

# CHAPTER I

## INTRODUCTION

### 1.1 Background

In Nepal foreign aid officially started from Jan 23, 1951 with an agreement on point four programs with United States of America. The remarkable increase in foreign aid had been noticed from the time when Nepal entered Colombo plan in 1952. The agreement of foreign aid with India established in 1953 with the initiation of construction of Raxaul-Kathmandu Tribhuwan highway. Then started the aid flow from different countries like; China, USSR, United Kingdom, Japan, Canada, Finland, Australia etc. The year 1969 can be termed as a good year for Nepal as it started to get loan from World Bank and Asian Development Bank at the subsidized rate. The country has experimented different plan since 1956 AD.

Foreign aid is the transfer of resources from one country to another in order to promote economic development as well as social progress. The main purpose of aid to developing countries is to accelerate their pace of economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining base. The function of aid for a development program is not directly to improve standard of living in the recipient countries but to impart them to make the transition from economic stagnation to self-sustaining economic growth. Domestic resources are not sufficient to meet the financial requirements of economic development in developing countries like Nepal. The present level of capital formation of these countries is too low and any substantial increase in saving is not possible due to extremely low level of income and widespread of poverty. Public borrowing and taxation have got their own limitations. Deficit financing is also discarded because of its inflationary impact on the economy. At this background foreign aid can play a vital role to pull the economy out of vicious circle of poverty. The overall aim of foreign aid is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth. That aid should not be discontinued when certain countries can mobilize a level of capital formation adequate for self-sustaining growth. Thus foreign aid is an advantageous for the acceleration of growth mechanism in these under developed countries.

The continuity in the aid flows from capable and developed countries to the weak and developing countries since the Second World War has stamped a distinct position in the global political and economic relations. After the second world war, the united states of America initiated an assistance package called the 'marshall plan' in 1947 to

reconstruct European economy. Nepal started receiving foreign aid officially since 1951 with technical assistance from United States under the point four programs with the grant assistance of Rs. 22,000. The international transfer of public funds in the form of loans or grants either directly from a government to another (bilateral assistance) or indirectly through the vehicle of a multi lateral assistance like the World Bank (Todaro).

The foreign aid is required to address timely the cross-cutting issues like technology transfer, environmental protection, gender mainstreaming and so on. With the collapse of soviet blocs, it has been increasingly felt that we have to arduously compete in order to get access in foreign aid as the resource needs for the country are enormous and we have no enough domestic resources to fund to development programs in our own. Nepal began to receive aid from Bilateral and Multilateral foreign aid since the early sixties. The Bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of United States of America(USA), GTZ of Germany, FINIDA of Finland, SDC of Switzerland, DANIDA of Denmark, JICA of Japan, Government of United Kingdom, People's Republic of China, Belgium etc. The multilateral donors include the international agencies like World Bank (WB), Asian Development Bank (ADB), International Monetary Fund (IMF) and United Nations agencies like, United Nation Development Program (UNDP), Food and Agriculture Organization (FAO), World Health Organization (WHO), United Nations Education Science and Cultural Organization (UNESCO), United Nations Fund for Population Activities (UNFPA), United Nations High Commission for Refugees (UNHCR) etc.

The fundamental idea of foreign aid is a transfer of resources on concessional terms. Official Development Assistance (ODA) has become most important source of external receipts for the developing counties. In order to quality foreign aid, Development Assistance Committee (DAC) & Organization for Economic Co- operation and Development (OECD) have set three criteria. According to these criteria, the purpose of aid should be to promote economic development and welfare; it should be under taken by official agencies; and it should have a grant element of 25 percent or more. These criteria of aid have the effect of excluding transfer of resources through International Non-Government Organization (INGO's) and aid for the military purpose. Foreign aid is classified into various forms on the basis of its nature terms & sources. On the basis of nature foreign aid can be classified in three ways as: (i) Capital aid (ii) Commodity and (iii) technical aid. Capital aid is provided in cash for the implementation of projects as well as for assistance for balance of payment and other reform programs. Commodity aid is in the form of goods that usually takes the form of transfer of surplus products of the donor to the recipient nation, and Technical aid

included the training, technology know-how and transfer of technology from donor to recipient countries. The Financial Assistance is made either in the form of Grant or Loan. Grant is generally Free Launch which not has repayment liability. Therefore, grants are appropriate to use in the social services as education, health, drinking water etc, which have very long gestation period. Loans on the other hand have repayment liability; it should be wisely utilized in those sectors that obtain returns in short run. Foreign aid is expected in each and every field of development activity, which shows the need of foreign aid in Economic Development of Nepal.

## **1.2 Statement of the problem**

Nepal is a landlocked country wedged between two neighboring economic powers, India and China. Most of the developing countries like, Nepal are moving around the vicious circle of poverty. To break this type of vicious circles, country needs to raise the income level, saving and investment. So, foreign aid can play significant role to bridge the resource gap and promote growth. Nepal desperately needs foreign aid as the resource needs for the country are enormous and we have no enough domestic resources to fund the development programs on our own. Foreign aid has made some contribution to economic development of Nepal but over all performance is not found much effective. The recent political change, donor's perceptions and volume of foreign aid, these are some questions to take this research.

## **1.3 Objectives of the Study**

The general objective of this study is to analyze trends and structure of foreign aid in Nepal. The following are the specific objectives of the study:

- (i) To analyze the nature and trend of foreign aid in Nepal.
- (ii) To analyze the structure of foreign aid in Nepal.

## **1.4 Significance of the study**

Foreign aid plays a fundamental role in implementation of different economic plan. Nepal is landlocked country with rough topography & unutilized natural resources, mass poverty so this study seeks to analyze on contribution of foreign aid in Nepalese economy. To fulfill the gap between saving & investment, foreign aid can play an important & effective role. It helps to select the type of aid as loan or grant & Bilateral

or multilateral which will definitely help to Economic development of Nepal. Hence this Study will be useful to those who are interested in this field.

Nepal is a least developed country in the world. Nepal does not pose a strong and stable economy it requires more assistance to have rapid development process in different purposes to development. The country has a shortage of internal resources to finance the entire expenditure of her development effort. In order to break the vicious circle of poverty and to improve socio-economic condition of Nepalese people, there is a great need to foreign assistance to supplement domestic resources. Developing countries, like Nepal, are rich in natural resources but they are poor in capital and skill. Thus the main objective of providing aids is to employ the international tools and resources for the achievement of maximum economic advancements. Foreign assistance in the form of grant, loans, technological know-how, training, scholarship etc, has multiplier effect on income and accelerator effect on investment and ultimately the country can be self-sufficient to finance invests. The study of foreign aid provides a clear-cut idea about aid being provided by advanced countries for the various development works of the underdeveloped countries.

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

This study covers the foreign aid & economic development of Nepal within the given time period and Budgetary constraints. Some cases are not included in this study as; political, social effects & military type of assistance. Only quantitatively measurable case will take in this study. Official development assistance will be considered which is effective on economic development of Nepal. In this research the required data are taken during the FY 2000/01 to FY 2012/13.

### **1.6 Organization of the study**

The study is divided into five chapters. The First Chapter analyses background, statement of the problem, objectives of the study, significance of the study and limitations of the study. Chapter Second analyses literature review, in this chapter includes a brief review of previous research work on the foreign aid. Chapter Three analyses the research methodology. In this chapter deals research design, source of data, tools of analysis. Chapter Four analyses presentation and analysis of data. Chapter Five analyses summary, conclusion and recommendations.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Review of International Studies**

After Second World War United States initiated an assistance package called marshal plan in 1947, along with marshal plan foreign aid started systematically and its scope become significant. Foreign aid needs to finance the economic development efforts of developing countries. Foreign aid is also an important factor and a key instrument to economic development of developing countries in the recent time.

Ragnar Nurkse (1953) states that it is nearly always possible to some extent to substitute foreign funds for domestic saving so that the country's consumption is increased or no addition is made to the rate of accumulation. This can happen even if each foreign loan is earmarked for a specific production project. If the inflow of capital is accompanied by a relaxation of domestic saving efforts there may be no change in the total rate of capital formation. Strong and persistent pressures in this direction are set up by the high & the rising propensity to consume which is induced in the poor countries by the great and growing discrepancies in per capita income and consumption standards. Without the increase in domestic saving & investment, it is argued that self-sustained economic growth cannot be attained.

Milton Friedman (1958) believes that foreign aid effectively promotes economic development rests in turn on three basic propositions. First that the key to economic development is the availability of capital second, that under developed countries are too poor to provide the capital for themselves, third, that centralized and comprehensive economic planning and control by government is an essential requisite for economic development .

Bauer (1970) believes that the flow of aid since the Second World War has probably more retarded than promoted the overall economic advance of recipient countries. This conclusion is paradoxical. It is paradoxical, because foreign aid certainly or at any rate of the resources of the recipient countries the rate of development. This result depends on how aid affects the determinates of economic progress, notably its repercussions on the economic attitudes, policies and institutions and also on the allocation of resources are often damaging in practice and tend to outweigh any favorable result of the inflow of resources. This is the reason

why foreign aid though it may improve current economic conditions in the recipient countries, has not served generally to promote their economic development .

R.I Mckinnon (1964) asserting that foreign aid can have a large favorable impact on the growth rate, even where the absolute amount of aid is smaller when the aid is used to remove bottlenecks by providing strategic goods & services not produced in the developing economy. He points out that where the foreign exchange constraint is dominant, foreign aid will have a proportionately greater effect upon the growth rate than if the saving contrast holds. This is because expenditures for imported capital goods constitute only a fraction of domestic capital formation. Also foreign aid will have a greater impact on growth, the smaller the import component of investment expenditures, Mckinnon emphasizes the importance for aid allocation of choosing a growth rate which will minimize the amount of foreign aid needed to achieve self-sustaining growth. Given a very high marginal savings rate, which permits domestic saving to rise very fast, a higher target growth rate may actually require a smaller volume of total aid than a lower one .

According to Mikesell (1969) “There are three arguments for concessionary aid employed in connection with first function of aid. Firstly, such aid has important inducement effects as compared with hard loan assistance. It is easier to induce government to adopt programs, which may be unpopular with social groups if assistance for these programs is provided in generous terms. Second argument for concessionary loan is that certain projects & programs have long payout periods & delayed impacts in the social product out of which service payments on foreign loans must be made. Concessionary loans which delay payment of interest should not be justified on the grounds that the increments to the social product arising directly or indirectly from the loan is less than the rate of interest on hard loans. The third argument perhaps the most important arguments, which relates to the time required for changing the structure of the balance of payments. During the period when countries are making serious efforts to alter their economic structure through appropriate policy measures designed to achieve sustained development, foreign exchange shortages are likely to be severe & of some duration” .

Higgins (1968) in his book emphasizes the importance of foreign aid by saying that “It is highly unlikely that measures to increase voluntary domestic saving alone or even measure for voluntary & compulsory savings together can provide all the financial sources needed for developing of under developed countries.” Foreign aid

is primary used in the construction of social overhead capital such as roads, dam and electric projects. So far capital requirement of LDC's is concerned it is not so much high as that of the developed faster growing cannot be increased overnight .

Meier (1970) one of the well know economist writes that capital accumulation regards as core forces by which all other aspects of growth as possible. Investment needs more saving or foreign assistance more saving will not be possible in developing countries because of low level of income. Thus, foreign aid plays a significant role for the economic development in developing countries. He argues that foreign aid might have some limited use; it should be given to those who help themselves .

Browne (1990) outlines the application of foreign aid in different countries. He states that poverty aid & adjustment aid signify evolutionary stages in application of aid to development but none is exclusive aid has been & will continue to be applied in support of promoting economic growth income direct approaches to poverty alleviation & in the restructuring of the economies of developing countries .

Morgenthau (1962) writes that as there are burns and beggars so are there burns and beggar nation. There may be the recipient of charity but short of a miraculous transformation of their collective intelligence and character what they receive from outside is not likely to be used for economic development

Edward ( 1964) mason writes that the rationale for foreign aid programs should be 'the demonstrated facts (i)that in at least a large part of the less-developed world foreign aid can make and has made an effective contribution to economic development and (II)that most countries developed and under developed , desperately want to be independent of external control . Few would deny that foreign aid has contributed to economic development but to date the success stories on foreign aid for development must be limited to a rather small proportion of the developing world. As to the desire of developing countries for independence from external controls, it has not been seen obvious correlation between the realization of this desire and the provision of foreign aid .

Ferziongln, swarp and Zhw (1998) in their article have analyzed the impact of foreign aid on different components of public spending. They found that most of the aid indeed is fungible. Earmarked concessionary loans given to agriculture energy and education sector are costly diverted to the other sector and only loans to the

transport and communication sectors are fully spent on the purposes intended by donors .

Todaro ( 1997) writes three major reasons given in favor of foreign assistance(i)the major reason is clearly economic and the rationale for aid is based on the acceptance of the donors perception of what the poor countries require to promote their economic development ,(ii)the another reason is both donors and the recipients see the aid as providing greater political leverage to suppress opposition and maintain itself in power, (III)the final rationale is that it is believed that rich countries have an obligation to support the socio-economic development of the developing countries. And both kind of perception come under the broader theories of aid; the economic theories and political theories.

Lewis (1982) analyzed that it is obvious that the record of all development assistance by all donors up to now is mixed. It is easy enough to assemble a negative score card of mistakes, silly or counter productive projects and other failures. But there are some powerful counter points to be made. First, there have been major and speeding achievements multifaceted aid from a number of donors was a catalyst-not the main force, but a strong indispensable catalyst-for the remarkable improvement in South Asian Food Production that blossomed in the 1970s. In the case of South Asian Agriculture, "Success" (by no means complete) was achieved with a very thin spread of aid per capita. In other cases South Korea and Taiwan for example very heavy concentrations of economic aid (in both cases, interestingly, for strategic reason) have helped lay the base for burgeoning economic expansion. There also has been good deal of progress failures as well, but mainly significant, ramifying successes in helping guild such key development promoting institutions as agricultural universities, technical institutes and enterprise management training establishment in many countries. Directly and indirectly aid has contributed to the down ward trend in birth rates that has begun to appear in certain countries, especially in Asia. The list of on balance successes could be many times longer. It constitutes no scientific proof that aid, overall has had positive and significant net benefits. But it fortifies a strong suspicion that with out aid in the 1960s & 1970s, Third World growth (which on average was strong) would have been slower, the outcomes for the poor would have been worse, social and political turbulence would have been greater and less ground work would have been laid for further advances. In particular, without aid, the poorest countries, where growth has slower, would have lagged more.



Kruegar (1986) writes that the impact of foreign aid substitutes for domestic saving, we need to consider the contentions that, at a given level of income, the domestic saving rate in recipient is less than it would be in the absence of aid and at a given level of income, investment is lower than it would be without aid. The first proposition asserts that the recipient will allocate its aids partly for present and partly for future income. The second proposition is more extreme; implying that aid is more than offset by increased domestic consumption. The first proposition, that the marginal propensity to save is less than one, accords with economic theory and therefore, is empirically testable. The second proposition, which essentially posits a negative propensity to save, is more extreme and is a priori impossible. Since government macro-economic policy is a prime determinant of how an economy reacts to the receipt of aid any outcome in principle, is possible. Governments committed to the goal of economic growth would adjust macro economic policies to foster higher investment as a consequence of receiving to higher investment and domestic saving would decline or domestic consumption rise in response to aid.

Cassen and Associates (1994) has given down to earth scenario of causes of failure of aid, when aid goes wrong, its failing can be divided into what might be called the more and the less reprehensible. On the other side, some of the more reprehensible failures come from parsing commercial or political ends without much regard for the development objective of aid; others from not learning from past mistakes, Since there is insufficient information exchange among agencies of project experience. The result is that mistakes are repeated with detectable frequency. On the recipient side, the main set of phenomena responsible for aid failure lie in the policy environment within which aid operates. There is one further cause of failure which is attributed to the behavior of both sides, namely the lack of co-ordination of aid.

Charles P. Kindleberger and Bruce Herrick explain, “ economic development is gradually defined to include improvements in material welfare specially for persons with the lowest incomes, the eradication of mass poverty with its correlation of illiteracy, diseases and early death, changes in the composition of inputs and outputs that generally include shifts in the underlying structure of production away from agriculture, toward industrial activities; the organization of the economy in such a way that productive employment is general among the working age population

rather than the situation of a privileged minority; and the corresponding greater participation of broadly based groups in making decisions about the directions economic and otherwise, in which they should move to improve their welfare.”

It is thus obvious that there is no one meaning of economic development. However in view of the above definitions it becomes evident that the definition of economic development by Charles P. Kindleberger and Bruce Herrick is more meaningful. This definition underlines the need for associating economic development with an increase in the overall living standard or material welfare of the people. True, economic development may not only be associated with an increase in the people. It is possible that, in spite of an increase in the per-capita income or per capita real income, the living standard of the common mass might deteriorate. This is possible in such circumstances in which a sizeable portion of per-capita income & the per-capita real income of the people is either concentrated in a few hands or is used for capital formation or is used for financing war. It is therefore, not at all essential that with an increase per capita income or per capital real income, the living standard of the people may also increase. But an increase in the living standard of the people necessarily implies a rise in the per capita income or per capita real income.

A relatively small increase in the availability of foreign exchange may yield a considerable increase in national income. By breaking the production bottleneck and allowing the utilization of previously under utilized capacity, the importation of strategic capital goods or foreign materials provided by external aid can permit a sizeable expansion of an output form complementary domestic resources that would otherwise remain unused. If the function of external aid were merely to supplement domestic savings & finance additional investment, the productivity of aid would be equal to only the marginal productivity of additional capital; but when foreign aid removes a balance of payments bottle-beck; its productivity is higher & has a proportionately greater effect on the rate of development.

## **2.2 Review of Nepalese studies**

Paudyal ( 1983) describes that the impact of foreign aid in terms of its role as filling either the saving gap or the track gap, depending upon which ever is larger is not relevant for country like Nepal. The gap approach assumes that the lack of investible fund is the main constraint to growth that the relationship between investment and growth is fairly stable, the consumption makes no contribution to output and that domestic and foreign saving are inter changeable. Though no one can

deny the importance of capital in production process, what is also equally even more important is the social framework consisting of political, administrative economic and social values and institutions. Had the assistance been productively used, they would have generated the funds for repayment, but since they have not been, the debt servicing is becoming increasingly burden some to the country. Thus the way in which foreign aid has been used makes it look as if it is going to become a self-perpetuation process.

Gurugharana (1996) writes that the less than satisfactory performance of external assistance to Nepal during the last four decades is attributed to the insufficient amount of foreign aid relative to the requirement and the ad-hoc nature and changing priorities of aid on one hand and the lack of proper planning and commitment of the government, weak institutional and managerial capacity in the economy and in appropriate macro-economic and social policies, on the other. He argues that foreign aid has two types of impact in Nepal-short-term and long-term impacts. In the short-term, aid project did not increase political consciousness as hoped by the donor. In long-term aid did not only fail to give a significant boost of Nepali economy, but also made growth more difficult to achieve.

Manandhar (1983) puts a question if Nepal can survive without aid. To answer this question, is very difficult. According to him, before giving the answer of this question, we have to look the role of foreign aid at present in developing process. In this view, no one seems to be worried about what happens when the aid stops, he adds 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.

Sharma (1992) analyzed foreign aid was expected to supplement domestic resources, which were inadequate and inefficient in generating the surplus required for reinvestment land productivity did not display a marked change, and labor was not made more effortful entrepreneurial talent too was under developed. These further more led the economy to depend over whelming on foreign resources, technology and skilled manpower, and also to permit the emigration of financial funds generated internally. This contradiction arose mainly due to a political system which encouraged the inflow of foreign aid an open economic structure with respect to 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 48% of which was spent for unproductive administrative purpose. As there was a linear expansion of public budget, among the aid in absolute terms increased so as to maintain its proportion, used as political parameter .

Pant (1962) writes an underdeveloped country like Nepal in a similar way, in the initial stage of economic development, as provided by the inadequacy of domestic resources; much reliance will naturally have to be placed on foreign aid to increase the tempo of the development activities. Such aid is essential as the extreme poverty of the people, the regular deficit in the country's budget absence of the development of any appreciable character and lack of trained personnel make it hardly possible for the country to find enough resources internally to finance its development. Most of the development countries in a position to help realize the economic and political problems of under developed areas. In the context of this important change in attitude coming in developed countries, Nepal can greatly benefit, if it knew properly how to develop the variously fields of its economy in relation to internationalism.

Baskota (1983) writes that foreign aid in a macro-economic context, the conventional arguments for external assistance have focused on these issues. External assistance helps to overcome the limitation on investments imposed by a domestic resources, it was assumed that developing countries would be able to achieve higher rates of economic growth with external assistance than would have been possible without external aid. External assistance overcomes import bottlenecks arising out of hard currency shortages. With limited export earning, most developing countries have faced major problem of financing development imports. Under such a situation, external assistance can help one of the major areas of advantage of foreign assistance has been in the field of technology transfer over coming skilled manpower storages of specific commodities.

Aryal (1991) writes that importance of foreign aid not only in the form of economic assistance but also in the form of technical & commodity assistance in the developing countries. Technical advancement has presented so sophisticated machines that without skilled & trained hands the machines operate. Thus foreign co-operation in the form of technical assistance serves the host country to able personable in the near future. Technology provides the equipment & knowledge that when utilized adds to productivity. Nevertheless, while the latest technology may be

most productive one, the same may not be adopted in a country due to lower level of infrastructure. Even aid sustenance may be questionable as it presupposes the existence of certain of minimum level of economic activity in the country & buying power of the uses, which the country may not have. In launching a development program through foreign aid, the country should therefore select technology that can be sustained & adopted by the people for their own development programs through availing the capital & experts human resources to effectively utilize the technology for & overall development of the country.

Khadka (1991) analyzed the micro economic performance of foreign aid in Nepal. He used the secondary time series data from 1961 to 1985 and employed the descriptive method. The main objectives of the study were to examine the socio-cultural and political constraint to development and to find out the share wise and sector wise allocation of aid over the past three decades as well as to evaluate the micro economic impact of aid on Nepalese economy. His findings were that foreign aid generated a number of negative effects in the socio-economic structures such as widening of inequality and creation of dualism, perpetuating aid dependence, making the domestic economy more vulnerable to external shocks contributing evaporation of aid money, creation of aid elitism and its prevented in the introducing desirable political reforms in the system of government .

Panday (1981) analyzed the structure of foreign aid in Nepal to find the contribution of foreign aid to the gross domestic product and the actual resources gap problem in Nepal. In his study, he has found that the flow of foreign aid in Nepal is increasing both from bilateral and multilateral sources where the aid that inflows within country encourages inflation. The contribution of aid of gross domestic product is increasing in Nepal. He has found out that the aid in Nepal is highly correlated with gross domestic product. He remarks that although the aid impact on the Nepalese economy is positive, there is misdirection, misutilization and corruption of the aid which are responsible of the low growth rate of the economy .

The paper presented at the Nepal development forum 2002 in the review of developing partnership in Nepal. Review team's main finding and recommendations of the donor's attitudes as, donors have felt that they have respond to the ineffectiveness and lack of direction of government of Nepal by taking more responsibility for designing and implementing programs and projects. As such, some donors have reduced their aid levels and formulated strong conditions in their aid

programs, while others have reduced their efforts to work through the central government and instead work more directly with local government. NGO's and communities or engage their own implementing agencies and consulting companies .

Dhungana (1994) raises issue of ineffectiveness of foreign aid to the people of the nation. She writes, "The foreign aid has been an ineffective factor in our process of development. It has led us to greater dependency. It might be a prestigious affair for the successive finance ministers to go on global trotting and global begging competition so that he can bring more large have been largely unaffected by all this get and five star hotel staged drama .

Paudyal (1992) analyzed the composition, sources, trends, sectoral distribution, aid utilization and typing of aid that received by Nepal as assistance during 15 years. The important issues that he raised in his article are; Firstly, Nepal's dependence of foreign aid is increasing and the influence of foreign aid is pervasive in Nepal's development. Secondly, composition of aid indicates a shift from grant to loans, there has been emerging. Thirdly, the sources of aid have changed clearly from bilateral to multilateral. Bilateral assistance is also gradually shifted from grant loan and. lastly there is a large gap between commitment and disbursement of with regard to the effects of aid. He concludes that foreign aid has substituted domestic saving, aid resources have not utilized effectively, aid is very much urban biased and it is serving the urban elites, politicians bureaucrats, commission agents and contractor .

Panta (1986) writes, the achievement of the foreign aided agricultural project has been particularly satisfactory reported statistics indicate ineffectiveness of various efforts that include heavy inputs of foreign aid and technical assistance. people are becoming increasingly skeptical about the effectiveness of external assistance in transferring appropriate technology so vitally required for agriculture development . the donors , in their effort to develop agriculture should endeavor to develop and transfer a technology that would best balance local relative cost ,market sizes, local skill and managerial ability, there is frequent mention about the appropriate technology which should maximize the use of unskilled labor and encourage saving on capital and other scarce goods . But in practice this has not appeared in most of these project" . In the case of transfer of technology ,he further writes, "innovative planning is essential in any attempt to accelerate the pace of agriculture development . this is because what is

applicable in developing poor countries, and a super-imposed technology is not readily acceptable to farmers. There are many experiences in developing countries which bear ample testimony to this fact. The cropping system programmer, which is currently being tried out with continual adjustments in technology as per the local realities is one of the examples in Nepal to show the positive impact of foreign aid in the development and transfer of appropriate agriculture technology, at least during the experimental stage."

Shrestha (1992) analyzed the relationship between foreign aid and inflationary pressure, he remarks that the money largely from external resources is in to the economy creating. So much of excess liquidity in the hands of a limited number of people that too much money seems to chasing too little goods and services, available in the market. If the external resources are priced appropriately and adequately with corresponding goods and services probably there will be no room for inflation, when such excessive liquidity runs against inadequate suppliers, the result would be obviously inflation and price rise. This is exactly the case we have been facing over the years. No matter whether there is political or not, so far as this aspect is concerned, there is virtually no change.

Acharya (1998) analyzed there has many fold increase in the quantum of aid flow to Nepal during this period; there has been some improvement in the physical & socio-economic indicators of Nepal. Number of hospitals & health posts has increased. Numbers of school teachers & students have also added up. It holds true in the case of the government supply of drinking water, irrigation, electricity & road access. Nevertheless, all these facilities remain quite beyond the reach of large mass of the people. One can definitely say except for irrigation, all of these infrastructures are almost exclusively urban concentrated, where rarely one-fifth of the population live. The estimation of the population living below the line of absolute poverty varies from two-fifth (Official) to the three-fifth. Thus, foreign aid in Nepal is said to have widened rather than narrowed, rural-urban, hill-terai & east-west & male-female social economic disparities. Despite so much pouring of foreign aid over half a century, relative standing of Nepal in the global community is successively heading towards the bottom. He further writes the causes of ineffectiveness of foreign aid in Nepal.

There are many reasons for being ineffectiveness of the foreign aid in Nepal. Lack of commitment from the government, donor's own strategic interest rather than

economic development, corruption, political interference in the bureaucracy that causes the frequent change of project manager, ineffective monitoring system are some of the important reason for ineffective of the foreign aid. There are so many reasons for being administration that it is to be accepted that Nepal has not been able to properly manage the available foreign aid.

Singh (1996) in his book writes the role of political position of the country receiving & the impact of foreign assistance. The unfortunate impact of foreign aid on long run prospects for the economy was paralleled by its equally unfortunate effects on Nepal's political position. The government of Nepal was in the worst financial condition of its modern history & was therefore heavily dependent on foreign agencies were to pay 94 percent of development expenses (i.e. expenses that appeared in the development budget) But as the minister of finance admitted, many items in the development budget were now normal recurrent costs and should have been in the regular budget .

Harka Gurung (1984) said that foreign assistance to developing countries related less with economic consideration but more with strategic and political implication economically developed countries to be externally oriented and most of the foreign agencies have had to rely on its own infrastructure before planning into aid programs. The poor domestic savings rate and resources to finance the development expenditure required the external assistance. Thus there is excess reliance on meeting government expenditure .

According to Sainju ( 1996) “while thinking about ways to increase the utilization rate of foreign aid in Nepal policy makers should realize that merely making arrangements to bring in more money to the country may not be sufficient. Rather than encouraging self sustaining growth, debts may force a country to suppress consumption and investment in the long run and to run trade surpluses to fulfill all debt obligations. Such actions may reduce the welfare of the citizens in the long run” .

Aryal (2008) has found an increased in foreign aid has effect on the GDP with 1% increae in real foreign aid cause the 2.92% 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 playing positive in GDP as well as HDI .

Paudel ( 2013) in his thesis found the close interlink of GDP with the Foreign Assistance .To compare the Chinese aid and Indian aid to Nepal, He used regression analysis in order to find the contribution of Indian Aid and Chinese Aid to the GDP of Nepal. From the regression analysis he found the beta coefficients 0.501& 0.716 respectively, The implication of this finding is that Chinese Aid has higher positive effect on Nepal's GDP as compared to Indian Aid at current prices .

Analyzing the previous studies in the case of foreign aid inflow in developing countries reveals that the studies have adopted descriptive techniques and analyzed the foreign aid. Economist have criticized the foreign on the ground that it is mostly concentrated on the development of modern sector and as the result it has increased the gap between the people living rural and urban area, also increase the income inequalities. The acceptance and use of foreign aid shall be governed by the principle of national interest. There are few literature found in foreign aid in the context of Nepal.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

This research is designed to assess the increasing volume of foreign aid inflow and GDP growth in Nepal. This study focuses on trend, magnitude and volume of aid, impact and role of foreign aid in Nepal. Data collected from different sources have been presented systematically by used the descriptive, quantitative and analytical research design.

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

This study is based on secondary data. Required data have been collected from various publication like, Central Bureau of Statistics, Nepal Rastra Bank, National Planning Commission, Ministry of Finance, Economic Survey, Budget speech and various plan documents of Nepal . Besides these information has been also collected from various articles, journals magazines newspapers, official and unofficial books and other reliable sources.

#### **3.3 Tools of the Study**

The study attempts to show the relationship between foreign aid and Gross Domestic Product (GDP) growth in Nepal. To measure the contribution of foreign aid comparative table and figure has been used.

## **CHAPTER IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 TREND OF FOREIGN AID IN NEPAL**

##### **4.1.1 HISTORY OF FOREIGN AID IN NEPAL**

The history of foreign aid in Nepal begins with the signing of an agreement with the United States of America under its 'point four program' in 1951. Since then, the United States had provided technical assistance as well as capital aid in order to help implement projects in virtually every sector of economy. Agriculture, education, health and transport were the major areas that had been benefited from US assistance. In addition to, US assistance had also been utilized in various institution-building and manpower development activities. India became a donor of aid to Nepal at about the same time as the United States, although a formal agreement concerning economic assistance was not signed until 1954. Before this agreement, India had already started assisting Nepal in transport. After the agreement India has also helped Nepal in many field of economic and social development. Some of the major areas where Indian aid had been utilized are transportation, hydropower, irrigation, agriculture horticulture and telecommunications. A very significant part of Indian aid has been in the form of training facilities in various technical fields. Foreign aid from china began in 1956, Chinese assistance are mainly utilized in road construction, establishment of import substituting industries. China is also providing technical assistance for human resource development.

The first plan was introduced in Nepal mainly as a response to the requirement of the Colombo plan consultative group meeting which Nepal attended as a full fledged member for the first time in 1955. The increasing demands of the country and the growing ambition of the countrymen required increased assistance for economic development. Foreign aid has covered many fields like agriculture, poverty alleviation, emergency relief, family planning and various training programs and expert services for social-economic development in Nepal, therefore, foreign aid transmits not only money but also ideas, values and technologies.

#### **4.1.2 RESOURCE GAP IN NEPALESE ECONOMY.**

The resource gap is defined as total budgetary expenditure less the resource mobilized internally. When a country is spending more on investment and government expenditure than its earnings from the resources released through private saving & taxation, there will be a resource gap within the economy. The resource gap creates the problem of the balance of payments and foreign exchange gap. Nepal has been experiencing a deficit budget system and this has supported the growing resource gap.

According to Gunanidhi Sharma (1998), Nepal faces the problem of a resource gap that is increasing over time. It is mainly due to:

- i) A traditional nature of the tax administration.
- ii) A centralized system of governance.
- iii) The existence of donor's interest in aid supply.
- iv) A less generous economy and a slow change in the traditional structure.

Deficit financing does not provide a viable long-term solution because of its destabilizing effect on the economy. Therefore greater stress must be placed on the mobilization of domestic resources for financing the development efforts of Nepal. The following table shows the growing financial resources crisis in Nepal from FY 2000/01 to FY 2012 / 13.

Table 4 .1  
**Resource Gap in Nepalese Economy**

(Rs. in Million)

<b>Fiscal year</b>	<b>Total Expenditure</b>	<b>Actual Revenue</b>	<b>Resource Gap</b>
2000/01	79835.1	48893.6	30941.5
2001/02	80072.2	50445.5	59626.7
2002/03	84006.0	56229.8	27776.0
2003/04	89442.6	62331.0	27111.6
2004/05	102560.4	70122.7	32437.7
2005/06	110889.2	72282.1	38607.1
2006/07	133604.6	87712.1	45892.5
2007/08	161349.9	107622.48	53726.52
2008/09	219662.0	143474.49	76187.51
2009/10	227107.32	177991.87	49115.45
2010/11	257495.40	198376.32	59119.08
2011/12	294850.72	244374.10	50476.6
2012/13	302053.89	296021.15	6032.74

(Source: - Various issues of economic survey, MOF)

The above table 4.1 shows the trend of resource gap in Nepalese economy which is growing up. Due to the increase in total expenditure when the actual revenue, the resource gap widening year by year. In FY 2000/01 the initial resource gap was Rs. 30941.5million. It reached to Rs. 6032.7 million in FY 2012 /13. To fulfill this resource gap the foreign aid is considered as an important instrument in the economic development.

#### **4.1.3 TOTAL FOREIGN AID INFLOW**

Nepal began to receive foreign aid since 1951/52. The size of aid flow began to expand steadily after 1956. The important factors responsible for a marked increased in aid receipts were firstly, Nepal's expanding international relations increased and diversified the source for aid, secondly, the introduction of development plan helped it to rationalize cold war and feeling of the competition among some donors pushed up the level of aid. Nepal receives foreign aid either grant or loan.

The following table shows the total foreign aid inflow in Nepal from FY 2000/01 to 2012 /13.

Table 4. 2  
**Total foreign Aid Inflow in Nepal**

(Rs. In Million)

<b>Fiscal Year</b>	<b>Grant</b>	<b>Grant in Percentage</b>	<b>Loan</b>	<b>Loan in Percentage</b>	<b>Total foreign Aid Inflow</b>
2000/01	6753.4	35.9	12044.0	64.0	18797.4
2001/02	6686.2	46.5	7698.6	53.5	14384.8
2002/03	11339.1	71.4	4546.4	28.7	15885.5
2003/04	11283.4	59.66	7629.0	40.34	18912.4
2004/05	14391.2	60.83	9266.1	39.17	23657.3
2005/06	13827.5	62.73	8214.3	37.27	22041.8
2006/07	15800.8	61.11	10053.5	38.89	25854.4
2007/08	20320.7	69.35	8979.90	30.65	29300.6
2008/09	26382.80	72.58	9968.90	27.42	36351.7
2009/10	38546.00	77.45	11223.4	22.55	49769.0
2010/11	45922.2	57.00	12075.6	43.00	57997.80
2011/12	40810.3	60.00	11083.1	40.00	51893.40
2012/13	35229.8	74.64	11969.4	25.36	47199.2

(Source: Various issues of Economic survey, MOF,GON)

The above table 4.2 shows the grants and loans received in different fiscal years from 2000/01 to 2012/13. In the FY 2000/01, percentage of total aid consists of grant aid 35.9 % only, but in the FY 2012/13, percent of total aid consists of grand aid 74.64%. In the FY 2000/01 percent of total foreign aid consists of loan 64.0%, but in the FY 2012/13 percent of total foreign aid consists of loan 25.36% .This shows that foreign grant is increasing but foreign loan is decreasing as shown in above table.

Though Nepal received foreign assistance from different sources, multilateral as well as bilateral, Nepal has not been able to give the good performance in utilizing them. The increasing portion of loan in the composition of total foreign aid justifies this. Monitoring & evaluation of foreign aid has also not been systematic.

#### 4.1.4 SOURCES OF FOREIGN AID

Prior to 1955, due to the several reasons, including the die exposure, donors to Nepal were inconsiderable. India and USA dominated the entire scenario of aid, the increase in the number of donors since 1956, not only from numbers of sources, but also from heterogeneous economics systems. Nepal began to receive aid from bilateral sources and multilateral sources since the early sixties. The Bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of USA, GTZ of Germany, FINIDA of Finland, JICA of Japan, DANIDA of Denmark, SDC of Switzerland, and Government of India, China, UK, France, Australia, Newzealand, Austria, Netherland, Belgium etc. Multilateral donors include the international agencies like World Bank (WB). Asian Development Bank (ADB), International Monetary Fund (IMF) and the UN agencies like UNDP, FAO, WHO, UNESCO, UNFPA, UNHCR, UNV etc. There exist one more sources of foreign aid namely International non-government organization as CARE, UMN and International Nepal Fellowship. The following table shows the foreign aid from bilateral and multilateral sources.

Table 4. 3

#### Foreign Aid from Bilateral and Multilateral Sources

(Rs. In Million)

Fiscal Year	Bilateral aid	Multilateral aid	Total aid	% of Bilateral Aid in total	% of Multilateral Aid in total
2000/01	2771.2	16026.2	18797.4	14.74	85.26
2001/02	4675.3	9709.5	14384.8	32.50	67.49
2002/03	10044.4	5841.1	15885.5	63.23	36.77
2003/04	9013.2	9899.2	18912.4	47.66	52.34
2004/05	9230.8	14426.5	23657.3	39.01	60.98
2005/06	7658.4	14383.3	22041.8	34.74	65.26
2006/07	16406.4	9447.9	25854.3	63.46	36.54
2007/08	10207.7	19092.9	29300.6	34.83	65.17
2008/09	9333.1	27018.6	36351.7	25.67	74.33
2009/10	22901.5	26867.9	49769.4	46.01	53.99
2010/11	25850.4	32147.3	57997.8	44.57	55.43
2011/12	32087.7	19805.7	51893.4	61.83	38.17
2012/13	26009.7	21189.6	47199.2	55.10	44.90

(Source: Compiled from various issues of Economic survey. MOF)

The above table 4.3 shows that the bilateral and multilateral sources of aid and their respective proportion in the total aid inflow in Nepal. The percentage of bilateral aid to the total aid is constantly decreasing with some fluctuations. But, on the other hand, the proportion of multilateral aid is constantly increasing to the total aid inflow. In the FY 2000/01 the total aid remain Rs. 18797.4 million in which bilateral aid is Rs. 2771.2 million and multilateral aid is Rs. 160.26 million. But in FY 2012/13 total aid amount to Rs. 47199.2 million in which bilateral aid is Rs. 26009.7million which is 55.10% of the total aid and multilateral aid Rs 21189.6 Which is 44.90% of the total aid.

#### **4.1.5 FOREIGN AID COMMITMENT AND DISBURSEMENT**

Most to the developing countries who received foreign aid have unable to utilize to total committed aid or they have very low absorptive capacity. The existing state of government finance clearly reflects its gradual weakening over the years. Due to in sufficient mobilization of internal resources, these occurred a rapid growth in debt servicing obligations commensurate with the increase in foreign aid. The obligations of the payments of foreign debts and interest exceeded the rate of gross government revenue earnings. Although there were substantial increases in foreign aid commitments, due to a low disbursement ratio, there was a big increase in non-disbursed amounts. Due to delay in timely implementation of the projects, there has been inefficiency in the disbursement of committed amounts of foreign aid. The main cause of the shortfalls in disbursements is the time lag because of aid for the many projects are committed in one year and committed aid is being disbursed in subsequent years. As the returns from the investment in the economy were not obtained in time the foreign assistance too could not be fully utilized owing to the inability to sustain the counterpart expenditure. The following table shows the status of foreign aid commitment and disbursement.



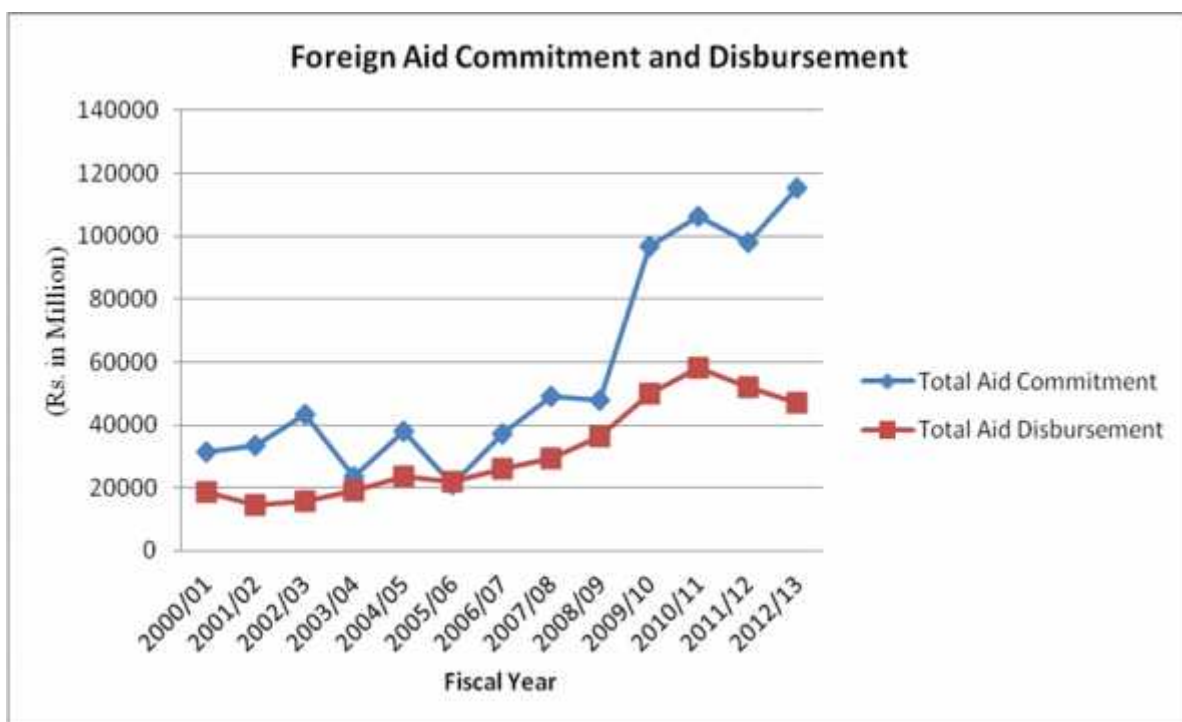
Table No 4.4  
**Foreign Aid Commitment and Disbursement**

(Rs. in Million)

Fiscal Year	Total Aid Commitment	Total Aid Disbursement	Disbursement of % Commitment
2000/01	31287.00	18797.40	60.08
2001/02	33227.70	14384.80	43.29
2002/03	43202.70	15885.50	36.77
2003/04	23738.00	18912.40	79.67
2004/05	38152.30	23657.30	62.00
2005/06	20924.20	22041.80	105.34
2006/07	37022.90	25854.40	69.83
2007/08	49186.20	29300.60	59.57
2008/09	47975.2	36351.70	7.75
2009/10	96609.00	49769.40	51.51
2010/11	106096.7	57997.80	54.66
2011/12	98178.7	51893.4	66.23
2012/13	115156.8	47199.2	40.98

(Source: Compiled from various issues of Economic survey)

Figure 4.1



(Source: Based on the table 4.4)

From the table 4.4 and trend line plotted in figure 4.1, can be seen that the total commitment of aid, total disbursement of foreign aid and disbursement as a percentage of commitment. In FY 2000/01 60.08 percent of the total commitment aids were disbursed, where total commitment was Rs. 31287.00 million but only Rs. 18797.40 million was disbursed. In the FY 2012/13, Rs 47199.2 million was disbursed including bilateral and multilateral grant and loan, where total commitment was Rs. 115156.8 million. The fluctuation of aid commitment and disbursement shows the poor performance in the foreign aid absorption capacity of Nepal. Donors seek to provide the assistance in their own priority on installment basis and they also observe the first performance in implementing the projects in different sectors. If they do not find good performance of foreign aid utilization they will not disburse the wholly committed aid, some projects often show the negative impact in society & they even stop to provide the aid in such cases. Also committed amount are not disbursing due to highly centralized decision making process, rigidity in terms of financial rules and regulation, delays in hiring stuffs including consultant, weak negotiating power, political instability.

#### **4.1.6 BURDEN OF FOREIGN AID**

The foreign aid from loan generates the burden to the future generation of the recipient country like Nepal. If the productivity of the economy doesn't increase with the inflow of foreign loan, the country may be eventually falling in debt trap. The fundamental case for soft loans is that low income countries with large population low productivity as a consequence of low levels of education and skills and perhaps relatively poor natural resources as well require a relatively long period of net resource inflow in order to assist them in making structural changes which are essential to sustained growth. Debt servicing of foreign loans entails double burden. First, debt servicing has the primary claim upon the allocation of national budget to the extent priority economic activities such as irrigation; drinking water, health, education, road and electricity are deprived of resources, the foreign exchange. It curbs the capacity to import more useful things such as medicine, books, machinery and capital goods etc. This impacts the long run potential of the rational economy.

Though Nepal has been borrowing external capital only since the early 1960s, debt servicing began only in the late 1960s. A few government-guaranteed loans were carrying comparatively higher rate of interest and a few other direct loans were not matured until the mid-1970s. Nepal's debt servicing burden was reduced to some extent by the conversion of some loans into grants. Although Nepal has been receiving foreign loans with very low rate of interest and the time of maturity period i.e. from 25 to 40 years, the debt dynamic has been growing consequently. The following table shows the glance of foreign loan and debt servicing situation.

Table 4.5  
**Foreign Loan and Debt servicing**

(Rs in million)

<b>Fiscal Year</b>	<b>Net Outstanding Debt</b>	<b>Repayment</b>	<b>Interest Payment</b>	<b>Total Debt Service</b>
2000/01	200404.4	4500.6	1700.8	6201.4
2001/02	220125.6	4751.3	1816.1	6567.4
2002/03	223433.2	5496.2	2021.7	7517.9
2003/04	232779.3	5765.8	2141.8	7907.6
2004/05	219641.9	5953.2	2146.8	8100.0
2005/06	233968.8	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	12494.00
2009/10	256242.3	10743.0	2458.1	13201.1
2010/11	259551.8	12218.1	2321.9	14540.0
2011/12	309287.1	13532.4	2830.8	16363.2
2012/13	333441.5	14190.1	3003.2	17193.3

(Source: Various issues of Economic survey)

The above table 4.5 shows the foreign loan and Debt servicing in FY 2000/01 to FY 2012/13. In FY 2000/01 the net outstanding debt was only Rs. 200404.4 million, repayment was Rs. 4500.6 million and total debt servicing was Rs. 6201.4 million. In FY 2012/13 the amount of net outstanding debt was Rs. 333441.5 million, repayment was Rs. 14190.1 million and an interest payment was Rs. 3003.2 million.

#### **4.1.7 Sector wise Disbursement of Foreign Aid in FY 2012/13**

In the FY 2012/13 the total volume of foreign aid disbursement was 47199 million. In which multilateral Assistance was 21189 million, bilateral Assistance was 26009 million. The following table presents foreign aid disbursement for FY 2012/13 in the top five sectors on Foreign aid is concentrated for the FY 2012/13 .

Table 4.6  
**Sector wise Disbursement of Foreign Aid in FY 2012/13**  
(RS In Million)

S.No	Sector	Aid volume
1	Education	14072.16
2	Health	12851.43
3	Local Development	11829.50
4	Road Transportation	10873.39
5	Energy	90732.11

(Source: MOF, IECC Division Nepal)

The above Table 4.6 shows the top five sectorwise disbursement of foreign aid is concentrated on the FY 2012/13. In which Education sector RS 14072 Million has been disbursed, for the health sector Rs 12851 million has been disbursed,. Local Development sector Rs 11829Million has been disbursed,, Road Transportation sector Rs 10873Million has been disbursed,, Energy sector Rs 90732 Million disbursed .

## **4.2 STRUCTURE OF FOREIGN AID IN NEPAL**

### **4.2.1 Structure of foreign aid by bilateral and multilateral sources**

#### **4.2.1.1 Contribution of some major bilateral assistance to Nepal**

##### **Indian Assistance to Nepal**

India has been one of the major suppliers of aid to Nepal. The first category of aid supplied by India was in the field of transport development. The Tribhuvan Highway, the first high way of the country, was built in 1954 with the Indian assistance. The India assistance covered almost every sector of the economy such as transport, civil aviation, irrigation, hydropower, and drinking water, and health, development of industrial estates, communication education agriculture and livestock.

##### **Chinese Assistance to Nepal**

China is another neighboring country. Nepal's economic relations were mainly with Tibet in the ancient time but through Tibet, economic links were maintained with China. The diplomatic relation of Nepal with China was established in 1955 and foreign aid from China began in 1956 after the visit of the prime minister of Nepal to China. Aid from China is inspired from establishment of import substituting industries and road construction. Road networks like Prithivi Highway, Gorkha Narayanghat Highway, Pokhara Baglung Highway, Kathmandu ringroad and Kathmandu Bhaktapur Trolley Bus services were constructed under Chinese assistance. Harisiddhi Brick factory, Integrated Textile Mill, Bansbari leather and shoe factory, Sunkoshi Hydro Electricity Plant etc. were built under the Chinese assistance. Not only that Araniko Highway linking Kathmandu to Tibet was constructed by Chinese government. Pokhara Water Conservation and Irrigation project has been completed under Chinese assistance. Construction of Canal system, Irrigation System and Electricity generation was done in this project.

China is also providing technical assistance for human resource development particularly in the field of medical science. The establishment of B.P. Koirala Memorial Cancer Hospital with Chinese medical team in Chitwan is the example of Chinese assistance in the field of medical science. The Rastriya Shava Griha and the Birendra International Convention Center were also constructed under Chinese assistance. Apart from this Chinese machinery and manufacturing companies, a subsidiary of Chinese government, have been providing credit on deferred payment basis to various industries to both public and private enterprises, China has been

providing provision of few scholarships for higher education annually for Nepalese students.

### **UK assistance to Nepal**

The assistance from UK appeared only in the early sixties. Although Britain was the only European country having Nepal's diplomatic relationship during the Rana Period. Britain like other countries has also contribution in transport and communication. The construction of Jogbani Dharan road (49km), Butwal-Narayanghat road (122km), Dharan-Dhankuta road (42km) and a hill road from east-west Highway at Charali to Ilam. UK has assisted in installing thermal power stations in Bhaktapur, Patan, Kathmandu, Dharan and Hetauda. Establishment of Budhanilakantha school and Koshi Hill area Rural Development Project covering Bhojpur, Shankhuwasabha and Terhathum districts was also financed by UK with a view to develop these districts in an integrated manner in areas such as health, education, drinking water, agriculture ect. In 1997/98 Nepal received sterling pound 15 million of British aid.

### **Japanese assistance to Nepal**

In recent years, Japan has been the largest bilateral development partner of Nepal. In the past, Japan has supported in programs like agriculture development program in Janakpur zone, drinking water project in Tansen and Kathmandu valley and tuberculosis hospital in Kathmandu. She was also co-financer in Kulekhani hydropower. The Government of Japan has also provided a grant assistance of Rs. 1293.86 million for the construction of Nepalthok-Dhulikhel section of Sindhuli road. Japan has also provided a soft loan equivalent to Rs. 8677.9 million for the implementation of the Kali Gandaki 'A' hydroelectric project. The project is expected to be completed by January 2001. The total estimated cost of project is US\$ 453 million.

### **U.S.A. Assistance to Nepal**

U.S. is the first country to provide financial assistance to Nepal and for a decade its contribution was in such a high proportion that its assistance amounted almost 60-76 percentage of the development budget. Rural development, agriculture (research and extension), education population and health, forestry, natural resources, conservation and manpower development are key sectors of U/S. assistance. The malaria eradication program in Nepal provided by US produced tangible impact in the socio-economic life of the people. USA extended aid in health

services including the family planning and rural development project. USA has been involved in the construction of roads including 8.3 km long Rapti Valley road connecting Hetauda with Bharatpur and Raxual to Bhainese. The construction of Hetauda Kathmandu Ropeway (26km) was also financed by the USA. USA also provided assistance to establish the Tribhuvan University and Institution of Agriculture and Animal Science in Rampur of Chitwan district.

On bilateral basis, US grant assistance since 1980 is in the range of US\$ 16 million in the form of training, equipment, expert services and program cost financing. In addition, US also shares in contribution through multilateral channels like IDA, ADB, WB, and UN specialized agencies.

### **German assistance to Nepal**

Co-operation between the two countries was initiated in 1961 in the form of technical assistance for the establishment of Technical Training Institution at Thapathali. This was followed by the soft loan to NIDC in 1964. Germany is one of the major bilateral donors of Nepal. Nepal established diplomatic relation with Germany in 1961 and foreign aid from the Germany began after 1961. Germany provides all cooperation in the form of grants in recent days. Germany provided capital for Agriculture Development Bank of Nepal. Himal Cement Factory at Chobhar and Bhaktapur Development Projects are other examples of Germans assistance. Germans are active in Churia Forestry Development project, Small farmer's development projects, Reproductive Health and Primary health care projects.

### **Other**

Switzerland, Denmark, Finland, Norway, Israel, South Korea, France, Spain, Italy are a few other countries that are helping Nepal in its development activities.

#### **4.2.1.2 Contribution of some major multilateral assistance to nepal**

##### **World Bank**

The world Bank Group, consisting of IBRD, IDA, IFC and MIGA are the major multilateral donors of Nepal. The main objectives of multilateral agencies are to raise the standards of living in developing countries by channeling financial resources from developed countries to the developing countries. Various socio-economic sectors like Agriculture and Irrigation, Energy, Telecommunication and Highway, Education, Industry, Urban Infrastructure and water supply and industrial



adjustment are the prime sectors which have got the top most priority from the multilateral agencies.

Rural water supply and Sanitation Project is undertaken by IDA with the objectives of providing sustainable health benefits to rural population through improvement in the water supply and sanitation facilities. It will also improve rural real income by assisting rural women to identify the ways to earn income by saving time spent in of carrying water from long distance. World Bank has assisted to operate many projects in Nepal. Sunsari Morang Irrigation projects. Urban Water supply and sanitation. Mahakali Irrigation projects. Engineering Education Project. Basic and Primary Education project Higher Education projects. Power sector Efficiency project. Population and family Health project. Toad maintenance and rehabilitation project and Hill Community Forestry project are the major projects operated under the assistance of World Bank.

### **Asian Development Bank**

Asian Development Bank (ADB) was established in December 1966 with a view to stimulating international co-operation and particularly the regional co-operation to bring about faster economic growth in the Asian region. ADB provides loan in two ways, through ordinary operation and are financed through various special funds such as Technical Assistance Capital Funds, Asian Development Fund and Agriculture special fund.

The overall objective of the Bank's strategy in Nepal is to promote poverty reduction by stimulating broad-based labor absorbing economic growth. It focuses on high growth projects like agriculture, tourism, physical infrastructure and strengthening macroeconomic management. ADB also works to enhance co-ordination among donors.

### **UN Group**

The assistance provided by the UN to Nepal has been no less important. Economic and technical cooperation from the UN to Nepal started in early 1960s. UNDP is the principal funding organization within UN system.

## Others

IFAD, European Union, ILO, almost all the specialized agencies of UNO are the other multilateral donors to Nepal. In addition there are many INGOs which are actively participating in the development efforts of Nepal. These are as follows:

Action Aid, CARE, Communication Cultural Promotion Foundation, International Nepal fellowship, Lutheran world federation, plan international, save the children/USA save the children U.K. Norway Asia foundation, United Mission to Nepal, DANIDA, JICA etc.

In this way we come to the conclusion that either it be bilateral donor agency or be a multilateral donor agency or be an INGOs these have no less importance in the development process of Nepal.

### Different Donors with Sector Wise Involvement

Donors	Dated	Sector
ADB	1969	Social (Education, Drinking Water), Transport (Road & Air transport), Water Resources (irrigation, Hydro Power, Electricity Transmission), Agriculture (Cotton, Livestock, Horticulture, Agri - Credit, Institution Building), Forestry and Industry.
EEC	1982	Social (Drinking water, Sewerage), Agriculture (Credit, Training, Livestock, Crop, Storage), Water Resources (Hydro Power, Transmission, Irrigation, Watershed), Commerce, Local/Rural Development, Institution Building.
IFAD	1997	Agriculture, Water Resources (Irrigation), Forestry, Others (Rural Development) etc.
IMF		Monetary, Economy
Kuwait Fund	1976	Water Resources (Hydropower)
OPEC FUND	1977	Social (Education), Water Resources (Hydropower & Irrigation), Transport (Road and Air Transport), Balance of Payment, Commodity Grants.
SDF	1983	Water Resources (Hydropower, Irrigation), Transport (Road Transport), Other (Food Assistance).

UNDP	1960s	Social (Education, Health, Drinking Water), Forestry, Agriculture, Industry, Water Resources (Hydropower, Irrigation), Transport (Road and Air Transport), Other (Institution Building, Decentralization, Policy Support)
UNFPA	1970	Social (Health, Population)
UNICEF	1960	Social (Health, Drinking Water, Institution Building)
WHO	1954	Social (Health, Drinking Water, Institution Building)
WB	1969	Social (Education, Drinking Water Supply, Settlement), Agriculture (Extension, Resources, Crop, Institution Building, Storage), Water Resources (Hydropower, Irrigation), Transport (Road), Industry (Credit, Institution Building), Forestry, Other (Rural Development).
Australia	1979	Health, Education, Air Transport, Forestry, Institution Building and Rural Development
Austria	1981	Drinking Water, Restoration of Archaeology Monuments, Small Hydropower
Belgium	1982	Telecommunication
Canada	1971	Health, Education, Air Transport, Agriculture, Rural Development
China	1956	Health, Sport, Road, Industry, Commerce, Hydropower, Irrigation
Denmark	1980	Education, Health, Forestry, Dairy, Livestock, Telecommunication, Irrigation, Domestic Institution Development
Finland	1982	Health, Education, Industry, Power, Forestry, Livestock, Seed, Institution Building, Local Development, Structural Adjustment, Advisory Service
India	1951	Health, Education, Drinking Water, Hydropower, Irrigation, Road, Air Transport, Industry, Horticulture, Veterinary, Telecommunication and Postal
Italy	-	Through EEC only
Japan	1960s	Water Supply, Education, Health, Horticulture, Sericulture, Fishery, Store, Institution Building, Road, Radio, Commodity Assistant, Telecommunication, Hydropower, Electricity, Distribution
Netherlands	1976	Health, Earthquake Relief, Road, Forestry, Local

		Development, Bio-gas, Bee-keeping
Norway	-	Through Multilateral Agencies
Switzerland	1956	Education, Resettlement, Health, Dairy Cheese, Veterinary, Road, Small-Hydropower, Forestry, Local Development
United Kingdom	1961	Education, Health, Water Supply, Storage, Tea, Institution Building, Road, Air Transport, Forestry
USA	1951	Education, Health, Institution Building (Agri), Forestry, Irrigation, Local Development, Economic Liberalization, Democratic Institution Building
Former USSR	1959	Education, Road, Industry

(Source: MOF, Donors Profile, 1996)

#### 4.2.1.3 Multilateral and Biletral foreign aid in Nepal

The following table shows the Multilateral and biletral foreign aid inflow in Nepal

Table 4.7  
Donor group Multilateral foreign aid in Nepal

(RS in million)

S.N	Donor group	Actual Disbursements FY2010-11	Actual Disbursements FY2011-12	Actual Disbursements FY2012-13
1	World Bank	256113.102	269605.647	231404.440
2	Asian Development bank	184419.986	193400.498	101204.607
3	European Union	42384.482	43974.932	28066.696
4	Saudi Fund	1141.351	-	798.696
5	Nordic Development Fund	2943.806	-	-
6	UN	112543.336	108169.072	68661.608

(Source :Development cooperation report FY2012-2013)

The above table 4.7 shows different Donor groups Actual Disbursements (FY2010- FY2013) of foreign aid in Nepal. World Bank Actual Disbursements inFY2010-11 is RS.256113.102million but Actual Disbursements in FY2012-13 is RS 231404.440 millon. Likewise, UN Actual Disbursements inFY2010-11 is RS. 112543.336 million but Actual Disbursements in FY2012-13 is RS 68661.608 millon.

Table 4.8

**Donor Group Bilateral foreign aid in Nepal**

(Rs in million)

S.N	Donor group	Actual Disbursements FY2010-11	Actual Disbursements FY2011-12	Actual Disbursements FY2012-13
1	USAID	48450.255	22487.717	67196.696
2	UK	92612.422	84240.019	89989.120
3	Japan	58691.311	44090.184	65759.647
4	India	50728.502	50620.749	63813.269
5	Switzerland	27632.405	33417.302	41767.109
6	China	18843.988	28344.923	34120.033
7	Finland	22153.680	13242.353	6470.909

(Source :Development Cooperation Report FY 2012-2013)

The above table 4.8 shows the different donor groups Actual Disbursements (FY2010-FY2013) of foreign aid in Nepal. USAID Actual Disbursements in FY2010-11 is RS. 48450.255million but Actual Disbursements in FY2012-13 is RS 67196.696 millon. Likewise, Finland Actual Disbursements inFY2010-11 is RS. 22153.680 million but Actual Disbursements in FY2012-13 is RS 6470.909 millon.

**4.2.1.4 Technical Assistance**

Technical assistance is one of the major but sensitive forms of international aid. The OECD defines technical assistance as an addition to the flows which qualify as official development assistance and which comprises grants (and a very small volume of loans) to nationals of developing countries in the form of higher education technical training at home or abroad for the teachers, also implies financial support to institutions both in the donor and the recipient countries for researcher and training related development.

The supply of technical personnel or training to the nationals of developing countries is another important dimension of foreign aid objectives. The absorptive capacity of the developing countries is constrained by the lack of technological know how, which hinders the process of breaking the socio-economic constraints to development. Technical assistance, though a product of the early forties, was pursued more vigorously after the Second World War. In some sense it was

considered nothing but an investment in human capital formation required for attaining the postulated growth rate. In the period preceding the Second World War, which emancipated many colonized countries, technical assistance was merely motivated by the paternalistic consideration of the colonial power to retain its dominance over the colonies.

In supplying the possessed stock of technical know-how and knowledge, it was the United States, which took the lead in the late Forties. It was first country to propose a technical assistance program in both general and particular sense. In the general sense the first technical assistance was introduced in the early 1940s with its training programs first in technical assistance was introduced in the early 1940s with its training programs in agriculture, health and education for Latin America. In the specific sense technical assistance emerged from the US President Truman's inaugural address of the point Four Doctrines in 1949. And as stated in the "point Four Program" the first method of aiding economic development is a problem in "know how".

The transfer of technical know-how from developed to the less developed countries has been for the economic reconstruction of many latter countries. Nepal through escaped colonial rule but was subservient to the interest of the colonial power largely urged by the geo-political situation and to a lesser extent by the faulty policy of the rulers. The infusion of modern technology as from of aid began in the mid forties but it reappeared on a formal and regular basis only after the political change of 1951.

There are broadly two types of technical assistance (i) Free standing technical assistance and (ii) Project-related technical assistance. In regard to the former, many donors have increased the local component in sourcing such assistance. Through increased recourse to local talent and expertise, technical assistance helps to build the capacities of local institutions and personnel, in addition to providing financial support to the country. However, this process has further to go, and donors will be encouraged to hire local resource wherever possible for free standing technical assistance to build up local institution and technical capacities.

USA was one of the first countries to provide technical assistance to Nepal. The early policy of the US government to support the Rana Government did arouse sufficient anti-US attitude in the immediate post-Rana period but the government of

United States later accommodated the changed circumstance in Nepal. It was the change in political atmosphere that both Nepal and United States signed a point four program on January 23, 1951. And exactly one year later i.e. on January 16, 1951, the US headquarters for Technical Cooperation Mission to Nepal were established. For the first few years, in 1950-54, the US supplied only technical assistance in the form of technical cooperation were also extended. These were commodity, contract services, training and other costs.

After the political change of 1951, then the government also requested the government of India for technical assistance in drawing up rules of producers for the new administrative set-up. Technical assistance was made available from some other countries as well after Nepal participated as a full member of Colombo plan consultative committee in March 1952. Since Nepal obtained membership of United Nations in December 14, 1955, it has been receiving some economic assistance and technical advice from a number of UN agencies. With the expansion in diplomatic relation in the fifties and sixties, the volume of technical assistance also increased rapidly.

Because of the relatively poor institutional, economic and technological base of Nepal in fifties and sixties, any form of aid received for implementing development project had to be accompanied by technical assistance. Technical assistance thus became an integral part of economic assistance to Nepal. It also became the major form of aid objectives of the donor country. The urgency of technical assistance for Nepal can be realized by constraints posed by the absence of technical assistance for implementing the industrial projects. The 1960 agreement "at request between the government of the people's Republic of China and government of Nepal states that China agrees to dispatch necessary number of experts and technical help to the kingdom of Nepal in the construction of the items of aid to be specified under the present agreement as per the request of Nepal government.

Apart from those major donors, a number of OECD members such as Switzerland Great Britain, Japan, West Germany, France, Australia and Canada as well as the United Nations agencies also provide technical assistance in the form of advisors, training and education to Nepal, due to paucity of facts and figures about technical assistance regarding the costs nature and magnitude, it still hidden under the shadow of financial and economic aid. Especially in the case of Nepal, the study

on technical aid would be rather incomplete. Here again the problem is that of the unavailability of facts and figures.

A look at the description of technical aid (MOF, 1998) reveals that the biggest donor, Japan, enlists only projects, not the quantum corresponding to each of the project. Forest, environment, health and transport seem to be the major focus of Japan's Technical Assistance (TA) to Nepal. United Kingdom's assistance is geared more to education followed by administration reforms. Over 90% of the US technical aid is related to empowerment of the private sector. Environment and governance constitute over four fifth of the Danish TA to Nepal. Norwegian TA to Nepal is exclusively directed to the implementation of local governance. Food for work constitutes the centerpiece of German TA. Among the bilateral donors, it is Australian TA, which covers large number of projects ranging from women empowerment to specific loop development. Canadian TA is more focused on water resources development. Among other bilateral donors Dutch TA is concentrated towards forestry research, Austrian in tourism, Chinese in transport and Finish in topography (CPWF, 1998).

Multilateral donors of Nepal can broadly be classified into the UN system finical institutions and the INGOs. The UNDP, ILO, WFP, FAO, UNFPA, and WHO are the major UN agencies supporting the development efforts in Nepal. Of all the institutions, UNDP has the largest of TA in Nepal, covering activities such as, capacity building, micro enterprises and data system and bio-diversity conservations. In terms of amount allocated local development and local governances forms the largest component, followed by bio-diversity conservation, advisory service, parks and peoples, and micro-enterprise development. Abolition of Child Labor and employment for women are the main components of ILO support.

#### **4.2.2 Foreign Aid in the Development Expenditure of Different Plans in Nepal**

Development plans became popular among the underdeveloped countries since the Second World War, while they are still being viewed with some suspicion as an instrument of socialism in the donor countries. Although planning and development plans are now almost universally recognized as essential in promoting growth and the efficient in promotion of resources, there is considerable debate regarding the value of certain types of plans and great skepticism regarding value of money of the plans that have been formulated.



During the Rana Regime (1846-1951), no serious attempts were made for initiating economic development on a systematic basis except a couple of initiatives. In 1935, a development agency was constituted by the name of UDYOG PARISHAD (Development Board.) The Development board soon followed by a host of specialized development agencies. In process of planning in Nepal, a 20-year plan framed by Juddha Shamsheer, a 15-year program of development framed by National planning Committee in 1949, institution of planning sub committee in 1953 etc. were the previous steps taken by the Nepalese Government to formulate development process in planned way. But these steps were confined only in paper. However, government became successful in implementing smooth planning procedure from 1956.

The successful implementation of the planning depended on foreign aid because foreign aid is taken as an important source of GON resource in different plan periods. Different development projects as well as procedures are generally incorporated and guided by foreign donors. But the problem of defining foreign aid became more acute as different donors used to assist in different fields and as an attempt was made to compare aid from different countries. Here in this study, a foreign recourse provided with the purpose of developing recipient's economy is understood as foreign aid.

Foreign aid has played the important role in the implementation of different plans Foreign aid has flown in a smooth way only with the first plan period. In early years, Nepal was not at a position even to run its administration without any foreign aid. The economic plan in Nepal may be said to have taken some formative shape only towards the end of 1955, when the draft outline of the Five Year Plan was announced. It is believed that the Draft Plan was also prepared primarily for its being incorporated in the Colombo Plan, when Nepal attended its Singapore Session on October 17, 1955 as a full-fledged member country. It took about a year when at last the final draft of the Five Year Plan was announced on September 21, 1956. "Between" 1956-2007 Ten Periodic Plans been implemented and the Three Years interim Plan (2007-2010) is being implemented. The priority sectors of different plans seem to be different. The share of foreign aid and development expenditure in different plan is shown as following.

**Table 4.9**  
**Share of Foreign Aid in Development Expenditure in Different Plans**  
(Rs in million)

<b>Plan Period</b>	<b>Development Expenditure</b>	<b>Foreign Aid</b>	<b>% of foreign aid in Development expenditure</b>
1 <sup>st</sup> Plan (1956-61)	382.9	382.90	100.0
2 <sup>nd</sup> Plan ( 1962-65)	614.7	478.30	77.80
3 <sup>rd</sup> Plan (1965-70)	1639.1	919.81	56.10
4 <sup>th</sup> Plan (1970-75)	3356.9	1509.10	45.00
5 <sup>th</sup> Plan (1975-80)	8870.6	4264.10	48.10
6 <sup>th</sup> Plan (1980-85)	21750.0	13260.00	61.00
7 <sup>th</sup> Plan (1985-90)	48345.4	23978.50	49.60
8 <sup>th</sup> Plan (1992-97)	111919.80	74355.00	65.50
9 <sup>th</sup> Plan (1997-2002)	215154.4	111546.00	51.10
10 <sup>th</sup> Plan (2002-07)	234030.0	134620.00	57.50
11 <sup>th</sup> Plan (2007-10)	140660.0	38695.60	27.51
12 <sup>th</sup> Plan (2010-13)	364340.0	175180.00	48.08
13 <sup>th</sup> Plan (2013-16)	329976.00	189455.00	57.41

(Source: Different Plans, NPC, Various issues of economic survey, MOF, GON,)

The above table 4.9 shows that 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 fluctuated after the fourth plan. In the fifth plan it was 48.1 percent while in the sixth plan it increased to 61 percent. In the seventh plan, it was decreased to 49.6 percent and in the eighth plan, it increased to 65.5 percent. Then, in ninth plan the share of foreign aid was 51.10 percent, in the tenth plan it decreased to 57.5 percent. The total share of foreign aid in development expenditure is estimated 50 percent in the three years interim plan (2007-2010). The total share of foreign aid in development expenditure is estimated 57.41 percent in the 13<sup>th</sup> Plan (2013-16)

This analysis shows the heavy dependency of Nepal on foreign aid for financing development expenditure of successive plans. It seems that without foreign Aid, the country could not have executed the development plan.

### 4.2.3 Share of Foreign Aid in GDP

The increasing level of foreign aid can be argued to be necessary for further growth of Nepal's economy. The increasing role of foreign aid is revealed even more clearly by the consistent rise in the ratio of aid to GDP the following table shows the share of foreign aid in GDP of Nepal from FY 2000/01 to FY 2012 /13.

Table 4.10  
The share of Foreign Aid in GDP

<b>Fiscal year</b>	<b>Total foreign Aid Inflow</b>	<b>Gross domestic product</b>
2000/01	18797.4	441519
2001/02	14384.8	459443
2002/03	15885.5	492231
2003/04	18912.4	536749
2004/05	23657.3	548485.00
2005/06	22041.8	611118.00
2006/07	25854.4	675859.00
2007/08	29300.6	755257.00
2008/09	36351.7	909528.00
2009/10	49769.0	1083415.00
2010/11	57997.80	1248482.00
2011/12	51893.40	1387482.00
2012/13	47199.2	1522853.00

(Sources:-Various Issues of Economic Survey MoF, GoN)

The above table 4.10 shows the share of foreign aid in the total GDP of Nepal. In Fy 2000/01 foreign aid was Rs. 18797.4 million and the GDP of the country was Rs. 441519 million, but in Fy 2012/13 foreign aid was Rs. 47199.2 million and the GDP of the country was Rs. 1522853.00 million.

## **CHAPTER V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary**

Foreign aid plays an important role in economic development of developing countries. Capital is a crucial factor in these countries to develop the economy but this capital is scarce in the developing countries. Therefore foreign aid can help in economic development of those poor countries by meeting this requirement. It also helps the least developed countries in their endeavor for development by providing the necessary modern technology.

Foreign aid can play an important role in the economic development of Nepal. Nepal is one of the least developed countries of the world with a very poor economic and social infrastructure for development. Nepal suffers from a serious resource gap with low savings and low investment creating a vicious circle of poverty. Then technology gap and foreign exchange gap and foreign exchange one also the another cause of poverty and least development of Nepalese economy foreign aid as an investment of financing socio-economic development dates back to mid-fifties, when Nepal embarked on the process of planned development with the launching of the first five year development plan, 1956-61. Since then, a substantial portion of development expenditure averaging about 58 percent per annum has been financed through foreign aid. Foreign aid contributes in terms of sectoral distribution, like agriculture, irrigation and forestry, health, energy, transport, social development, communication, industry and commerce and human resource development.

Nepalese economy is characterized by structural bottlenecks, large fiscal and external deficits and significant imbalances between savings and investment ratios. Foreign aid is crucial to meeting the objectives of poverty, unemployment and inequality reduction, as articulated in the recent government, three years interim plan, through achieving high and sustainable rates of economic growth.

It is difficult to generalize about the effects of foreign assistance on growth factors of national development. Due to the inflow of foreign aid some changes are surely brought in various fields. Though the net effect can not be measured quantitatively due to the absence of statistical information, foreign aid has exhibited

a great change in transport and communication, agriculture and irrigation, industry and power, education and social services. However since Nepal's development efforts were almost financed by foreign assistance. It is logical to present the difference in socio-economic indication as the achievement of foreign assistance.

## **5.2 Conclusions**

Foreign aid is accepted means in the developing countries for the development of various sectors. In the developing countries like Nepal, mobilization of internal capital is not sufficient to accelerate the rate of economic development and growth without foreign aid. So the developing economy like Nepal is marked by the deficiency of capital. Foreign aid can play a vital role in the overall development efforts of the country like Nepal. Foreign aid in Nepal begins with the signing of an agreement with the United States of America Under its "Point four Program" in 1951 January 23 with the amount of Rs. 22000.00 following this, China and USSR appeared in Foreign aid scenario in October 1956 and April 1959 respectively. There has been many fold increase in the quantum of aid flow in improvement in physical and socio-economic indicators of Nepal.

Foreign aid inflow to Nepal has been increasing from various countries through the bilateral process and other international process in the form of grant, loan and technical assistance. Foreign aid has covered almost every field of Nepalese economy like agriculture transportation, communication, health, electrification, industrialization, poverty alleviation, emergency relief as well as family planning and various training programs for socio-economic development in Nepal.

Foreign aid in Nepal appears to be less effective on focusing on the needs of majority of the poor people. It has been unable to address the specific problems of equity and justice. Then under utilization has been another serious problem than the availability of the foreign aid. This shows low absorptive capacity which may be due to political instability, lack of commitment of ruling authorities, bureaucratic delay, and absence of institutionalization of development administration, corruption and lack of proper management of development projects. Foreign aid is expected in each and every field of development activity in Nepal. Therefore, it can be said that the dependency of foreign aid can be said that the dependency of foreign aid can not avoid recently due to the lack of sufficient domestic financial resources, which is shown by increasing resource gaps, so for the optimum utilization of foreign aid, we have to make appropriate rules and regulations by the related body.

Foreign aid has proved to be effective instrument contributing to significant improvements in various sectors of the economy. Foreign aid has also contributed in the economic reforms, enhanced the capacity of country and provided financial assistance for public services. Not only there achievement, foreign aid in Nepal has had its short comings as well. So, Nepal is facing a paradoxical situation in that she can neither promote her economy without aid, nor she has been able to avoid the risk of becoming the victim of aid intoxication. But the fact remains that a new beginning has been made in terms of enhancing the utilization foreign assistance.

### **5.3 Recommendations**

On the basis of findings of this study, following recommendations are suggested.

- (i) The priority sectors of the country should be fixed for foreign aid to Nepal
- (ii) The involvement of Nepalese labor should be increase in different projects run by foreign assistance to Nepal.
- (iii) Nepalese technicians should be used in order to control the large scale of expenditure of foreign technician.
- (iv) Foreign aid which being accepted, it should be motivated towards long run benefit for the country and national own interest.
- (v) Foreign aid would be better in the form of soft loan but payable in the long term.
- (vi) The effective monitoring and evaluation system can be established for proper utilization of foreign aid.
- (vii) The government should guide the foreign assistance, towards the productive sector.
- (viii) The priority of foreign assistance should be given in the form of foreign grants rather than foreign loans.
- (ix) Accept aid only based on the national interest but ignore the donors aid offer rather than national interest.
- (x) Sustainable peace, improving the administrative and institutional structure, is also required for development of the country by using the foreign assistance.
- (xi) Foreign aid should be taken as a supplement to domestic resources.

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