined the 'Colombo plan' and gradually attracted the interest of the friendly countries in her development efforts. The volume of aid inflow into the country played a meaningful role in the progress of various sectors of Nepal. Nepal remained underdeveloped because it was poor with lack of resources and technical know - how; foreign aid transmits not only money but also ideas, values and technologies. After joining the Colombo plan, Nepal got considerable amount of aid for various projects from the USSR, China, UK, Germany, Canada, etc.

The WB provided its first technical assistance grant to Nepal in 1964 to finance and organize a transport survey. But the first credit was approved in 1969 for a telecommunication project. The WB has continue to support Nepal's efforts at overcoming constraints interm of agriculture, irrigation, infrastructure development in telecommunication, highways, power, water supply, sanitation, education, health, human resource, poverty alleviation, forest management and delivery of public services.

In mid to late 1980's recorded WB aid disbursements averaged more than US \$ 200 million annually, 7 percent of GDP. More than 70 percent of the aid was in the form of grants, the remainder was in the form of concessional loans. By 1991, Nepal was receiving external assistance in the form project aid, commodity aid, technical assistance and program aid (<http://data.worldbanki.org/np>).

After the restoration of multiparty democracy, many international donors as well as multilateral agencies have taken keen interest of providing aid in different sectors of the Nepalese economy.

#### **4.2 Foreign Aid Policy 2002**

After much demand from civil society and intellectuals, the then government of Nepal circulated a draft foreign aid policy in July 2000. The policy was finished in 2002. The major foreign aid policies of Nepal are as follows:

- i) The foreign aid policy forms an integral part of overall policy of mobilizing resource for development.
- ii) Foreign aid will need to be directed towards achieving the national goal of poverty reduction. This will involve fostering economic growth by enhancing the productive capacity of the economy.

- iii) The foreign aid policy will ensure greater transparency at both the official development assistance supply and with in outside the government system.
- iv) Foreign aid shall be accepted to improve the efficiency in the utilization of the country's capital stock, especially by financing critical inputs, supplies and all other relevant expenditure items, except general recurring overhead costs.
- v) Foreign aid will be utilize after careful security of the purpose, content, and benefits of such projects and programs. Foreign loans will be channeled, especially in projects having high rates of return and in infrastructure related development projects. Higher studies and study visit teams will be banned from loan amounts, expenditure on consultants and foreign experts will be minimized from loan proceeds, and government will not guarantee to provide loans to government - owned enterprises or other institutions.
- vi) Building domestic institutional capacity, facilitating the transfer of technical know how and making appropriate selections of technical assistance shall gradually reduce reliance on technical assistance and expatriate consultants.
- vii) The role of donors will be promoted as facilitators and supporters in the development endeavors of the country.
- viii) When utilizing foreign aid, consideration will be given for using foreign aid to finance projects that will bring about improvements in the domestic revenue mobilization capacity through higher GDP, employment growth and acceleration of economic growth.

- ix) Foreign aid would be utilized as an important tool for private sector development in consonance with the spirit and framework of economic liberalization.

### **4.3 Objectives of the Foreign Aid Policy**

The main objectives of foreign aid policy, which are to be achieved through the adoption of policies, are as follows:

- i) To improve the quality, effectiveness and efficiency of foreign aid operations.
- ii) To facilitate the transition to a more equal partnership between Nepal and donor institutions.
- iii) To enhance the contribution to poverty reduction through enabling rates of economic growth while ensuring distributional equity.
- iv) To ensure the compatibility and convergence of foreign aided development activities with nationally determined development priorities.

### **4.4 Sources of Foreign Aid**

Nepal relies heavily on foreign aid, and donors coordinate development aid policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the world bank), and inter-governmental organizations (such as the United Nations). Japan is Nepal's largest bilateral aid donor, and the World Bank and Asian Development Bank are the largest multilateral aid donors.

The bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of USA, GTZ of Germany, DANIDA of Denmark, JICA of Japan, FINIDA of Finland, SDC of Switzerland, government of UK, People's Republic of China, India, Belgium, etc.

The multilateral donors include the international agencies like World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF) and the UN agencies like UNDP, WHO, EV, FAO, WTO, UNESCO, UNFPA, UNHCR, UNV etc. other sources of foreign aid namely international non-government organization as CARE, OXFAM, HELVETAS, UMN and International Nepal fellowship.

#### **4.5 Magnitude and Trend of Foreign Aid in Nepal**

Nepal has been recipient of foreign assistance since 1951 (A.D.). Nepal economy is overwhelmingly development on foreign aid. Foreign aid has become an integral part of the development process in Nepal. The following table shows the total foreign aid inflow in Nepal from Fiscal Year 1990/91 to FY 2011/12.

**Table 4.1**  
**Total Aid Inflow to Nepal**

*(NRs. in Million)*

FY	Total Aid	Grant	% of Grant	Loan	% of Loan
1990/91	5990.00	1630.00	27.21	4360.00	72.79
1991/92	7798.40	1531.00	19.63	6267.40	80.37
1992/93	9235.60	3273.90	35.45	596130.00	64.55
1993/94	11557.20	2393.60	20.71	9163.60	79.29
1994/95	11249.40	3937.10	35.00	7312.30	65.00
1995/96	14289.00	4825.10	33.76	9463.90	66.24
1996/97	15031.90	5988.30	39.84	9043.60	60.16
1997/98	16457.20	5402.60	32.83	11054.60	67.17
1998/99	16198.00	4336.60	26.65	11852.40	73.35
1999/2000	17523.90	5711.70	32.59	11812.20	67.41
2000/01	18797.40	6753.40	35.93	12044.00	64.07
2001/02	14384.80	6686.20	46.48	7698.60	53.52
2002/03	15885.50	11339.10	71.38	4546.40	28.62
2003/04	18912.40	11283.40	59.66	7629.00	40.34
2004/05	23657.30	14391.20	60.83	9266.10	39.17
2005/06	22041.70	13827.40	62.73	8214.30	37.27
2006/07	25854.30	15800.80	61.11	10053.50	38.89
2007/08	2930.70	20320.70	69.35	8979.90	30.65
2008/09	3635.20	26382.80	72.58	9968.90	27.42
2009/10	4976.90	38546.00	77.45	1122.34	22.55
2010/11	8640.00	4924.80	57.00	3715.20	43.00
2011/12	8320.00	4992.00	60.00	3328.00	40.00
Total/Average	293366.80	214277.70	47.19	172857.90	52.81

Source: Various Issues of Economic Survey, AMP MoF Nepal

Table 4.1 shows the trend and pattern of foreign aid volume received by Nepal in different fiscal years. In the table, percentage share of Grants and Loans in total aid have been presented as well as.

The table shows, for each year, aid receipt have been broken down into loan and grant components. One obvious distinction is that aid given as loan has to be repaid, while grant do not. One of the most noticeable features of this table is the increasing share of grants in the composition of foreign aid. Initially, all of the aid received was in the form of grants.

Observing the above that total aid received by Nepal since FY 1990//91 to FY 2011/12 is around 2934 billion Nepali Rupees. On which average percentage of Grants component is 47.19 percent and the average percentage of loan is 52.81 which shows that the changing pattern of foreign aid to Nepal comparison to initial year.

By studying the overall history of foreign aid to Nepal, the formal economic assistance is found to be provided after political revolution of 1950s. The "point four program" agreement signed between Nepal and USA on January 23, 1951, under this agreement US government provided Rs. 22000. It was then followed by China (1956) and USSR (1958). However, the trend of foreign aid inflow began to increase continuously after 1956. Until 1963/64; most of the foreign aid changed with the inclusion of loan. The loan amount exceeded the grants gradually up to now. The major reason behind the decline of loan and increment of grants is due to the conflict resolution and peace process. Many donors have shown interest for the post conflict infrastructural development and rehabilitation of the economy.



#### **4.6 Foreign Aid Commitment and Disbursement**

Foreign aid also differs from its commitment and disbursement. Commitment are the firm obligations to lend a specific amount on specific term and conditions and disbursement imply the utilization of foreign fund received under agreements signed. It is an inflow of to aid recipient organization/country.

The following table shows the commitment and disbursement figures of foreign aid to Nepal Fiscal Year 1990/91 to 2011/12.

**Table 4.2**  
**Pattern of Foreign Aid Commitment and Disbursement**

*(NRs. in Million)*

FY	Aid Commitment	Aid Disbursement	Disbursement as Percentage of Commitment
1990/91	5990.00	5665.40	94.58
1991/92	21084.10	7800.40	36.99
1992/93	20526.70	9235.60	44.99
1993/94	13172.20	11557.20	44.99
1994/95	12876.80	11249.40	87.75
1995/96	16537.50	14289.00	87.36
1996/97	39643.00	15031.90	86.40
1997/98	32022.00	16457.10	3-7.91
1998/99	18352.50	16189.00	51.39
1999/2000	20448.00	17523.90	88.21
2000/01	31287.00	18797.40	85.69
2001/02	33227.70	14384.80	60.08
2002/03	43202.70	15885.50	43.29
2003/04	23738.00	18912.40	36.76
2004/05	38152.30	23657.30	79.67
2005/06	2241.80	20924.20	62.00
2006/07	37022.90	25854.30	94.92
2007/08	49186.20	2930050.00	69.83
2008/09	479775.30	36351.70	59.57
2009/10	96609.00	49769.40	7.75
2010/11	106100.07	57997.80	51.51
2011/12	76733.40	48521.23	54.66
Average	56260.41	22061.61	66.23

Source: Different issues of Economic Survey, MoF-GON

Table 4.2 shows that the historical pattern of commitment and disbursement of foreign aid to Nepal in different fiscal year. By observing the table it is clear that there is greater gap between commitment and disbursement figure. The table shows the disbursement as a percentage of commitment. In an average only 62.92 percent of committed aid is disbursed in Nepal. The main reason behind this is the lack of aid absorptive power and inability to meet the different provision made by the donors from the side of Nepal.

#### **4.7 Foreign Aid in Nepalese Periodic Plan**

In 1930s the Nepalese government prepared 20 year economic development plans but it was not successfully implemented because of second world war. Then, in 1984, the National Planning Board (NPB) was established to prepare the 15 year plan, but it could not carry out because of the political change of 1950/51. In order to improve the living standard of Nepalese people, it required undertaking new strategies. The government started making 5 year plan for the economic development. Foreign aid has played a significant role in financing Nepalese development plans. The contribution of foreign aid in public sector expenditure in different periodic plans is shown in the table below.

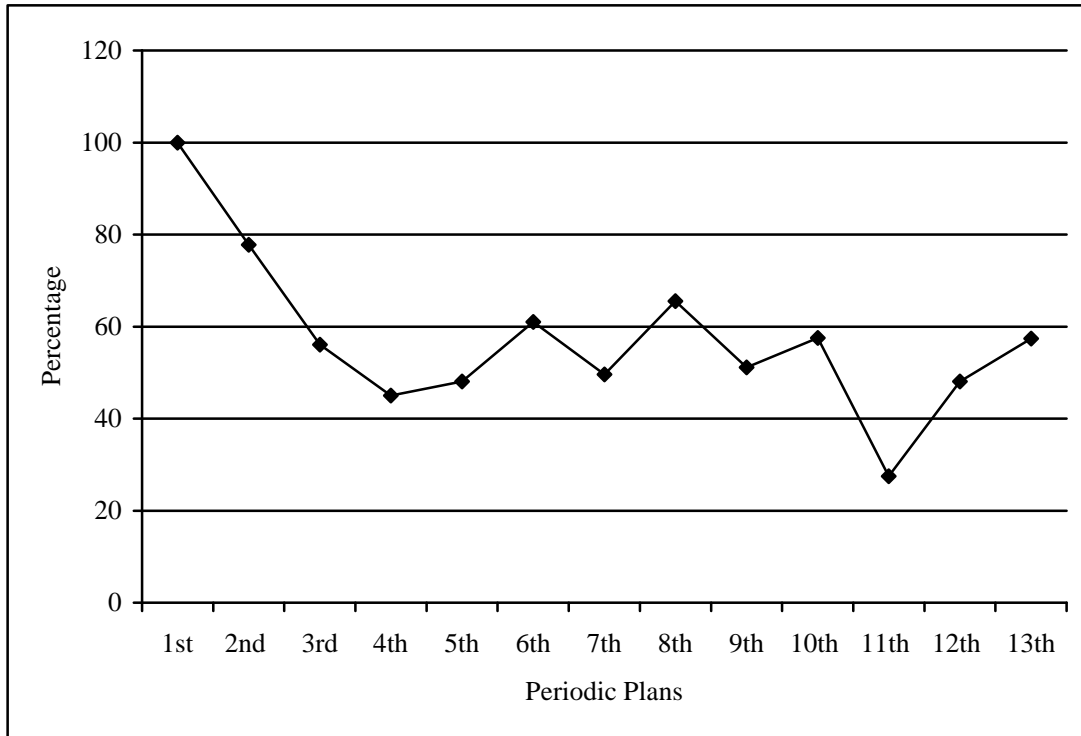
**Table 4.3**  
**Foreign Aid and Nepalese Plan Period**

*(NRs. in Million)*

Plan	Plan Period	Development Expenditure	Total Foreign Aid	% of Foreign Aid in Dev Expenses
1 <sup>st</sup>	1956-61	382.90	382.90	100.00
2 <sup>nd</sup>	1962-65	614.70	478.30	77.80
3 <sup>rd</sup>	1965-70	1639.10	919.81	56.10
4 <sup>th</sup>	1970-75	3356.90	1509.10	45.00
5 <sup>th</sup>	1975-80	8870.60	4264.10	48.10
6 <sup>th</sup>	1980-85	21750.00	13260.00	61.00
7 <sup>th</sup>	1985-90	48345.40	23978.50	49.60
8 <sup>th</sup>	1992-97	111919.80	74355.00	65.50
9 <sup>th</sup>	1997-2002	215154.40	111546.00	51.10
10 <sup>th</sup>	2002-2007	234030.00	134620.00	57.50
11 <sup>th</sup>	Interim Plan 2007-2010	140660.00	38695.60	27.51
12 <sup>th</sup>	2010-2013	364340.00	175180.00	48.08
13 <sup>th</sup>	2013-2016 (Concept Paper)	329976.00	189455.00	57.41
Total/ Average		1481039.80	768644.31	57.28

Source: National Planning Commission, 2009, 2013.

**Figure 4.1**  
**Foreign Aid and Nepalese Plan**



From the Table 4.3 and trend line plotted in Figure 4.1, it can be shown that the contribution of foreign aid in first periodic plan of period 1956-1961 to finance the development expenditure was 100 percent. Up to now 11 periodic plans has been exercised in the country and now 12<sup>th</sup> plan is under progress. By analyzing the trend line and table above it can be see than in second plan period the share of foreign aid decreased to 77.8 percent. Such decrease in continued up to 45 percent in 4<sup>th</sup> plan. 5<sup>th</sup> plan, foreign aid increase to 48.1 percent and in 6<sup>th</sup> plan its share reached 61 percent. From 7<sup>th</sup> plan percentage share of foreign aid was again declined into 49.6. In 8<sup>th</sup> plan percentage of foreign aid in development expenditure increase again to 65.5 percent. In the 10<sup>th</sup> plan, it remained 57.5 percent. In interim plan (2007-2009) foreign aid contributed to finance the 27.51 percent of targeted development expenditure.

## **CHAPTER - V**

### **WORLD BANK AID IN NEPAL**

#### **5.1 Historical Background of World Bank AID**

World Bank (WB) Nepal's largest multilateral donors which provide grants and loan. The WB has been a development partner in Nepal for the past five decades, providing financing, technical assistance and advice. Over the years the banks support has evolved in focus and from to meet the changing needs of Nepal. But this partnership has always maintained a primary purpose the reduction of poverty to raise the living standards of the Nepali people.

The WB provided it's first technical assistance grant to Nepal in 1964 to finance and organize a transport survey. But the first credit was approved in 1969 for a telecommunications projects.

Over the next decade the banks assistance focused mainly on agriculture, irrigation and infrastructure development in telecommunication, highway, power and water supply and sanitation.

As our partnership evolved, it became apparent that development had to be inclusive to be successful and sustainable. While working to improve the transfer of it's extensive development knowledge, the world bank became an active listener, seeking input from the local people who are the best authorities on their lives and their development needs.

In the following decades it became increasingly apparent that greater investments were needed in it's human resources for Nepal to attain its full potential. At the same time, for development to be

sustainable, it needed to include measures to protect the country's natural resources.

While banks assistance in the traditional areas continued, an increasing amount of assistance was provided in education and health, and to support forest management aimed at conserving Nepal's precious biodiversity protection of the environment was also given increasing importance in all bank financial projects.

As the partnership moves into the next decade, the world bank will continue to help Nepal develop the systems, institutions and skills required to ensure that the future Nepali state prospers and deliver the benefits of development to it's citizens in an inclusive and accountable manner.

Consistent with national priorities, the bank group will continue to support Nepal's efforts at overcoming constraints in terms of productivity, connectivity and the delivery of public services as well as help disadvantaged Nepalese cope with economic and social vulnerabilities.

The bank will also continue to bring resources and decisions closer to beneficiaries, where they are likely to be most productively used (<http://go.worldbank.org>).

## **5.2 World Bank Group Strategy and Approach for Nepal**

Throughout the insurgency there were virtually no interruptions in the International Development Association's (IDA's) operations in Nepal although no new investments were made by International Finance Corporation (IFC) between 1988 and 2008; Advisory Service Operations (rolled-out at the corporate level in 2005) began in 2006. Overall bank activity the review period (2000 to 2012) were guided by the Country

Assessment Strategy (CAS) progress report of December 2002, a full CAS for FY 04-07, and three interim strategy notes (ISNs) for FY 07-08, July 2009 to June 2011, and FY 11-13. The Independent Evaluation Group (IEG) undertook a Country Program Evaluation (CPE) for 2003-2008. During this period there were considerable changes in the Bank's country strategy in term of objectives and lending, partly because of changed circumstances but also due to the absence of a long-term strategic approach, especially during the conflict years and the initial post-conflict period. On balance the current review considers that despite some notable shortcomings the overall support provided by IDA was timely and appropriate.

IDA's activity in Nepal addressed the three strategic themes underpinning the FCS analysis shows considerable appreciation of and attention to exclusion, inequalities, geographical isolation, and lack of accountability. Cognizant of the significant role being played in Nepal by communities, IDA engaged in community driven development (CDD) type operations that effectively circumvented implementation weaknesses in line ministries and addressed issues of fragility.

The bank group's country strategies gave more prominence to the role of private sector development (PSD) and IFC's contribution to creating an enabling environment for investments in key sectors, growth and employment.

The following table shows the total lending commitments by three theme to Nepal:



**Table 5.1**  
**Total Lending Commitments by Theme to Nepal**  
**(FY 2001-12)**

*(US\$ in million)*

World Bank (IDA and trust funds)	FY 01-06	FY 07-12
Theme I: Building capacity of state	74.64	127.46
Theme II: Building capacity of citizens	178.00	904.33
Theme III: Promoting growth and jobs	207.97	401.44
Total	460.60	1433.23

Source: World Development Indicators, January 18, 2013.

The Table 5.1 shows that the promoting growth and jobs creation of the Nepalese economy has been given to most priority during the FY 2001 to FY 2006 the WB assistance. By providing 207.97 US\$ in million. Second priority sector seems theme II: Building capacity of citizens which occupies almost US\$ 178.00 millions. In the same way theme I: Building capacity of state accorded their priority of occupying US\$ 74.64 million of WBB assistance. During FY 07-12, Building capacity of citizens given top most priority more than half of its assistance namely US\$ 904.39 millions. Theme III: Promoting growth and jobs and theme I: Building capacity of state allocated 401.44 million and 127.46 millions and 2<sup>nd</sup> and 3<sup>rd</sup> position respectively during those fiscal year total WB aid received 1433.23 millions.

### 5.3 Trend and Pattern of WB Aid

Table 5.2 and Figure 5.1 projects the trend and pattern of WB assistance to Nepal since fiscal year 2001 to 2012. The total amount of WB assistance received by Nepal is NRs. 171999.53 million. This is composed of more than 48.86 percent of grant elements and 51.13 percent in the form of loan when we review year to year aid inflow, the trend is quite fluctuating up to down which is clearly shown in the table. The aid inflow is in increasing trend FY 2001/02 to 2003/04, but the trend is decreasing FY 2004/05 to 2006/07. Again increasing trend FY 2007/08 to FY 2010/11 and again fluctuating decreasing trend FY 2011/12. The highest volume of WB aid to Nepal FY 2010/11 and reached NRs. 58738.29 millions.

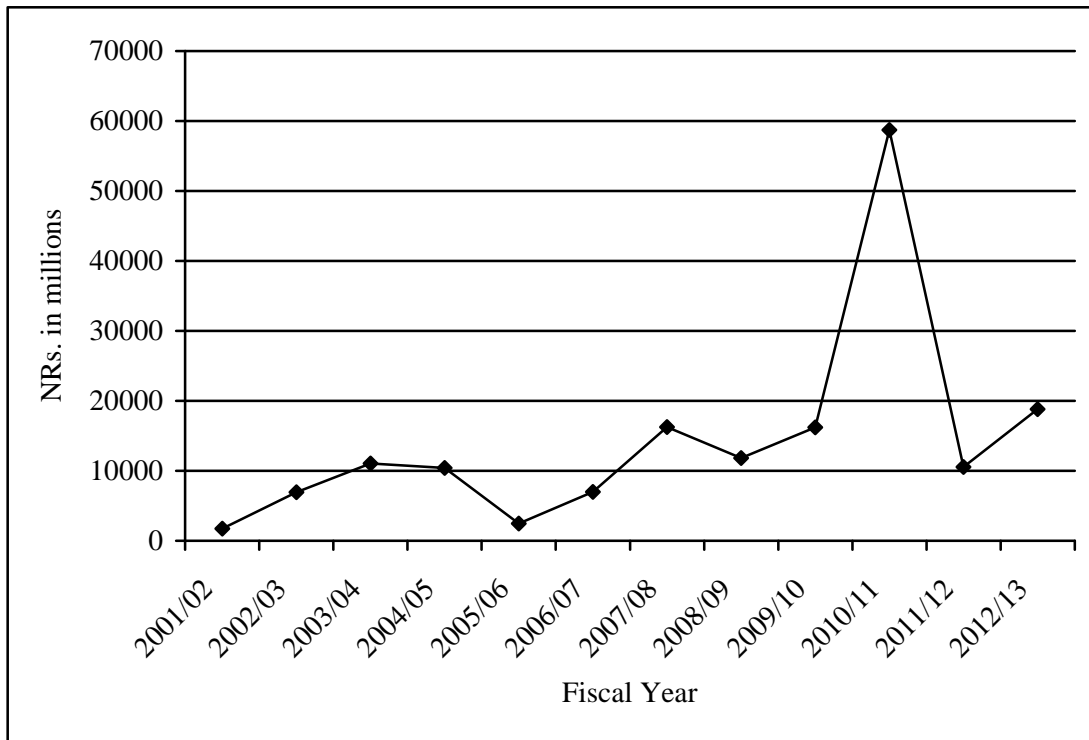
**Table 5.2**  
**Trend and Pattern of WB Aid**

*(NRs. in million)*

FY	Total Aid	Grand	% of grant	Loan	% of Loan
2001/02	1756.4	26.4	1.5	1730.0	98.5
2002/03	6918.0	1890.0	27.32	5028.0	72.68
2003/04	11039.7	508.7	4.6	10531.0	95.4
2004/05	10391.8	4041.5	38.89	6350.3	61.1
2005/06	2459.4	2459.4	100	-	-
2006/07	6993.0	6993.0	100	-	-
2007/08	16264.3	16264.3	100	-	-
2008/09	11838.9	10500.9	88.69	1338.0	11.3
2009/10	16222.85	3332.78	20.54	12890.07	79.46
2010/11	58738.29	30258.69	51.51	28479.6	48.49
2011/12	10556.01	3324.45	31.9	7231.56	68.1
2012/13	18820.88	4441.13	23.6	14379.74	76.4
Total	171999.53	84041.25	48.86	87958.27	51.13

Source: AMP, Ministry of Finance, GoN.

**Figure 5.1**  
**Trend Line of WB Aid**



#### **5.4 World Bank Aid Commitment and Disbursement**

In developing countries like Nepal foreign aid is considered as one of the most importance factor for development.

Commitment is the firm obligations to lend a specific amount n specific term and conditions and disbursement imply the utilization of foreign fund received under agreements signed. It is an inflow of to aid recipient donors.

In the Tables 5.3 shows that actual commitment and disbursement figures of WB aid in Nepal from FY 2009 to 2013.

**Table 5.3**  
**Pattern of WB Aid Commitment and Disbursement**

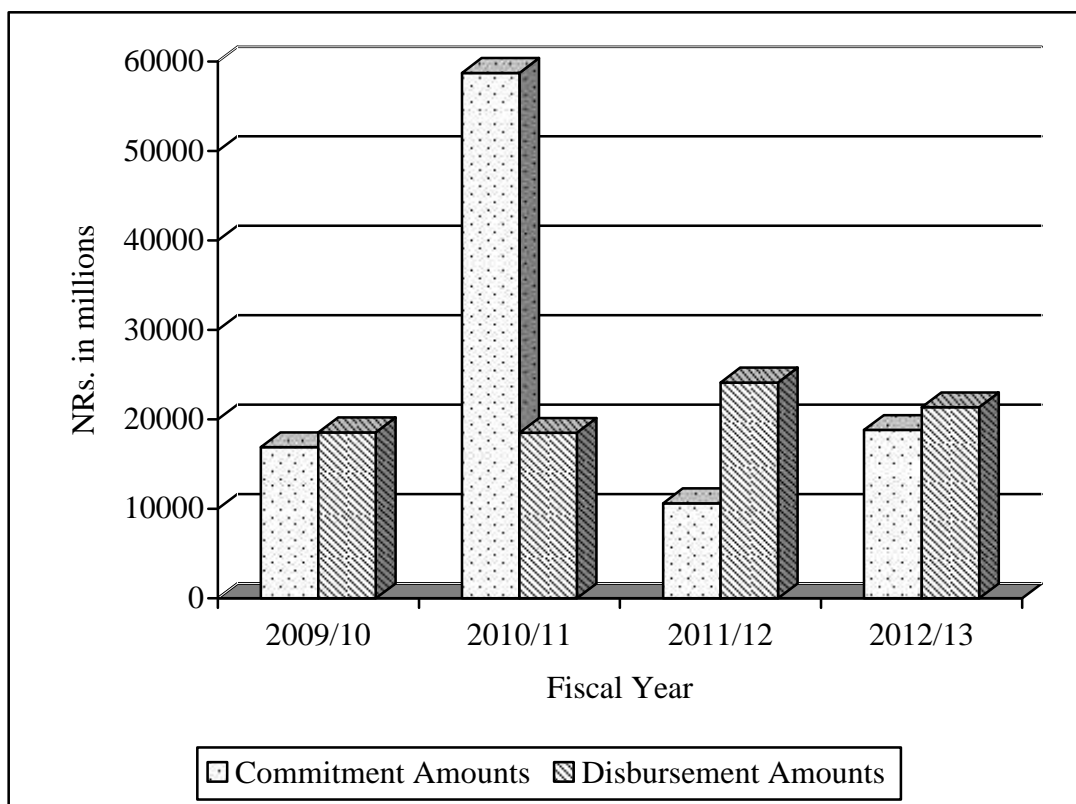
*(NRs. in million)*

FY	Commitment Amounts	Disbursement Amounts	Disbursement as % of commitment
2009/10	16899.38	18555.36	109.8
2010/11	58738.29	18506.26	31.5
2011/12	10616.66	24123.28	227.12
2012/13	18820.88	21360.12	113.49
Total/Average	105075.21	82545.02	78.55

Source: MOF, AMP.

Table 5.3 shows that commitment and disbursement of WB aid to Nepal in different fiscal years. By observing the table and graph it is clear that there is greater gap between commitment and disbursement figure. The table shows the disbursement as a percentage of commitment an average 78.55 percent of commitment aid disbursement in Nepal. The main reason behind this is the lack of aid absorptive power and inability to meet the different provision made by the donors from the side of Nepal.

**Figure 5.2**  
**Pattern of WB Aid Commitment and Disbursement**



### 5.5 Sector-Wise Contribution of WB Aid

Since the initiation of the WB assistance contribute to Nepal, it has been covering all the major sectors of our economy. The major beneficiaries sectors of WB assistance in Nepal are education, health, agriculture, road and transportation, communication, local development and electricity etc.

The amount of WB aid disbursed in diverse sectors has been given in the following two tables and one pie-chart. On containing the data from the FY 2001 to 2013. The table 5.4 shows the amount of WB assistance for the FY 2001 to FY 2013.

**Table 5.4**  
**Sector-Wise Contribution of WB Aid (FY 2009/12)**

*(NRs. in million)*

FY	Total aid	Program support	% of program support	Sector wid approach	% of sector wid approach	Project support	% of project support
2001/02	-	-	-	-	-	-	-
2002/03	5746.9	-	-	-	-	5746.9	100
2003/04	-	-	-	-	-	-	-
2004/05	3711.34	-	-	-	-	3711.34	100
2005/06	45.64	45.64	-	-	-	-	100
2006/07	8049.9	129.90	1.61	-	-	7920.00	98.39
2007/08	14671.97	329.32	2.25	-	-	14342.65	97.75
2008/09	7912.98	133.61	1.69	-	-	7779.37	98.31
2009/10	16899.35	155.60	0.92	5026.57	29.75	11717.19	69.33
2010/11	58738.28	57.16	0.09	19011.72	32.36	39669.40	67.53
2011/12	10616.65	6691.18	63.02	-	-	3925.47	36.98
2012/13	18820.88	-	-	-	-	18820.88	100.00
Total/ Average	145213.89	7542.41	5.19	24038.29	16.55	113633.2	78.25

Source: MOF, AMP.

The Table 5.5 also displays that large amount of WB assistance is absorbed by project support sector i.e. NRs. 113633.2 million and average 78.25 percentage. Sectorwide approach sectors are in the second priority which has got NRs. 24038.29 million, average 16.55 percent. Similarly program support sector approach scored third priority in FY 2001 to 2013.

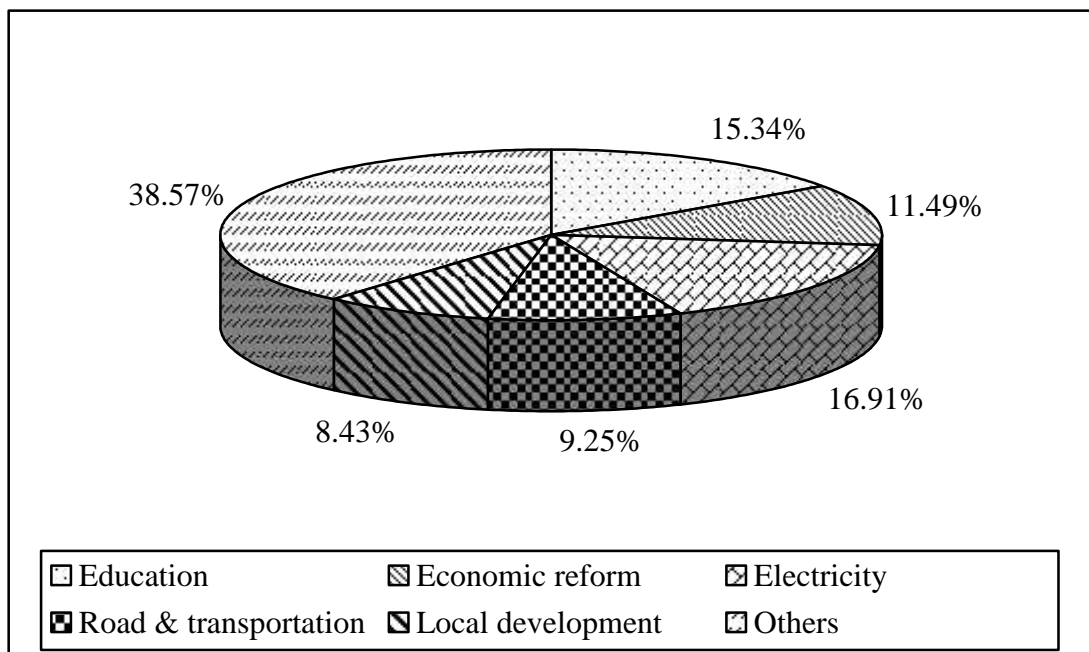
**Table 5.5**  
**Sector-Wise Contribution of WB Aid (FY 2001-2013)**

*(NRs in million)*

S.N.	Education	Total commitment amount	% of total commitment	Rank
1.	Education	22358.04	15.34	2 <sup>nd</sup>
2.	Economic reform	16743.86	11.49	3 <sup>rd</sup>
3.	Electricity	24651.58	16.91	1 <sup>st</sup>
4.	Road & transportation	13488.32	9.25	4 <sup>th</sup>
5.	Local development	12289.63	8.43	5 <sup>th</sup>
6.	Others	56222.29	38.57	
	Total	145753.72	100.00	

Source: AMP, MoF, GoN.

**Figure 5.3**  
**Sector-Wise Contribution of WB Aid**



Source: Based on Table.

The table 5.6 and pie-chart 5.3 shows the electricity sector has been given top most priority during the fiscal year 2001 to 2013 to the WB assistance providing 16.91 percent of the total assistance. Second priority sector seems education sector which occupies almost 15.34 percent of total WB aid. In the same way economic reform accorded third priority by occupying 11.49 percent of total WB assistance. In road and transportation sector assistance allocated 9.25 percent and finally other sectors of the economy occupy the 38.57 percent of WB assistance during FY 2001 to 2013.

## 5.6 World Bank Supported Program and Projects

WB aid contributed many programs and projects such as: agriculture, health, poverty alleviation, education peace and local development, environment, power and energy sectors etc. The following table shows the all programs and projects list from FY 2001 to FY 2013.

**Table 5.6**  
**Programs Activity**

S.N.	Programs/Projects Title	Commitment amounts	Status	Approval Date
1.	Nepal Power Development Project	75.6	Closed	May 22, 2003
2.	First Poverty Reduction Support Credit	70.0	Closed	No. 18, 2003
3.	Community School Support Program	5.0	Closed	June, 30, 2003
4.	Financial Sector Technical Assistance Project	16.0	Closed	Dec. 19, 2002
5.	Second Financial Sector Restructuring Project	75.5	Closed	March 9, 2004
6.	Second Rural Water Supply &	25.3	Closed	June 1, 2004



	Sanitation Project			
7.	Education all Project	50.0	Closed	July 8, 2004
8.	Nepal Health Sector Program Project	50.0	Closed	Sep. 9, 2004
9.	Poverty Alleviation Fund Project	15.0	Closed	June 1, 2004
10.	Nepal Economic Reform Technical Assistance (NERTA)	3.0	Closed	June 28, 2005
11.	Nepal Biogas Program	4.5	Active	June 2, 2006
12.	Nepal Poverty Alleviation Fund II	25.0	Closed	Nov. 14, 2006
13.	Avian Influenza Control Project	18.2	Closed	Jun. 19, 2007
14.	Nepal Village Micro Hydro Project	1.9	Active	June 30, 2007
15.	GPOBA - Nepal Biodigesters	5.0	Closed	Oct. 4, 2007
16.	Education for all Additional Financing	6.0	Closed	Dec. 6, 2007
17.	Irrigation & Water Resource Management Project	50.0	Closed	Dec. 6, 2007
18.	Road Sector Development Project	42.6	Active	Dec. 6, 2007
19.	Poverty Alleviation Fund II	100.0	Active	Dec. 6, 2007
20.	Nepal Health Sector Program Project Additional Financing	50.0	Closed	May 6, 2008
21.	Rural Access Improvement and Decentralization Project	32.0	Closed	June 21, 2008
22.	Nepal Peace Support Project	50.0	Closed	May 6, 2008
23.	Irrigation & Water Resource Management Supplemental	14.3	Active	Sept. 30, 2008
24.	Project for Agriculture Commercialization & Trade (PACT)	20.0	Active	June 4, 2009
25.	NP: Power Add Financing	89.2	Closed	June 18, 2009

26.	PPIAF: NEPAL: Setting Baseline of Kathmandu Water Services	0.27	Closed	July 6, 2009
27.	Nepal: School Sector Reform Project	130.0	Active	Sept. 22, 2009
28.	Program to Promote Demand for Good Governance	3.0	Active	Oct. 13, 2009
29.	Rural Access Improvement and Decentralization Project Additional Financing	45.0	Closed	Dec. 17, 2009
30.	Nepal: Adolescent Girls Employment initiative (AGET)	2.05	Closed	Feb. 22, 2010
31.	Nepal: Second HNP and HIV/AIDS Project	129.15	Active	April 20, 2010
32.	Additional Financing for the Nepal Social Safety Nets Project	47.77	Active	May 26, 2010
33.	Extending Mobile Applications in Asia through Social Networking Nepal	0.04	Closed	Nov. 17, 2010
34.	NP: Road Sector Development Project - AF	75.0	Active	Nov. 23, 2010
35.	Nepal Human Development Social Protection Pilot Project	2.0	Active	March 16, 2011
36.	Nepal: Enhanced Vocational Education and Training	50.0	Active	April 21, 2011
37.	Kabeli Transmission Project	38.0	Active	May 10, 2011
38.	Urban Governance and Development Program: Emerging Towns Project	25.0	Active	May 10, 2011
39.	Modernization of Rani Jamara	43.0	Active	July 5, 2011

	Kulariya Irrigation Scheme Phase I			
40.	Strengthening the Office of the Auditor - General	2.38	Active	Aug. 16, 2011
41.	Nepal: Making Markets Work for the Conflict Affected in Nepal	2.65	Active	Feb. 17, 2012
42.	Nepal: Community Action for Nutrition Project (Sunaula Hazar Din)	40.0	Active	June 26, 2012
43.	Bridges Improvement and Maintenance Program	60.0	Closed	June 28, 2012
44.	Zoonoses Control Project (ZCP)	10.0	Closed	April 30, 2012
45.	Nepal PFM-MDTF Strengthening Civil Society Organization use of Social Accountability to Improve PFM in Nepal	0.8	Active	Aug. 29, 2012
46.	Output - Based Aid for Municipal Solid Waste Management	4.6	Active	Oct. 19, 2012
47.	Nepal: Pilot Project for Seismic School Safety in the Kathmandu	1.51	Closed	Aug. 17, 2012
48.	Additional Financing for the Project for Agriculture Commercialization and Trade (PACT)	40.0	Active	Nov. 15, 2012

Source : <http://www.worldbank.org/np>.

## **CHAPTER - VI**

### **SUMMARY AND CONCLUSION AND RECOMMENDATIONS**

This chapter focus on summarize the study held with the research conclusion. The next attempts in this chapter will be made for the recommendations of the basis of finding. For this whole purpose the chapter is sub-divided into summary conclusion and recommendations as follows:

This study is depending on the trend of WB aid in Nepal with three specific objectives. The needed data of this study was collected from the various sources such as issues of economic survey (MoF), NRB, Foreign Aid Division of MoF Nepal. This study is the sectoral contribution of WB aid in Nepal clearly brings out the fact that the question of aid can not be discussed purely in economic terms. Strategic and political consideration have played a greater role than economic consideration in determining the nature, trend, magnitude, direction and pattern of foreign aid received by Nepal. Poudyal suggest that country should try to shift the concentration of foreign aid from transportation infrastructure to the industry.

Out of total aid inflow; the amount of WB aid received by Nepal was NRs. 171999.53 million from FY 2001/02 to 2012/13.

#### **6.1 Summary and Conclusion**

Development country like Nepal, economic development is a prerequisite for raising the standard of living of Nepalese people. But economic development in not an easy task. Nepal is poor in mobilizing internal resources for development program. So it is bound to demand on external aid and assistance.

Foreign aid has remained an integral part of Nepalese economy. The effect of foreign aid in Nepal especially on economic growth, poverty and the targets set out in the MDGs, such as education, health outcomes are heavily depending on the recipient government fiscal response.

Nepal is one of the least development countries of the world with a very poor economic and social infrastructure for development. It suffers from serious resource gap with low saving and low investment creating a vicious circle of poverty. Foreign aid can play an important role in economic development of Nepalese economy.

Since 1951, Nepal has been receiving the foreign aid. In the early stage there was the competition to provide aid to Nepal between capitalist and socialist countries. After formation of aid group in 1976, Nepal received aid in systematic way in the form of grants and loans. There is very hard to any sector where has not been aid utilized. There are five year periodic plans and three years plans to run this periodic plans, large volume of aid have been utilized. But there is also huge gap between commitment and disbursement of foreign aid. Delay in projects implementation, administrative inefficiency and low absorptive capacity of the country are major drawbacks for low disbursement and commitment ratio.

Nepal have heavily depended on foreign aid since Nepal embarked on a planned development. The first plan was fully financed by foreign aid where as it is estimated that the three year interim plan will be 50.2 percent. The technology and the foreign exchange gap are equally striking. Nepal faces service problem of deficiency in resource mobilization fiscal deficit is growing every year.

In this context, foreign aid plays an important role from the research study, it can be seen that Nepalese economy is in vicious circle. It takes long time to up. The country Nepal is already in debt trap. Debt per head top Nepalese people is about NRs 13000. Loan amount is increasing overwhelming in comparison to the grant, saving investment by which the gap has been increased over the year.

Thus, Nepal is facing a difficult situation as a result of which the country can neither promote the economy without foreign aid nor can it escape away from the foreign aid. If the aid is being increased without plan and reducing the corruption, the country again is in debt trap. A strong and clear vision of government is needed to implement the foreign assistance and to mobilize internal resources in activities. The aided projects must be in expending the production base of the economy.

## **6.2 Recommendations**

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

It is true that large amount of foreign aid inflow in Nepal for a long time but the economic growth and implementation of foreign aid in sustaining sector is not acting properly. Most of the aided group people are addicted to foreign aid and just they continue their non-government projects to fulfill their wants obviously, what Nepal has done through it

should have been a well of state if aid alone was to play dramatic role in the development process. In Nepal, foreign aid started to flow from 1951, the economic growth is ranging from 3-5. However, the countries which got aid in initial stage, like south Korea, USA, Malaysia etc. are the example to increase the economic growth it shows assistance properly absorbed and obtained in the favorable terms of recipient countries can transfer the receivers economy in to batter state. At last, from this study, it can be claimed that through foreign aids flowing continuously aid to Nepal without vision of special plan and commitment to implement wisely and honestly can create a sustainable economic conditions. The utilization of aid should be accepted which appears favorable for that our domestic economy. For the betterment of existing scenario.

Based on the above observations and conclusion, the flowing major suggestions are recommended.

- ) Sound foreign aid policy should be formulated so as to reduce the unproductive wastage and dependency mentality of the government.
- ) Internal capacity of the country should be strengthened so as to increase the absorptive capacity of aids.
- ) Under the WB assistance, major projects are in urban areas i.e. only minor projects are in remote areas. So these projects should also be expended in rural and remote areas.
- ) The projects should be run by Nepalese government rather than donor countries.
- ) Long-term loan should be taken at low interest rate with long maturity period.

- ) Selected projects should be implemented with full commitment so that it can generate sufficient resources to pay back the aid.
- ) Priority should be given to grants rather than loans and be used to productive sectors.
- ) Common consensus should be established at national level in development agenda within the political parties.
- ) Foreign aid should be used in transparent manner with proper accounting system of recording the movement of foreign aid.
- ) The government should prepare priority list of viable projects and backward sectors according to the development need. Entire freedom in the selection of the projects should not be provided to donors. The project should be selected by the government of Nepal according to the priority list.



## REFERENCES

- Aryal, B.L. (2008). *Foreign aid for the economic development of Nepal*. An Unpublished M.A. Thesis Submitted to CEDECON, T.U., Kirtipur.
- Baidya, B.P. (1998). *Foreign AID and economic development*.
- CBS (2058 B.S.). *Statistical pocket book 2058*. Kathmandu: CBS-NPC.
- David, Ian Malcolm and J.M. Clifford (1965). *International AID*. London: George Allen and Unwin Limited.
- FACD (2012). *Development cooperation report*. Kathmandu: Ministry of Finance 12-63.
- FACD (2012). *Profiles of development partners*. Kathmandu: Government of Nepal Ministry of Finance.
- Funch, A. and Vadlamannati K.C. (2012). *The needy door: an empirical analysis of India's AID motives*. Preliminary Draft, Retrieved from [www.ub.uni\\_heidelberg.de/archiv/13577](http://www.ub.uni_heidelberg.de/archiv/13577).
- GoN (2012). *Economic survey FY 2011/12*. Kathmandu: MoF.
- Higgins, B.H. (1968). *Economic Development, Principles, Problems and Policies*. New York: W.W. Noton.
- HMG (2002). *Foreign aid policy*. Kathmandu: MoF.
- Karna, S.K. (2004). Agriculture development in nepal: problems and prospects in Dahal, Mandan Kumar (eds.) *Nepalese economy towards building a strong economic Nation State*. Central

Department of Economic, T.U. and Hira Book Enterprises,  
Kirtipur, Kathmandu.

Karna, S.K. (2007). An inflow of foreign aid in Nepal. *The economic journal of Nepal*, 30 (4): 201-214.

Khadaka, N. (1991). *Foreign AID, poverty and stagnation in Nepal*.  
India: Vikas Publication House.

Leibensten, H. (1961). *Economic backwardness and economic growth*.  
New York: John Wiley and Sons Inc.

Meir, G.M. (1976). *Leading issues in economic development*. London:  
Oxford University Press.

Minaly, F.B. (1965). *Foreign AID and political in Nepal*. London:  
Oxford University Press.

Misra, C. and Pitamber Sharma (1983). *Foreign AID and development in  
Nepal*.

MoF (2011). *Budget speech of the FY 2011/12*. Kathmandu: MoF.

*National Planning commission, various plans*. NPC, HMG/Nepal.

NRB (2008). *Macro economic indicators of Nepal*. Kathmandu: NRB.

NRB (2011/12). *Economic report and quarterly economic bulletin*.  
Kathmandu: NRB.

Poudyal, S.R. (1992). *Trends in foreign AID in Nepal*.

Rodan - Rosenstein, P.N. (1968). The consortia technique in Bhagwati J.  
and R. Eckus (eds.), *Foreign Aid Penguin Books*.

Sigdel, Bamdev (2004). Foreign AID in Nepal in Dahal, M.K. (ed.)  
*Nepalese economy towards building a strong economic nation -  
state.*

Todaro, M.P. (1979). *Economic for a development world.* UK: Longman.

WB (2014). *Country partenership statertegy.* Kathmandu: World Bank.

*World development report 2010.*

## **WEBSITES**

[www.worldbank.org](http://www.worldbank.org)

[www.worldbank.org/np](http://www.worldbank.org/np).

[www.data.worldbank.org](http://www.data.worldbank.org).

[www.mof.gov.np](http://www.mof.gov.np).

[www.mof.gov.np/ieccd/amp](http://www.mof.gov.np/ieccd/amp).

[www.nrb.gov.np](http://www.nrb.gov.np).

[www.cbs.gov.np](http://www.cbs.gov.np).