

ROLE OF FOREIGN AID IN NEPALESE AGRICULTURE

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LETTER OF RECOMMENDATION

This thesis entitled **Role of Foreign Aid in Nepalese Agriculture** has been prepared by Surya Bahadur Thapa under my supervision. I hereby, recommend this thesis for examination by the Thesis Committee as a partial fulfilment of the requirements for the degree of Master of Arts in Economics.

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ABBREVIATIONS

CBS	Central Bureau of Statistics
DOFE	Department of Foreign Employment
FDI	Foreign Direct Investment
FY	Fiscal Year
GoN	Government of Nepal
GAD	Gender and Development
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Human Immunity Virus
LDCs	Least Developed Countries
MOF	Ministry of Finance
MENA	Middle East and North Africa
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission
NPR	Nepalese Rupee
NRB	Nepal Rastra Bank
PCI	Per Capita Income
PSM	Propensity Score Matching
SSA	Sub Saharan Africa
UAE	United Arab Emirates
VDC	Village Development Committee
WB	World Bank

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked South Asian country with per capita income of less than US\$ 250. It is one of the poorest in the world and the poorest of the South Asian countries. Nepal's total population has reached over 27 million. Agriculture is the main source of income: it provides a livelihood for over 80 per cent of the population and accounts for 40 per cent of GDP (MOF, 2015).

[Nepal](#) relies heavily on [foreign aid](#), and donors coordinate [development aid](#) policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the [World Bank](#)), and inter-governmental organizations (such as the [United Nations](#)). The [United Kingdom](#) is Nepal's largest bilateral aid donor, and the World Bank and [Asian Development Bank](#) are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and [corruption](#) in poverty relief efforts as well as the country's apparently poor capacity to utilize aid. According to World Bank figures, official development assistance increased from US\$8.2 million in 1960 to US\$369 million in 2003 and then fell to US\$177 million in 2004. According to Nepal's Ministry of Finance, total foreign aid committed in fiscal year (FY) 2003 was US\$555 million, with 63.3 percent in grants and 36.7 percent in loans. In FY2004, total foreign aid committed was US\$320 million, of which 37.7 percent was grants and 62.3 percent, loans. In June 2004, active World Bank credits totaled US\$302 million, with the greatest portions allocated to the financial sector (US\$91.5 million) and to energy and mining (US\$75.6 million). By the end of 2012, the outstanding World Bank IDA loan totaled [\\$ 1.48 billion](#) (World Bank, 2014).

Nepal has been a recipient of foreign assistance since 1952 when it joined the [Colombo Plan](#) for Cooperative, Economic, and Social Development in Asia and the Pacific. The plan was established, under a slightly different name, by the [Commonwealth of Nations](#) in 1951. During the 1950s, many Nepalese received scholarships through the Colombo Plan to go to different countries for studies in technical and professional areas. Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, transportation infrastructure, and power generation. Other areas targeted for

assistance were communications, industry, education, and health. [India](#) and the [United States](#) each were responsible for more than one-third of all grants. Both countries established aid missions to Nepal and directed aid to special projects. Other major donors during the 1950s were the [People's Republic of China](#) and the [Soviet Union](#). [Britain](#), [Switzerland](#), [Australia](#), Japan, and [New Zealand](#) also were involved in lesser assistance programs. The United Nations (UN) provided some [technical assistance](#) (Gyanwali, 2009).

Most economic development projects were funded with external assistance on concessional terms. In the mid- to late 1980s, recorded aid disbursements averaged more than US\$200 million annually--about 7 percent of GDP. More than 70 percent of the aid was in the form of grants; the remainder was in the form of concessional loans (World Bank, 2014). A high percentage of technical assistance and direct aid payments were not documented. Much of the aid granted was underused. Nepal was receiving external assistance in the form of project aid, commodity aid, technical assistance, and program aid. Project aid funded irrigation programs, hydroelectric plants, and roads. Commodity assistance targets included fertilizers, improved seeds, and construction materials provided by donor aid agencies. Technical assistance covered services of experts to advise the government in training indigenous personnel to perform research in technological fields and resulted in the development of skilled labor. Program aid supported various projects, in particular the agricultural and health fields.

The term foreign aid is defined in the economic dictionary as the administered transfer of resource from the advanced countries for the purpose of encouraging economic growth in the developing countries. It is generally used to refer to the normal value of direct and indirect flow of finance and other resources from government of rich countries and multilateral institution to those of poor countries. The resources can be transferred in various forms such as financial, technical, commodities and human capital. Nepal, being a developing country, gets foreign aid from different countries and international agencies. Before 1951, foreign aid was an unknown factor for Nepal. When Nepal opened its border to the outsiders in 1951, it searched for development assistances from external sources. Foreign aid appears to have played a significant role in as much as it has inspired successive governments in Nepal to demonstrate their commitment to development. Even if the desire of the people to have a better living standard has a product of endogenous stimuli, everything else from the objective of development to the strategy, policies and projects are destined to be influenced

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

In 2002, President George W Bush announced a USD 5 billion increase in foreign aid. In 2004, the United States also created the Millennium Challenge Corporation (MCC) to distribute aid to countries with good economic policies and governance aiming to promote economic growth. Recently, the debate on whether bilateral and multilateral aid, should be given to developing countries to foster economic growth and provide for humanitarian needs has been resurrected. Bill Gates, the president of Bill and Melinda Gates Foundation, argues that aid is an effective way for lifting the poor out of poverty. And he believes that free market economy alone is not sufficient to help the poor. In contrast, Easterly William, a leading scholar in economic development, argues that free market capitalism would help eliminate the world poverty. He believes "the poor suffer because of too little capitalism". Similarly, while aid is expected to promote economic growth, some policymakers also believe that aid given to corrupt government fosters corruption rather than increase economic growth (Karna, 2004).

Some experts have defined foreign aid as explicit transfer of real resources to the less developed countries on concessionaire terms in order to uplift the developing economy and the living standards of the poor. "Foreign aid is the international transfer of public funds in the form of loan or grant either directly by one government to another (Bilateral assistance) or indirectly through the vehicle of a multilateral like International Bank for Reconstruction and Development (IBRD) (Todaro, 1988).

The objective of foreign aid is to promote long term growth and short term political and strategic interest of donor. The subject matter of the foreign aid is concerned with economic and social progress of the country. The purpose of aid to developing countries is to accelerate their 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 raise standard of living in the recipient countries but to permit them to make a transition from economic stagnation to self sustaining economic growth.

Nepal relies heavily on foreign aid, and donors coordinate development aid policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the World Bank), and inter-governmental organizations (such

as the United Nations). The United Kingdom is Nepal's largest bilateral aid donor and the World Bank and Asian Development Bank are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and corruption in poverty relief efforts as well as the country's apparently poor capacity to utilize aid. According to World Bank figures, official development assistance increased from US\$8.2 million in 1960 to US\$369 million in 2003 and then fell to US\$177 million in 2004. According to Nepal's Ministry of Finance, total foreign aid committed in fiscal year (FY) 2003 was US\$555 million, with 63.3 percent in grants and 36.7 percent in loans. In FY2004, total foreign aid committed was US\$320 million, of which 37.7 percent was grants and 62.3 percent, loans. In June 2004, active World Bank credits totaled US\$302 million, with the greatest portions allocated to the financial sector (US\$91.5 million) and to energy and mining (US\$75.6 million). By the end of 2012, the outstanding World Bank loan totaled \$ 1.48 billion (www.wikipedia.org).

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Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, transportation infrastructure, and power generation. Other areas targeted for assistance were communications, industry, education, and health. India and the United States each were responsible for more than one-third of all grants. Both countries established aid missions to Nepal and directed aid to special projects. Other major donors during the 1950s were the People's Republic of China and the Soviet Union. Britain, Switzerland, Australia, Japan, and New Zealand also were involved in lesser assistance programs. The United Nations (UN) provided some technical assistance. (www.wikipedia.org).

The issue of the economic effects of aid, especially public aid, like that of the effects of private foreign investment, is fraught with disagreement. On one side are the economic traditionalists, who argue that aid has indeed promoted growth and structural transformation in many LDCs. On the other side are critics who argue that aid does not promote faster growth but may in fact retard it by substituting for, rather than supplementing, domestic savings and investment and by exacerbating LDC balance of

payments deficits as a result of rising debt repayment obligations and the linking of aid to donor-country exports (Hossain, 2008).

Official aid is further criticized for focusing on and stimulating the growth of the modern sector, thereby increasing the gap in living standards between the rich and the poor in developing countries. Some critics on the left would even assert that foreign aid has been a force for antidevelopment in the sense that it both retards growth through reduced savings and worsens income inequalities. Rather than relieving economic bottlenecks and filling gaps, aid-and or that matter private foreign investment – not only widens existing savings and foreign – exchange resource gaps but may even create new ones (e.g., urban-rural or modern-sector-traditional-sector gaps). Critics on the right charge that foreign aid has been a failure because it has been largely appropriated by corrupt bureaucrats, has stifled initiative, and has generally engendered a welfare mentality on the part of recipient nations.

1.2 Statement of the Problem

Nepal is potentially attractive location for foreign investors. Sandwiched between two emerging countries of the world with India in the south and China in the North, Nepali manufacturers have free access to the India market, and tariffs on imported raw materials and components are lower here than South Asian countries. The varied climate, natural resources and terrain provide a wealth of niche opportunities, many of which are barely being exploited at all. Nepal has attracted modest foreign aid in niche sectors such as tourism, light manufacturing (apparel) and mineral deposits (lime stone). The impact of foreign aid has also been modest primarily in job creation.

With the liberalization and privatization policies undertaken in the 1990s, Nepal should have been able to attract more foreign study and private capital flows. But present scenario reveals that the ability of Nepal to attract private capital and foreign aid has been less than expected. Despite the ample facilities and liberal legal provisions, the flow of foreign aid to Nepal is not satisfactory. An assessment of the probable reasons for the declining foreign aid is thus recognized as the problem of the present study. The aid is expense mainly in administrative sector. But the sectorwise expense such as agriculture, irrigation and forest negligible. It is not used in productive sector. The aim of the aid is to develop the rural area but it was mainly expenses in urban development.

So, this study mainly attempts to address the following research questions:

- What is the trend and composition of foreign aid in Nepal?
- What is the Role of foreign aid in Nepal with reference to agriculture, irrigation and forestry in Nepal?.

1.3 Objectives of the Study

The main objective of the study is to analyze comparison of flow of foreign aid in Nepal. This study explores, whether foreign aid played role in development of rural areas or not? The specific objectives of the study are as follows:

- To study the trend and composition of foreign aid in Nepal.
- To analyze the role of foreign aid in Nepal with reference to agriculture, irrigation and forestry.

1.4 Significance of the Study

Foreign aid has been an important opportunity of development external finance for developing countries like Nepal. As Nepal is wedged between two economically powerful nations China and India, there is high possibility of attracting foreign aid towards this country. For this, peace, political stability, good governance and suitable policies are crucial for creating favorable investment climate to attract the larger volume of foreign aid into this country. Inflow of foreign capital and skill through the foreign investment is necessary, if Nepal's effort towards economic growth and development is to be made easier and faster. The inflow of foreign investment in Nepal is less than impressive. So, a study on the trend, structure, challenges and prospects of foreign aid in Nepal would be valuable to get insight of present situation and decide about the future course of action. It is necessary to proper utilization of foreign aid to develop the country. To develop country the sector wise development is also necessary things. Agricultural irrigation and forest sector is main sector of country's development .what is the situation of these sector is to main concern. The Significance of this study are as follows:

- i. This study may be useful to some extent for the researchers, students and for those who want to carry out further study.
- ii. This study may be fruitful to government, planners, policy makers, social workers and others.

- iii. This study helps to supplement source of information to understand the impact of foreign Aid in Nepal.
- iv. It differs from other types of external development capital flows in that it is motivated to a large extent by the investors' long-term goal of profit making in production activities that they directly control.
- v. Foreign aid adds to investible resources and capital formation; and it is also a mechanism of transferring production technology, skills, innovative capacity, and organizational and managerial practices between locations, as well as of accessing international marketing networks.

1.5 Limitations of the Study

Following are some limitations of the study:

- i. Due to time and resource constraints, primary survey of foreign has not been conducted. So, this study has been mainly based on secondary data to assess the policy framework of foreign aid in Nepal and analyze trend, structure and the prospects of foreign aid of Nepal.
- ii. The study is based on data of 16 years from the adoption of liberal policy since 2001 to 2016. International comparison of policy framework is beyond the scope of this study.
- iii. The result and interpretation are completely rigid from the view point of researcher.
- iv. It is assumed that the time limitation and financial constraint confine the researcher to be very specific in order to carry above mention research.

1.6 Organization of the Study

For a systematic and scientific approach this research work is divided into five chapters for a proper identification. Chapter-I deals with the introduction. Introduction contains background of the study, statement of the problem, objective of the study, significance of the study, organization of the study and limitation of the study. Chapter-II, related available literatures have reviewed. Chapter-III deals with research methodology. Chapter –IV, the heart of the study analyses and interprets the collected data lastly chapter –V, deals with the summary conclusion and recommendation.

CHAPTER II

REVIEW OF LITERATURE

This chapter is basically concerned with review of literature relevant to the topic “Impact of the Foreign aid in Nepal”. Every study is very much based on past knowledge. The previous studies can't be ignored because they provide the foundation to the present study. In other words there has to be continuity in research. This continuity in research is ensured by linking the present study with past research studies.

Literature review is basically a “stock taking” of available literature in one's field of research. The literature survey thus provides us with the knowledge of the status of their field of research. Therefore this chapter has its own importance in the study (Wolf and Panta,2001).

2.1 International Context

Friedman (1958) has argued about foreign aid is to win over to oversize those uncommitted nations who are also underdeveloped and poor. In the cold war period immediately following the second world war when the piece was written, the threat of the "Red Menace" was still strong and the domino theory had become a widely subscribed belief freedmen further puts forward that if other conditions for economic development are ripe, capital will be readily available if they are not capital made available is likely to be wasted. Foreign aid may serve to delay the inevitable and to provide the government with the false face with which it can postpone taking necessary measures like securing property rights, and maintaining a good environment for the privates sectors.

Chatrna (2016). This paper analyzes the effects of foreign aid on the economic growth of developing countries. The study uses annual data on a group of 85 developing countries covering Asia, Africa, and Latin America and the Caribbean for the period 1980-2007. The hypothesis that foreign aid can promote growth in developing countries was explored. This hypothesis was tested using panel data series for foreign aid, while accounting for regional differences in Asian, African, Latin American, and the Caribbean countries as well as the differences in income levels. While the findings of previous studies are generally mixed, the results of this study also indicate. that foreign aid has mixed effects on economic growth in developing countries.

McGillivray (2005) has demonstrated how aid to African countries not only increases growth but also reduces poverty. Furthermore, the author points out the important fact that continuously growing poverty, mainly in sub-Saharan African countries, compromises the MDGs (Millennium Development Goals) main target of dropping the percentage of people living in extreme poverty to half the 1990 level by 2015. His research econometrically analyzes empirical, time series data for 1968-1999. The paper concludes that the policy regimes of each country, such as inflation and trade openness, influence the amounts of aid received.

Friedman (1973) has said that two questions must be answered in judging government economic aid. First, is it likely in fact to promote the economic development of the countries to which aid is granted? Second, do its political effects in those countries promote democracy and freedom? He further says that aid policy and program has consisted predominantly of recipient countries for special or material directly to the government of recipient countries for specified projects regarded as contributing to economic development.

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

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

Biswasw (2015) has debated over the effectiveness of foreign aid is a great concern to the aid-receiving countries. Empirical studies using multi country data shows mixed results while studies with single country data reveal positive impact of aid. Bhutan accepts foreign aid to finance development requirements due to lack of domestic savings and petty export earnings. This paper focuses on the effectiveness of fitting a vector auto regression (VAR) model, shows that external aid in Bhutan is effective in raising income as well as domestic savings. Granger causality tests too show similar results. Notwithstanding the primacy of

self-reliance in Bhutan's development philosophy, foreign aid might play a significant role for development in Bhutan, at least Bhutan accepted external assistance and properly utilized for development purposes. India has been the major donor for Bhutan though India's share is gradually decreasing. The economy of Bhutan is growing at a robust rate and substantial structural transformation has taken place. Foreign aid has played a positive role in this growth process. Analysis of Bhutan's time-series data vindicated significant positive impact of foreign aid on income growth and growth of domestic savings. Good governance of the government of Bhutan may be one of the major causes for this aid effectiveness. Robust growth has led the country to the threshold of attainment of self-reliance. Self-reliance remaining one of the fundamental goals of national development, foreign assistance might play a vital role for accelerating sustainable development in Bhutan for the time being.

Resnick, (2016) has studied on a mixed-methods approach conducted by foreign aid and country experts. A quantitative analysis examines whether development and democracy aid demonstrated a differential impact on transitions to multiparty regimes in Africa during the 1990s, as well as their influence on various measures of consolidation in more recent years. This is complemented by in-depth case studies based on recent fieldwork in seven countries: Benin, Ghana, Malawi, Mali, Mozambique, Tanzania and Zambia. These countries are recipients of large shares of aid from a broad range of donors, possess different levels of access to alternative financing, and collectively represent dominant, two-party, and fragmented party regimes. A number of findings are beginning to emerge from the project. First, development aid, much more than democracy aid, was effective at promoting democratic transitions during the 1990s in a range of African countries. The most direct impact was through the exercise of leverage by donors who increasingly began attaching political conditional ties to development aid during this period. Factors that augmented the effectiveness of leverage were a country's degree of aid dependence, the level of donor coordination, and the concurrent existence of domestic discontent. Aid often played a facilitating role as well by ensuring that countries' first multi-party elections were well financed and monitored. Development and democracy aid also demonstrate disparate effects on key elements of consolidation, including the avoidance of democratic erosion, the enhancement of accountability and the promotion of competitive party systems. With respect to democratic erosion, donors have threatened to reduce or rescind aid in a number of instances where incumbents attempted to abrogate presidential term limits in their constitutions or where media freedoms have been suppressed.

Islam (2011) has stated that over the years, the share of agriculture in GDP in low income countries has declined, which meant that the share of agriculture in aid may have declined across countries and over time. Although not conclusive, it would appear that on the basis of the data, donors might consider the share of agriculture and public expenditures as a share of GDP to allocate aid to agriculture. Overall, the author points out that the donors are increasingly providing assistance to build or improve institutions and human capital so that they can implement agricultural programs effectively. Therefore it is necessary to examine the decline in aid to agriculture in the context of assistance to institution building so that national and local governments and agricultural agencies can design, experiment and select projects that suit the local circumstances.

Alabi (2014) has investigated the impact of foreign agricultural aid on agricultural GDP and productivity in Sub-Saharan Africa (SSA). I rely on secondary data regarding foreign agricultural aid, agricultural GDP, and productivity indicators from 47 SSA countries spanning 2002-2010 and employ a Generalized Method of Moments (GMM) framework. The study reveals that the average sectoral aid allocation to agriculture in SSA was 7 percent during this period, growing from 18 million USD in 2002 to about 47 million USD in 2010. The econometric analysis suggests that foreign agricultural aid has a positive and significant impact on agricultural GDP and agricultural productivity at 10 percent significance, and that disaster and conflict also have a positive and significant impact on aid receipt at 5 percent significance. This latter finding implies that foreign agricultural aid responds to disaster and conflicts in this region. The transparency index has a positive but not significant relationship with foreign agricultural aid, agricultural GDP, and agricultural productivity, while the governance index has a positive and significant relationship with agricultural productivity at 10 percent significance. The study also reveals that bilateral foreign agricultural aid influences agricultural productivity more than multilateral foreign agricultural aid and that multilateral foreign agricultural aid influences agricultural GDP more than bilateral foreign agricultural aid. Scaling up foreign agricultural aid will increase its impact on agricultural productivity and its contribution to the economy of SSA, and sectoral foreign agricultural aid allocation should give priority to factors that will enhance this productivity. For instance, the sectoral allocation to water resources should be increased from the present 8% in order to increase the arable land currently irrigated in the region (4 percent). Allocation of aid to control plant/post-harvest losses should also be scaled up, as the current level (less than 1 percent) only reduces crop losses from pests and disease by 50%. Finally, scaling up the funding for research will also be vital to the development of improved seed varieties and the

adoption of productivity-enhancing technologies. A sound synergy must be worked out between foreign agricultural aid and domestic agricultural expenditure to support these critical aspects of agriculture in the region.

Larson (2001) has contended that although there has been a very steady flow of aid payments to the developing world over the past 20 years, the intended effects of this aid (the “reward”) have patently failed to materialize. If this was otherwise, and the rewards had materialized, we would have seen widespread improvements in the areas of either GNP growth or domestic savings relative to the foreign aid inflow.”

In this scenario, national income would have increased by the amount of the inflow of foreign capital, thereby raising the proportion of total savings to national income. This, in turn, would have brought about a higher savings ratio and hence increased domestic savings. This does not appear to have happened though.

Duc Minh Vu (2006) has used cross-country data, “I have investigated several questions regarding the relation between foreign aid and economic growth in developing countries over the period from 1975 to 2000. Overall foreign aid is found to be significantly and negatively correlated with growth. There is a number of underlying causes, such as the fungibility of aid, aid dependency, bad economic management, corruption and poor coordination and cooperation among aid agencies. However, foreign aid to inland countries as well as to South Asian countries during the period of 1992-2000 is found to have positive impact on growth. The results suggest that (i) there may be problems in the present aid providing system, where aid hinders growth of developing countries (ii) the successful experience of some inland countries and South Asian nations during the period of 1992-2000 could be a good lesson for other developing countries.”

2.2 National Context

Khadka (1991) has studied that the inflow of foreign aid in Nepal coincided with three major development paths within and outside the country. First, the emergence of development theory as a distinct branch of economics in the late forties and its emphasis capital-oriented growth models which means the then less developed countries desirous of developing their economy should invest in capital-intensive project. The second factor is political, i. e. the political change in the two neighboring countries, India and China, which adopted two diametrically opposite systems and orientations in their external relations. The strategic

geographical location, which also puts Nepal in a sandwiched position between these countries, made it a ground for their aid competition. The third factor is the political change within Nepal in the early fifties; the overthrow of the family oligarchies role in Nepal and its awakening for modernization and development accompanied by the unfolding of all these new forces. However, in this paper, we cover two aspects of the literature. First, we review the main body of literature concerning aid effectiveness in terms of economic growth, and related to this, the impact of aid on savings and investment. Second, since aid is channeled through the government and government's fiscal position has implications for domestic savings and investment, we have examined the impact of aid on government revenue and expenditure.

Pant (1974) has studied that external assistance available to the least developed and smaller countries can be discussed under the headings of foreign aid in the form of grants, loans and technical assistance. According to him, shortage will be supported by foreign aid at least in the initial stage of development plans. He further says that rapid formation of capital for accelerating the growth of LDCs cannot possible without foreign aid, even if domestic resources are mobilized to the optimum level.

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

Thakur (1994) has described that receiving foreign aid is not difficult for Nepal either because of its political relations or geo-political situation or higher economic potentiality in selected sectors like hydroelectric, cement etc. But efficiency of management and proper utilization of foreign aid are much more important problems for Nepal. The rooted concept of "Free Lunch Aid" has to be wiped out. Honest execution of politics and projects as equally significant in this direction. He points out that the problem of foreign aid in Nepal in two fields:

- i) How to mobilize required the quantum of assistance from those multiple sources which are most favorable to the interests of the nation, and

- ii) How to use the resources obtained through different channels of supply in the process of economic development so as to achieve a higher rate of growth. Though such problems are almost common to a developing economy, the position of Nepal needs a separate treatment. It is pleasing to note that the political administration and the economic system of Nepal have appreciated the necessity of development as a measure of improved living conditions to the people. But effectiveness of utilization of resources and economy of financial administration do need a different form of discipline in country. This form of discipline can only be a joint effort of the government and the people.

Singh (1996) has said that 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.

[Nepal](#) relies heavily on [foreign aid](#), and donors coordinate [development aid](#) policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the [World Bank](#)), and inter-governmental organizations (such as the [United Nations](#)). The [United Kingdom](#) is Nepal's largest bilateral aid donor,^{[1][2]} and the World Bank and [Asian Development Bank](#) are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and [corruption](#) in poverty relief efforts as well as the country's apparently poor capacity to utilize aid. According to World Bank figures, official development assistance increased from US\$8.2 million in 1960 to US\$369 million in 2003 and then fell to US\$177 million in 2004. According to Nepal's Ministry of Finance, total foreign aid committed in fiscal year (FY) 2003 was US\$555 million, with 63.3 percent in grants and 36.7 percent in loans. In FY2004, total foreign aid committed was US\$320 million, of which 37.7 percent was grants and 62.3 percent, loans. In June 2004, active World Bank credits totaled US\$302 million, with the greatest portions allocated to the financial sector (US\$91.5 million) and to energy and mining (US\$75.6 million). By the end of 2012, the outstanding World Bank IDA loan totaled [\\$ 1.48 billion](#).

Chamlagai (2015) has investigated the relationships between economic growth and remittance in the case of Nepal. This study also examines the effectiveness of aid, labor and FDI on the economic growth of Nepal. The ARDL Bounds testing approach is conducted for analyzing the growth model over the period 1970- 2014. The empirical results points out that remittances and labor are very important driving forces for economic growth in both the long and short-terms of Nepal economy. These findings also show that investment, FDI, and AID do not have any impact on output growth in both the long and short run period in the case of the Nepal Economy. Error-correction modeling was used to confirm the existence of a stable long-term relationship and approve a deviation from the long-term equilibrium following a short-term shock, which is corrected by almost 16 percent after each year.

Bhattarai (2009) has analyzed the effectiveness of aid in Nepal using cointegration and error correction mechanism to investigate the impact of aid on per capita real GDP. The result showed that aid is positively related to per capita real GDP in the long run. The channel through which aid affects GDP is technological progress. That is, aid helps to upgrade technology by helping import capital goods. Aid in the form of technical assistance also improves Nepal's institutional capacity. However, in the short run the impact of aid is negative. This could be due to problems associated with absorptive capacity, aid management, coordination and allocation, and aid conditionality. It is also concluded that aid effectiveness improves in the presence of good policies in the long-run. Nepal's policy environment improved significantly since the mid 1980s when it implemented various Structural Adjustment Programs. Aid is found to be more effective during these period.

Gyawali (2009) has realized that the role and impact of foreign aid in Nepal has been less effective. It is publicly held that it has not brought about the economic and social development that it had promised. In Nepal, foreign aid has been widened gaps in economic opportunities between the rich and poor and also has increased the dependency of country to the developed nations. This paper, basically, discusses issues related to the role and impact of foreign aid to the development plan of Nepal as well as the composition and sectoral priorities of foreign aid in Nepal. There is a debate about the proper utilization of foreign aid in the developing country like Nepal and this article also examine the visions and ways of aid utilization for both donor and recipient countries.

Basnet (2002) has concluded that achievements made in agriculture development in the past have not been much satisfactory. Despite the top priority accorded to agriculture sector, it has not developed as expected. His analysis suggest that inadequate diffusion of

investment within the agriculture sector in the absence of proper prioritization and insufficient availability of production materials in the market due to weak sectoral policies related to agriculture have mainly been responsible for the failure of significantly increase agricultural production and productivity. Similarly the average annual production and productivity of agriculture sector is increasing with the increment of investment in this sector however it is not satisfactory. Agriculture is carried on in an old fashion with the obsolete and outdated methods of production as a result; the yield from land is low. The major finding of this study is there is significant positive relationship between foreign aid and agricultural GDP. The comparison is made before and after the restoration of democracy (1978/79-1989/90) and (1990/91-2002/03) and found that elasticity of aid is higher in post 1990 than prior 1990. This implies that productivity and utilization of foreign aid is better after the liberalization than prior to liberalization.

Karna (2004) has analyzed the past development efforts on agriculture development and current status of development in Nepal. The author has mainly focused on the problem and prospects of agricultural development in Nepal. There are different types of problem on agriculture development in Nepal like, lack of irrigation facility, lack of scientific land reform, lack of chemical fertilizer and improved seeds, lack of credit facility etc. Despite of these problems Nepal has tremendous possibility of increasing agriculture production three to four fold by developing animal husbandry of various types, horticulture, vegetable and food crops farming. According to author, agriculture is the important strategic areas of overall economic significance. Therefore, the economy establishes a strong link with both domestic and foreign sectors, and acts as the source of income for poor through employment and food supply provision, the central issue has been how to make this sector commercially attractive, economically viable and competitive.

Poudel (2006) has concluded that a substantial portion of Nepal's development expenditure is met by foreign aid. The foreign aid policy of HMG/Nepal is committed to improving disbursement of foreign aid through various ways. The policy has also emphasized that foreign aid would be considered as an additional to domestic resources to accelerate growth and poverty reduction. Nepal's various periodical plan absorbed the larger volume of foreign aid. The development expenditure in each periodic plan was heavily financed by foreign aid as high between 44.0 percent and 77.0 percent. The total aid to Nepal up to in 2003/04 levelled to Rs. 235498.95 million. The aid absorptive capacity of Nepal is found to be unpredictable. The volatile

characteristics of absorptive capacity of foreign aid to Nepal suggest that this was due to delay in factors emanating from diverse channels. The complicated procedures in finalizing things, difficulty in timely procurement of equipments and components, findings suitable contractors, internal disturbances and administrative inefficiency appear to be the major hurdles in the timely completion of the foreign aided projects. In addition, the priorities of donors, their interest and complexities have also been attributed to low absorptive capacity of aid in Nepal. The socio-economic sector succeeded in attracting large amount of foreign aid in Nepal. The transport, power, communication, agriculture, irrigation, and forestry sectors attracted considerable amount of foreign aid in the past followed by industry, commerce and social services sector. Some have argued that poverty is not a major concern of foreign aid flow to Nepal, but politics and political strategic considerations have been the major determining factor. Empirical findings reveal that the role of foreign aid in GDP is positive and similarly role of agricultural aid to agriculture GDP is positive.

Gurugharana (1992) has remarked that external assistance for over 40 years has not appreciably succeeded in alleviating poverty, improving human development situation and fostering overall growth. He states that there is insufficient amount of aid relative to the requirements. Compared to the ad-hoc nature and changing priorities of aid on the one hand, the weak institutional and managerial capacity, in appropriate macroeconomic and sectoral policies, and lack of proper planning and commitment in government side on the other hand, made the amount of foreign assistance insufficient. Nepal has not yet received the quantum of

aid comparable to those of Korea or Taiwan or Europe under the marshal plan, it is like giving a medicine for below the prescribed dose and the effect not only prolongs the disease, but also eventually increases its severity.

Gyanwali (2017) has attempted to make a critical appraisal of foreign aid and development in Nepal. For that, it first examines the status of foreign aid and explores fundamental problems associated to it. It also sheds light on the development debate it has generated and repercussions it had on the broader political economy of the state. In the end, it provides viable solutions to generate self reliance economy in the country in hindsight, the government, reveals that dependency on foreign aid appears having been declining. For example, during the Panchyat period, the sharing of

foreign aid was very high but it appears to have been declining in the successive regimes. Today, in the Federal democratic Nepal (FDRN), foreign aids sharing has declined compared to the preceding regimes. This certainly gives an impression that economy is moving towards self reliance. But in reality, this may not be true primarily for the reason that, after 1990, the whole objective and modus operandi of foreign aid has taken U-turn wherein the large segment of it is diverted from government to NGOs (book in sending and receiving countries). The larger segment of foreign aid that has been disbursed/received through/by INGOs/NGOs has certainly become problematic because it has developed funding oligarchy where the beneficiaries are certain elites. It has also eroded the states autonomy, because the majority of these agencies are implementing parallel programs along with the state. Many of the donors' and their experts have become insiders, while the native law and policy makers have become outsiders. This phenomenon started influencing the whole national policy through their subsidiary agencies. (such as INGOs/NGOs) and distorting the whole notion of development. There are clear indicators showing that the current mode of funding does not harness the potentials of foreign aids to its highest optimum. in the end it has only let to emerges of rentier state.

2.3 Research Gap

Literature review is the most important function to develop any research provides deeper knowledge, experience and other ideas to the researcher. The researcher has made attempts to study some dissertations and relation books to reviews the literature related to the study. Review of related literature helps to the researcher to gain the inside to previous research study that related to the present study. Literature review have most vital role in this study and it has more implication for this study which provides deeper knowledge, experience and other ideas to the researcher. To create the research idea , to gain the research methods and many methodology, the review of the literature can use. For review of the related literature, the study to be easier than easier. It can helps for cited , to gain objectives of the study, for sampling procedure and it also helps for how to table and chart construct and give deeply knowledge about the study. The review of literature helps to actualization of study, interpretation and analysis of data, categorization of data and comparison of data and summary writing. Above literature review helpful for the researcher tool design.

There has been conducted several studies on foreign aid in Nepal. Most of these studies are analyzing particular country's aid to Nepal and its impact on national economy. They are analyzing the impact of foreign aid and GDP only. This study will try to explore the impact of foreign aid on agriculture, irrigation, forestry and rural development. Similarly, this study analyzes the total aid's pattern to Nepal.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology for analyzing foreign aid and its role on Nepalese agriculture on various economic indicators. There is an extensive literature regarding the methodology in these areas but this study is confined to deal with research questions set in Chapter 1. The chapter structure is as follows: Section 3.2 presents Research Design, Section 3.3 provides nature and sources of data; Section 3.4 briefly explains the methods of Data analysis.

Based on the statement of problem of this study, it has used the existing literature in order to gain a deeper understanding of this phenomenon as well as analyzed Nepal's data relating to foreign aid. This study is mainly based on secondary data information. The description of the situation of foreign aid in Nepal including historical background has been presented in detail.

3.2 Research Design

Research design followed for this study is quantitative as well as descriptive.

3.3 Nature and Sources of Data

Longitudinal data (time series data) on foreign aid, and other macro variables of Nepal were used in this study. This study is completely based on secondary sources of data. Data was collected from central Bureau of Statistics (CBS), Ministry of Finance (MOF) Economic survey of Nepal, Nepal Rasta Bank (NRB), Ministry of Agriculture, Ministry of Irrigation, and Ministry of Forest.

3.4 Methods of Data Analysis

The goal of analyzing the data is to handle the evidence fairly, to produce convincing logical conclusion and to rule out alternative interpretations. The data was collected from different sources to process, analyze and interpret them to drive meaningful conclusion. The various

data were collected from different sources were compiled condensed, analyzed and presented in the form of tables and graphs.

The researcher has used descriptive method as well as used time series data. In order to exclude the irrelevant unnecessary data and process them as per thesis requirements, data was edited and properly tabulated. The data was arranged, grouped and accordingly entered into appropriate tabular form. Moreover, simple one-way table has been used to present the data, which has been flowed by an in-depth interpretation as necessary for the thesis to prepare for the students of Economic department.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 TREND AND CONTRIBUTION OF FOREIGN AID IN NEPAL

4.1.1 History of Foreign AID in Nepal

[Nepal](#) relies heavily on [foreign aid](#), and donors coordinate [development aid](#) policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the [World Bank](#)), and inter-governmental organizations (such as the [United Nations](#)). The [United Kingdom](#) is Nepal's largest bilateral aid donor and the World Bank and [Asian Development Bank](#) are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and [corruption](#) in poverty relief efforts as well as the country's apparently poor capacity to utilize aid. According to World Bank figures, official development assistance increased from US\$8.2 million in 1960 to US\$369 million in 2003 and then fell to US\$177 million in 2004. According to Nepal's Ministry of Finance, total foreign aid committed in fiscal year (FY) 2003 was US\$555 million, with 63.3 percent in grants and 36.7 percent in loans. In FY2004, total foreign aid committed was US\$320 million, of which 37.7 percent was grants and 62.3 percent, loans. In June 2004, active World Bank credits totaled US\$302 million, with the greatest portions allocated to the financial sector (US\$91.5 million) and to energy and mining (US\$75.6 million). By the end of 2012, the outstanding World Bank IDA loan totaled [\\$ 1.48 billion](#) (World Bank, 2014).

Nepal has been a recipient of foreign assistance since 1952 when it joined the [Colombo Plan](#) for Cooperative, Economic, and Social Development in Asia and the Pacific. The plan was established, under a slightly different name, by the [Commonwealth of Nations](#) in 1951. During the 1950s, many Nepalese received scholarships through the Colombo Plan to go to different countries for studies in technical and professional areas

Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, transportation infrastructure, and power

generation. Other areas targeted for assistance were communications, industry, education, and health. [India](#) and the [United States](#) each were responsible for more than one-third of all grants. Both countries established aid missions to Nepal and directed aid to special projects. Other major donors during the 1950s were the [People's Republic of China](#) and the [Soviet Union](#). [Britain](#), [Switzerland](#), [Australia](#), Japan, and [New Zealand](#) also were involved in lesser assistance programs. The United Nations (UN) provided some [technical assistance](#).

Until the mid-1960s, Nepal depended mostly, if not totally, on foreign grants for all its development projects. Most of these grants were on a bilateral basis. Japan has been the largest donor country to Nepal. The single pillar bridge in [Karnali](#), New Buspark, Tribhuvan University Teaching Hospital (TUTH), Melamchi drinking water project, few hydro-power projects and highways like [B.P. Koirala Highway](#) and the Koteshwor-Suryabinayak extended road (12 km) were built with assistance from Japan. Grants from India helped to build the airport in [Kathmandu](#), the Koshi Dam, [Bir Hospital](#), [Trauma Center](#), highways like [Tribhuvan Highway](#), [Siddhartha Highway](#) and several irrigation projects. The Soviet Union helped to build cigarette and sugar factories, a [hydroelectric plant](#), and part of the [East-West Highway \(Nepal\)](#). Grants from China helped to construct roads; a trolley bus line in Kathmandu; [BICC](#), *Rastriya Sabha Griha*, Civil Hospital in New Baneshwor, Bharatpur Cancer Hospital in [Chitwan](#) and leather, shoe, brick and tile factories. United States grants supported village development, agriculture, education, and public health. The United States also helped to build the Balaju Industrial Area and start the Nepal Industrial Development Corporation, which granted loans to several industries (MOF, 2016).

Beginning in the 1960s, some bilateral assistance was in the form of loans. The loan share of foreign aid increased from under 4 percent between 1965 and 1970 to more than 25 percent by the 1985-88 period.

In the 1970s, multilateral assistance programs started to play an important role in development planning and accounted for more than 70 percent of funding for development planning. By the end of the 1980s, the great majority of foreign aid was in the form of multilateral assistance programs. The major sources of borrowing or grants for these programs were the International Development Association of the

World Bank and the Asian Development Bank. Most of these loans could be characterized as soft loans.

Sources of foreign aid were numerous. Eleven UN agencies, seven multilateral lending agencies (such as the [World Bank](#)), and eight private agencies (for example, the [Ford Foundation](#)) had participated in aid programs. At least seventeen countries offered bilateral assistance. Under the auspices of World Bank, the Nepal Aid Group was created in 1976. By 1987 sixteen countries and six international agencies participated in the group. The level of commitment from the Nepal Aid Group had increased from Rs1.5 billion in 1976-77 to Rs5.6 billion in 1987-88. The bulk of foreign aid contributions after 1976 came from this group (MOF, 2016).

Most economic development projects were funded with external assistance on concessional terms. In the mid- to late 1980s, recorded aid disbursements averaged more than US\$200 million annually--about 7 percent of GDP. More than 70 percent of the aid was in the form of grants; the remainder was in the form of concessional loans. A high percentage of technical assistance and direct aid payments were not documented. Much of the aid granted was underused.

By 1991, Nepal was receiving external assistance in the form of project aid, commodity aid, technical assistance, and program aid. Project aid funded irrigation programs, hydroelectric plants, and roads. Commodity assistance targets included fertilizers, improved seeds, and construction materials provided by donor aid agencies. Technical assistance covered services of experts to advise the government in training indigenous personnel to perform research in technological fields and resulted in the development of skilled labor. Program aid supported various projects, in particular the agricultural and health fields.

Dependence on foreign aid was increasing. Between 1984 and 1987, foreign aid as a percentage of GNP increased from under 8 percent to almost 13 percent. Debt service as a percentage of GDP increased from less than 0.1 percent in 1974-75 to almost 1 percent in 1987-88. Outstanding debt in this period increased from Rs346 million to almost Rs21 billion (MOF, 2015).

From FY 1970 through FY 1988, United States commitments, including [United States Export-Import Bank](#) funds, totaled US\$285 million. In the 1980s, bilateral United

States economic assistance channelled through the Agency for International Development averaged US\$15 million annually. The United States also contributed to various international institutions and private voluntary organizations that serviced Nepal for a total contribution to multilateral aid in excess of US\$250 million in the 1980s. Other Western countries and official development assistance and bilateral commitments for the 1980-87 period totaled US\$1.8 billion. The [Organization of Petroleum Exporting Countries](#) (OPEC) provided US\$30 million in bilateral aid from 1979 to 1989. Communist countries provided US\$273 million in aid from 1970 to 1988. From 1981 until 1988, Japan was the premier source of bilateral ODA for Nepal, accounting for more than one-third of all funds. The second biggest donor during that period was the [Federal Republic of Germany](#) (West Germany).

There is an increasing number of social entrepreneurs who try to address development issues through individual, financially sustainable and more home-grown initiatives. With the first Social Entrepreneurship Award 2011 (and again in 2012) there is a small but steady movement and ecosystem building around those changemakers. One organization - Hidden Journeys Nepal - is trying to promote those social entrepreneurs and at the same time help others to learn from them through field visits and networking events that help participants to be motivated and inspired.

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 it's earning 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 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 2003/04 to FY 2015/ 16.

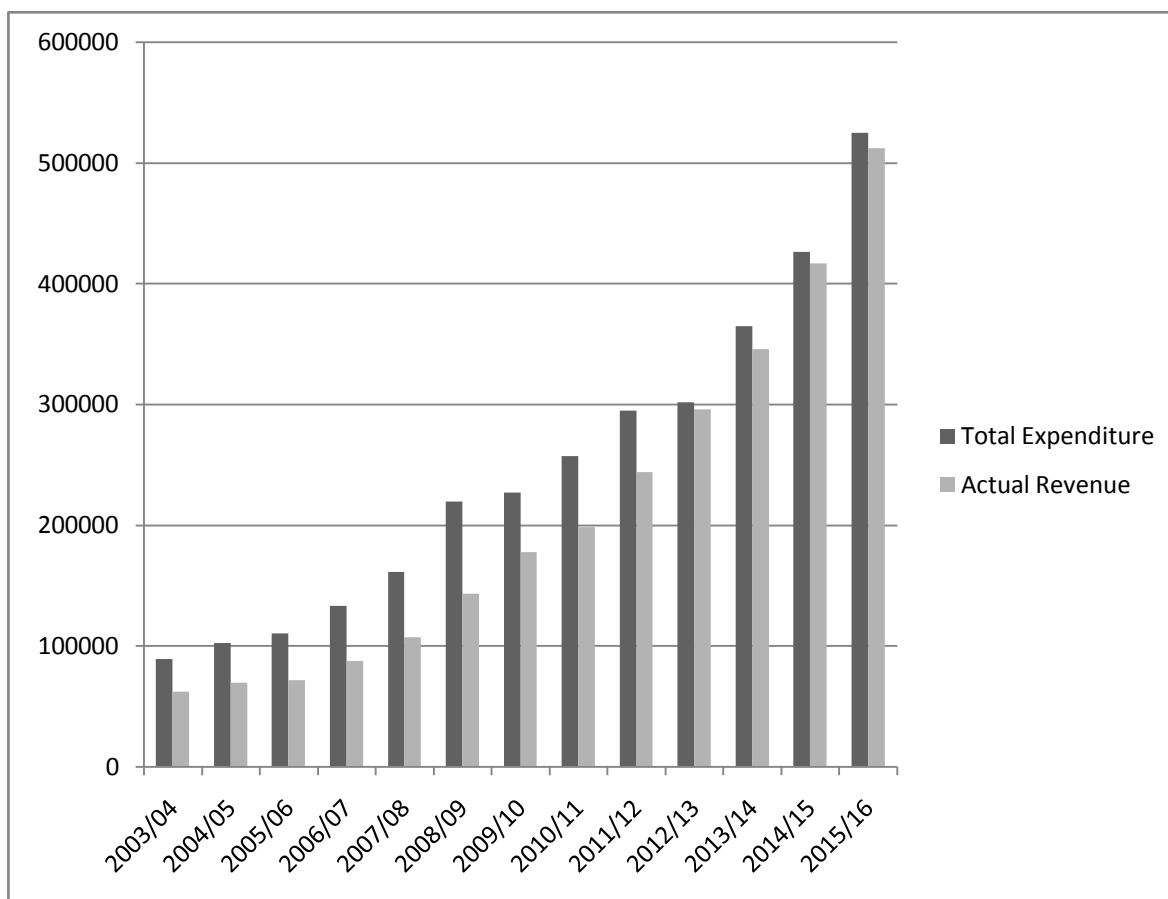
Table 4 .1 **Resource Gap in Nepalese Economy**

(Rs. in Million)

Fiscal year	Total Expenditure	Actual Revenue	Resource Gap
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
2013/14	365051.20	346025.26	19025.94
2014/15	426344.61	416577.26	9767.35
2015/16	524577.27	512355.87	12221.4

Source: - Various issues of economic survey, MOF 20003/04 to 2015/16)

Figure 4.1 Resource Gap in Nepalese Economy



Source : Based on the table 4.1

The table 4.1 and figure 4.1 show 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 2003/04 the initial resource gap was Rs. 27111.65million. It reached to Rs. 12221.4 million in FY 2015 /16. 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 2003/04 to 2015 /16.

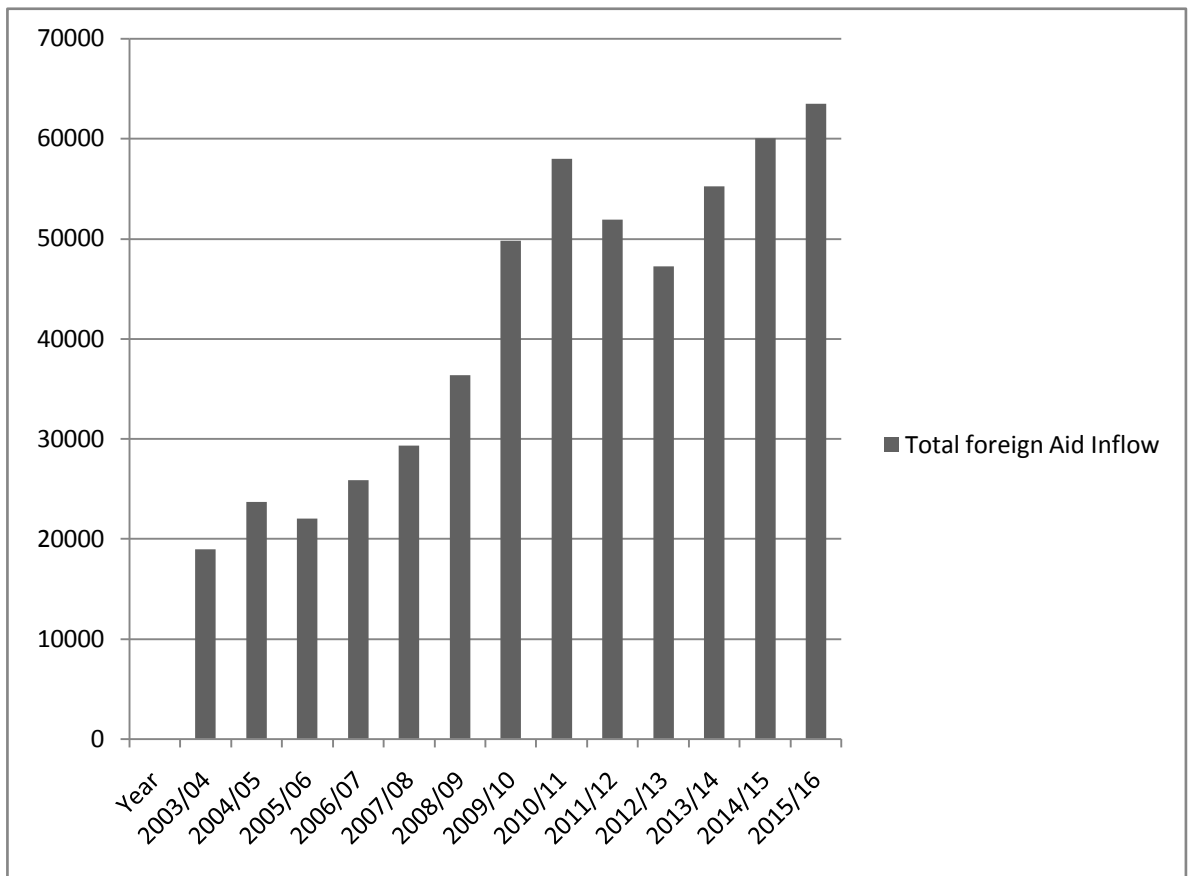
Table 4. 2 Total foreign Aid Inflow in Nepal

(Rs. In Million)

Fiscal Year	Grant	Grant in Percentage	Loan	Loan in Percentage	Total foreign Aid Inflow
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
2013/14	42344.9	76.67	12878.7	23.32	55223.6
2014/15	46567.1	77.60	13436.8	22.39	60003.9
2015/16	48896.2	77.05	14562.4	22.94	63458.6

Source: Various issues of Economic survey, MOF 2003/04 to 2015/16

Table 4. 2 Total foreign Aid Inflow in Nepal



Source : Based on the table 4.2

The table 4.2 and figure 4.2 show the grants and loans received in different fiscal years from 2003/04 to 2015/16. In the FY 2003/04, percentage of total aid consists of grant aid 59.66 percent only, but in the FY 2015/16, percent of total aid consists of grand aid 77.05 percent. In the FY 2003/04 percent of total foreign aid consists of loan 40.34 percent, but in the FY 2015/16 percent of total foreign aid consists of loan 22.94percent .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

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.

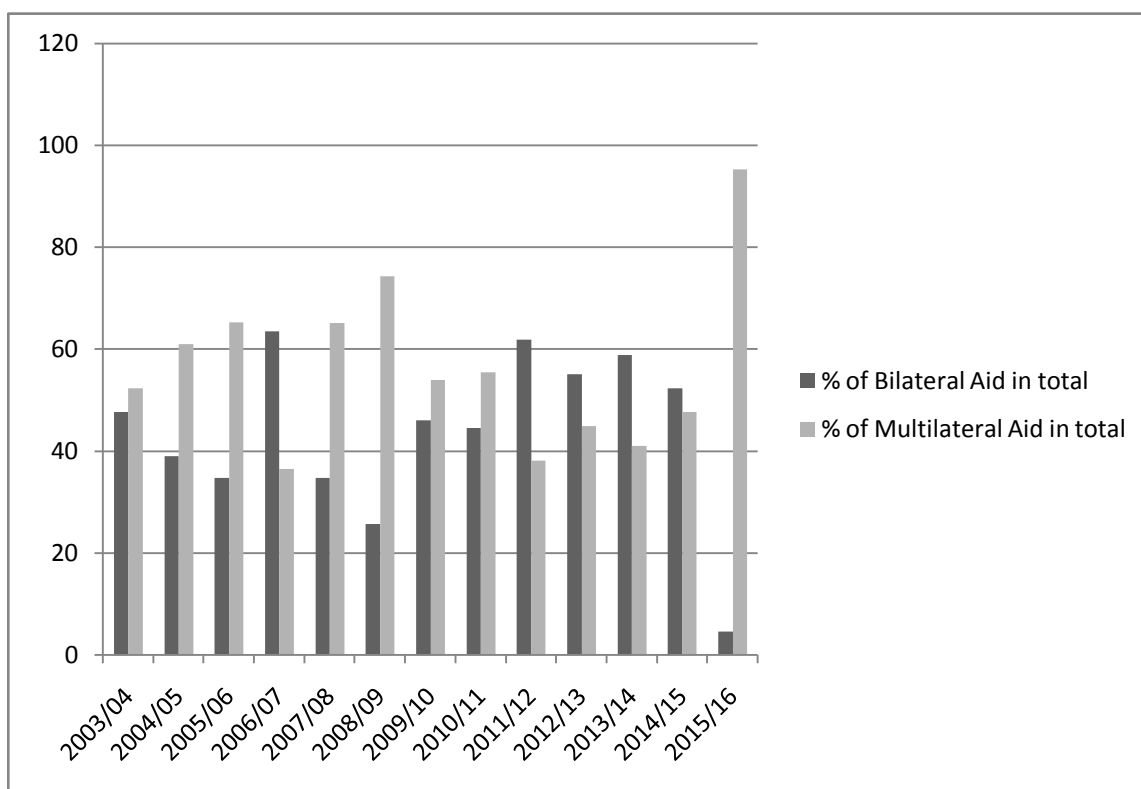
Table 4. 3 Foreign Aid from Bilateral and Multilateral Sources

(Rs. In Million)

Fiscal Year	Bilateral Aid	Multilateral Aid	Total aid	% of Bilateral Aid in total	% of Multilateral Aid in total
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
2013/14	33801.5	23557.9	57359.4	58.92	41.07
2014/15	47980.2	43667,4	91647.6	52.35	47.64
2015/16	54980.1	51234.2	106214.3	4.688	95.31

Source: Compiled from various issues of Economic survey. MOF (2003/04 to 2015/16))

Figure 4.3 Foreign Aid from Bilateral and Multilateral Sources



Source : Based on the table 4.3

The table 4.3 and figure 4.3 show 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 2003/04 the total aid remain Rs. 18912.4million in which bilateral aid is Rs. 9013.2 million and multilateral aid is Rs. 160.26 million. But in FY 2015/16 total aid amount to Rs. 106214.3million in which bilateral aid is Rs. 54980.1 .7million which is 4.68 percent of the total aid and multilateral aid Rs 51234.2Which is 95.31 percent 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 insufficient 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.

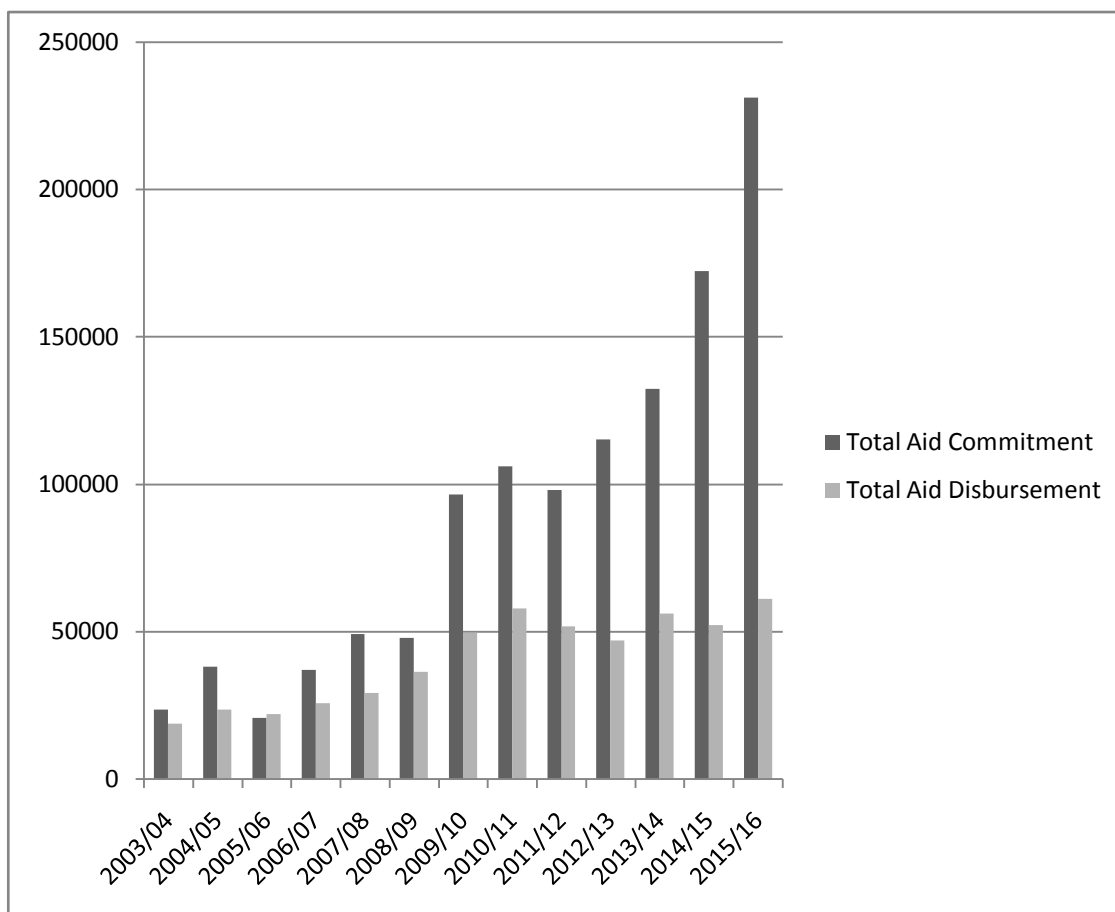
Table No 4.4 Foreign Aid Commitment and Disbursement

(Rs. in Million)

Fiscal Year	Total Aid Commitment	Total Aid Disbursement	Disbursement of % Commitment
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
2013/14	132377.7	56123.6	42.39
2014/15	172345.7	52394.5	30.40
2015/16	231145.3	61237.8	26.49

Source: Compiled from various issues of Economic survey(2003/04 to 2015/16)

Figure 4.4 Foreign Aid Commitment and Disbursement



Source : Based on the table 4.4

The table 4.4 and figure 4. show that the total commitment of aid, total disbursement of foreign aid and disbursement as a percentage of commitment. In FY 2003/04 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 2015/16, 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 Sector wise Disbursement of Foreign Aid in FY 2015/16

In the FY 2015/16 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 2015/16 in the top five sectors on Foreign aid is concentrated for the FY 2015/16 .

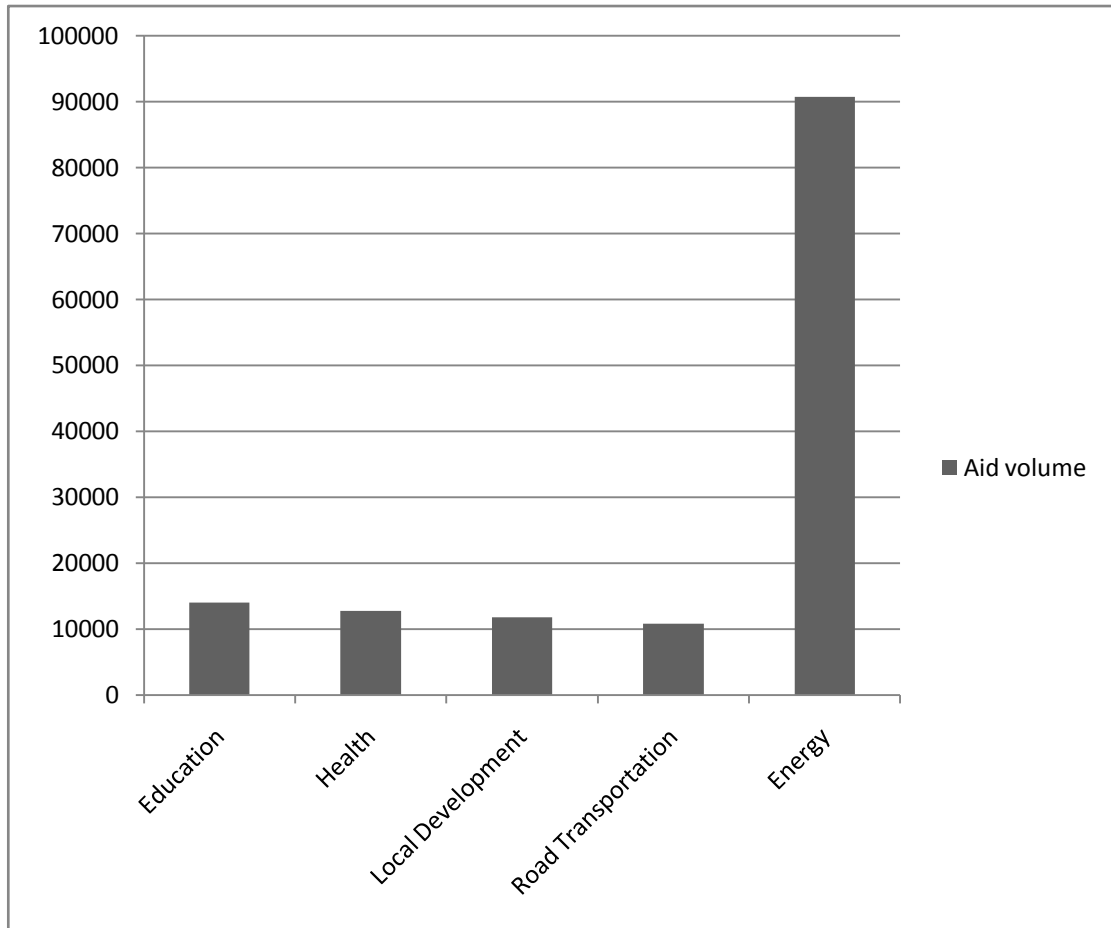
Table 4.5 Sector wise Disbursement of Foreign Aid in FY 2015/16

(RS In Million)

Sector	Aid volume
Education	14072.16
Health	12851.43
Local Development	11829.50
Road Transportation	10873.39
Energy	90732.11

Source: MOF, IECC Division Nepal

Figure 4.5 Sector wise Disbursement of Foreign Aid in FY 2015/16



Source : Based on the table 4.5

The Table 4.5 and figure 4.5 show the top five sector wise disbursement of foreign aid is concentrated on the FY 2015/16. 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 Bilateral Assistance in Nepal

4.2.1 Indian Assistance in 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.

4.2.2 Chinese Assistance in 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.

4.2.3 UK Assistance in 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 contributed 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 etc. In 1997/98 Nepal received sterling pound 15 million of British aid.

4.2.4 Japanese Assistance in 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.

4.2.5 U.S.A. Assistance in 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.

4.2.6 German Assistance in 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 Foresty 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.

4.3 Multilateral Assistance in Nepal

4.3.1 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. Road maintenance and rehabilitation project and Hill Community Forestry project are the major projects operated under the assistance of World Bank.

4.3.2 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.

4.3.3 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.

4.3.4 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.

Table 4.6 Different Donors with Sector Wise Involvement

Donors	Dated	Sector
ADB	2006	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	2007	Social (Drinking water, Sewerage), Agriculture (Credit, Training, Livestock, Crop, Storage), Water Resources (Hydro Power, Transmission, Irrigation, Watershed), Commerce, Local/Rural Development, Institution Building.
IFAD	2006	Agriculture, Water Resources (Irrigation), Forestry, Others (Rural Development) etc.
IMF		Monetary, Economy
Kuwait Fund	2006	Water Resources (Hydropower)
OPEC FUND	2006	Social (Education), Water Resources (Hydropower & Irrigation), Transport (Road and Air Transport), Balance of Payment, Commodity Grants.
SDF	2007	Water Resources (Hydropower, Irrigation), Transport (Road Transport), Other (Food Assistance).
UNDP	2007	Social (Education, Health, Drinking Water), Forestry, Agriculture, Industry, Water Resources (Hydropower, Irrigation), Transport (Road and Air Transport), Other (Institution Building, Decentralization, Policy Support)
UNFPA	2008	Social (Health, Population)
UNICEF	2013	Social (Health, Drinking Water, Institution Building)
WHO	2013	Social (Health, Drinking Water, Institution Building)
WB	2013	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	2011	Health, Education, Air Transport, Forestry, Institution Building and Rural Development
Austria	2010	Drinking Water, Restoration of Archaeology Monuments, Small Hydropower
Belgium	2009	Telecommunication
Canada	2010	Health, Education, Air Transport, Agriculture, Rural Development
China	2009	Health, Sport, Road, Industry, Commerce, Hydropower, Irrigation
Denmark	2010	Education, Health, Forestry, Dairy, Livestock, Telecommunication, Irrigation, Domestic Institution Development
Finland	2011	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	2011	Water Supply, Education, Health, Horticulture, Sericulture, Fishery, Store, Institution Building, Road, Radio, Commodity Assistant, Telecommunication, Hydropower, Electricity, Distribution
Netherlands	2010	Health, Road, Forestry, Local Development, Bio-gas, Bee-keeping
Norway	2012	Through Multilateral Agencies
Switzerland	2012	Education, Resettlement, Health, Dairy Cheese, Veterinary, Road, Small-Hydropower, Forestry, Local Development
United Kingdom	1013	Education, Health, Water Supply, Storage, Tea, Institution Building, Road, Air Transport, Forestry
USA	2013	Education, Health, Institution Building (Agri), Forestry, Irrigation,

		Local Development, Economic Liberalization, Democratic Institution Building
Former USSR	2014	Education, Road, Industry
	2015	Earthquake, Road, Industry

Source: MOF, Donors Profile, 2015

4.4 Actual Distribution of 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

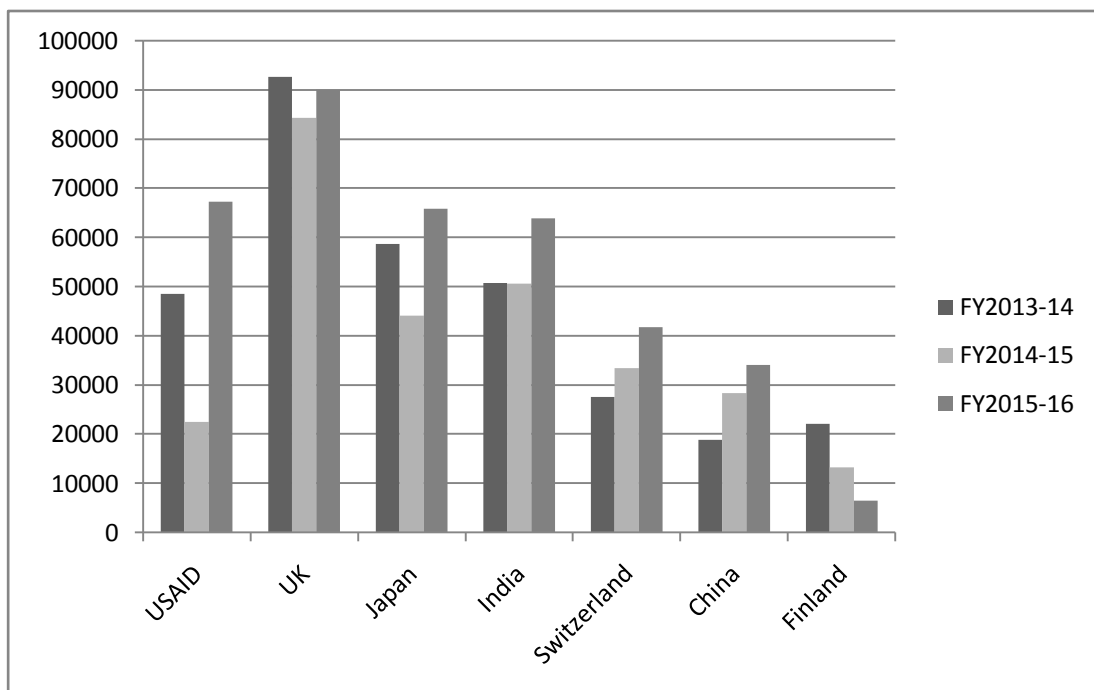
(RS in Millions)

Donor Group	Actual Disbursements FY2013-14	Actual Disbursements FY2014-15	Actual Disbursements FY2015-16
World Bank	256113.102	269605.647	231404.440
Asian Development bank	184419.986	193400.498	101204.607
European Union	42384.482	43974.932	28066.696
Saudi Fund	1141.351	-	798.696
Nordic Development Fund	2943.806	-	-
UN	112543.336	108169.072	68661.608

Source :Development cooperation report FY2012-2016)

The above table 4.7 show different Donor groups Actual Disbursements (FY2012-2016) of foreign aid in Nepal. World Bank Actual Disbursements inFY2013-14 is RS.256113.102million but Actual Disbursements in FY2014-15 is RS 231404.440 millon. Likewise, UN Actual Disbursements inFY2015-16 is RS. 112543.336 million but Actual Disbursements in FY2015-16 is RS 68661.608 millon.

Figure 4.7 Donor group Multilateral Foreign Aid in Nepal



Source : Based on the table 4.7

The table 4.7 and figure 4.7 show the different donor groups Actual Disbursements (FY2013-FY2016) of foreign aid in Nepal. USAID Actual Disbursements in FY2013-14 is RS. 48450.255million but Actual Disbursements in FY2014-15 is RS 67196.696 million. Likewise, Finland Actual Disbursements in FY2015-16 is RS. 22153.680 million but Actual Disbursements in FY2015-16 is RS 6470.909 million.

4.5 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 2064. 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 headmasters 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 1992. 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 percent 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 local 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 financial 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.

4.6 Foreign Aid in the Development Expenditure in Different Plans Periods

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 PARISHD (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 4.8 Share of Foreign Aid in Development Expenditure in Different Plans

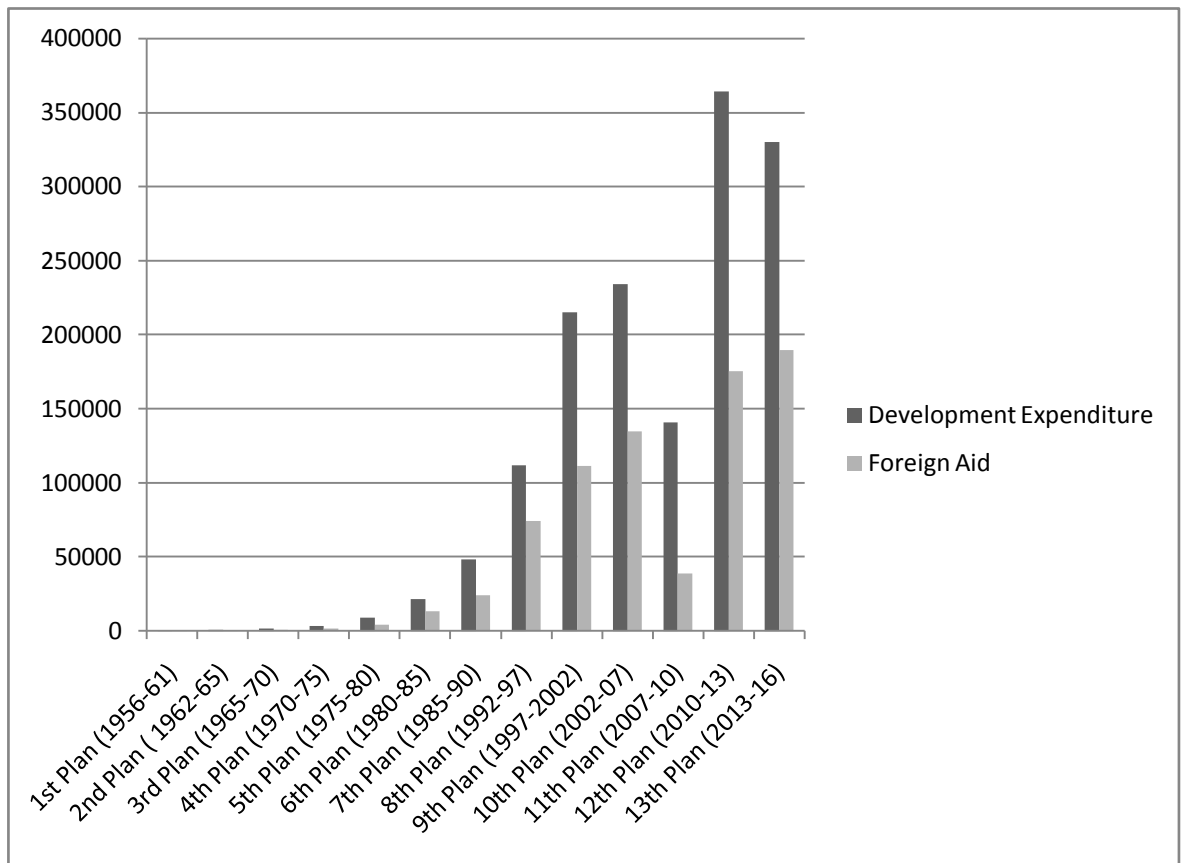
(Rs in million)

Plan Period	Development Expenditure	Foreign Aid	% of foreign aid in Development expenditure
1 st Plan (1956-61)	382.9	382.90	100.0
2 nd Plan (1962-65)	614.7	478.30	77.80
3 rd Plan (1965-70)	1639.1	919.81	56.10
4 th Plan (1970-75)	3356.9	1509.10	45.00
5 th Plan (1975-80)	8870.6	4264.10	48.10
6 th Plan (1980-85)	21750.0	13260.00	61.00
7 th Plan (1985-90)	48345.4	23978.50	49.60
8 th Plan (1992-97)	111919.80	74355.00	65.50

9 th Plan (1997-2002)	215154.4	111546.00	51.10
10 th Plan (2002-07)	234030.0	134620.00	57.50
11 th Plan (2007-10)	140660.0	38695.60	27.51
12 th Plan (2010-13)	364340.0	175180.00	48.08
13 th Plan (2013-16)	329976.00	189455.00	57.41

Source: Compiled from various issues of Economic survey. MOF (2003/04 to 2015/16))

Figure 4.9 Share of Foreign Aid in Development Expenditure in Different Plans



Source : Based on the table 4.8

The table 4.8 and figure 4.8 show 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 13th 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.

4.7 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 4.9 The share of Foreign Aid in GDP

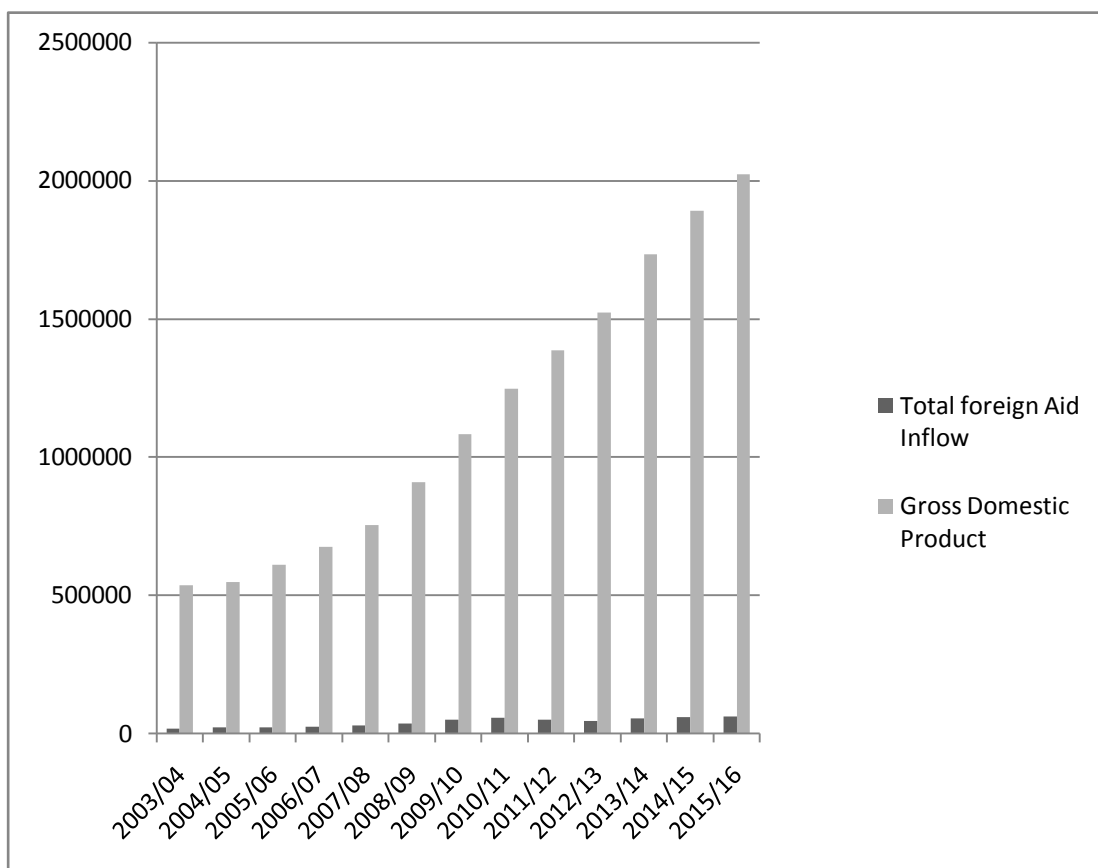
In million

Fiscal year	Total foreign Aid Inflow	Gross Domestic Product
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
2013/14	55223.6	1734678.00
2014/15	60003.9	1892346.00
2015/16	63458.6	2023456.00

Source: Compiled from various issues of Economic survey. MOF (2003/04 to 2015/16))

Figure 4.9 The share of Foreign Aid in GDP



Source : Based on Table 4.9

The above table 4.9 and figure 4.9 show the share of foreign aid in the total GDP of Nepal. In FY 2003/04 foreign aid was Rs. 18797.4 million and the GDP of the country was Rs. 441519 million, but in FY 2015/16 foreign aid was Rs. 63458.6 million and the GDP of the country was Rs. 2023456.00 million.

4.8 Foreign Aid In Agriculture, Irrigation And Forestry

4.8.1 Background of Nepalese Agriculture, Irrigation And Forestry

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

this sector contributes more than 40 percent to the gross domestic product. Out of total export of the country, 15 percent is supplied from the agriculture sector.

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

There is no unidirectional view of impact of FA on Nepalese economy. Some economists are arguing about the positive impact of FA and others are against it. Anyway, there is no evidence found that FA has neutral effect into the economy during the literature review. It is a debatable question that foreign aid is working or not in Nepal. It is very difficult to derive the exact figure of aid because of numerous sources (government and donors) and various forms. Likewise, the much serious problem is that the differences in calculation due to different exchange rates are used so that government documents and OECD is separately presented (Khanal, Acharya and Upreti 2008).

Foreign aid has been the mainstay of Nepalese economy ever since Nepal entered the era of planned development. It has been contributing more than 60 percent of the development budget and around 30 percent of the total budget. A savings-investment gap has been one of the major reasons for resorting to foreign loans. The economic survey of the fiscal year 2008/09 shows that its gross domestic savings is 11.5 percent while the gross domestic investment is 32 percent, widening the gap between savings and investment to 20.5 percent of the GDP. However, gross national savings is 32 percent of the GDP implying openness of Nepalese economy. In Nepal, as in many other developing countries, the aid agencies increasingly see themselves as 'partners' and not as donors. The term 'partnership' assumes symmetrical relationship. However, Nepal continues to remain a highly aid dependent country and Nepal's relationship with the donors continues to be highly asymmetric. For instance, in 1999 foreign assistance contributed a little less than half the development expenditure, made up almost 6.7 percent of the country's gross national income, while per capita aid hovered around US\$18. Despite the decreasing trend, the aid that Nepal receives

is still the highest in South Asia in relative per capita terms and one of the highest in the world (Sharma and et al, 2003).

“There is no debate on whether Nepal needs foreign aid or not, the prime concern is of raising its productivity through effective utilization of foreign aid. In recent years, the major issues like ownership of donor-driven projects in recipient countries, engagement of national experts in lieu of foreign consultants to ensure cost effectiveness, transparency and aid conditional ties have dominated the central-stage of development drama orchestrated through foreign aid (Dahal, 2008).”

“Developing countries all over in Asia, Africa and Latin America heavily embarked on foreign aid in the form of Official Development Assistance (ODA) in the aftermath of World War II. Since then, voices have been raised against its mis-performance and non-performance from donors and recipients alike it has led to dependency, eroded self-reliance, bred corruption, promoted inequality and “intoxicated” people with its short-term, myopic and unsustainable deliveries. Many of such criticisms in many instances have proved valid, strongly suggests the need for a critical re-look into its current concept, scope, motive, quality, utility and mobilization instruments (Foreign Aid Policy, 2009).” It has found the most striking finding that about a quarter of a dollar received as foreign aid in Nepal has been spent on government consumption and the rest on development expenditures. This is the exact opposite of what Feyzioglu et al. (1998), quoted in Tiwari, have found the study of 14 developing countries that two thirds of a dollar in aid was used for government consumption in their sample (Tiwari, 2007). “Foreign aid has failed to address the continuation of social injustice, class and gender discrimination, unequal distribution of means and resources and corrupt governance. We are gravely concerned towards the fact that the faulty implementation of foreign assistance has contributed to further marginalization of the disadvantaged sections of the society.

4.8.2 Topography

Nepal is a mountainous country. Geographically the country is divided into three regions; Himalayan region, Hilly region and Terai region. Himalayan region lies at the northern side of Nepal. Hilly region is in the center with several fertile valleys including Kathmandu. The country has great varieties of topography, which is reflected in the diversity of weather,

micro thermal, taiga and tundra type of climate. The climate of Terai region is sub-tropical and altitude goes up to 1000 feet and the Terai region belongs to major portion of agricultural area of the country. In fact the entire Terai region shares 60 percent of the total rearing area of the country. In comparison to this the Hilly and Himalayan region cover 40 percent of the total farming area of the country while the Terai region covers 17 percent of the total area of the country. Geographical factors have many implications for the development of agricultural sector in Nepal especially in the Hilly and Himalayan region.

4.8.3 Irrigation Facilities

The production of agriculture increases when the monsoon is favorable and falls down it is not uncertainty of monsoon makes the irrigation situation is very poor. According to the "Nepal in Figure 2007" published by Central Bureau of Statistics, Only 854010 hectares of total agricultural land are under the irrigation facility which is only 31 percent of the total cultivated land. In the eighth plan period, the physical target was set to provide irrigation facility to an additional 193.895 hectares of land through various new and under construction irrigation projects. Of that target, irrigation facility has been provided only to the 206.401 hectares of land, which is 19.9 percent of the total target. This situation shows the very slow of the irrigation sector development in Nepal. Unless the irrigation sector of Nepal is properly developed it is almost impossible to meet the target of agricultural growth.

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

Government agencies and ADB/N are implementing irrigation development projects and schemes. In FY 2013/14, a total of 11823 hectares of arable land received irrigation water. Of this total 10427 hectares were irrigated by government built irrigation projects and 1396 hectares by ADB/N schemes. As the pace of providing irrigation to additional land has been too slow, major part of cultivated land still remains out of access to irrigation facility. Irrigation programs, therefore, need attention for prioritization, in the review period of FY 2015/16 irrigation facilities were extended to a total of 2238 hectares of additional land including 238 hectares under ADB/N schemes and 2000 hectares under government schemes. Additional irrigation facility has not increased continuously; it has been fluctuation with respect to time. It may be the result of instability of government.

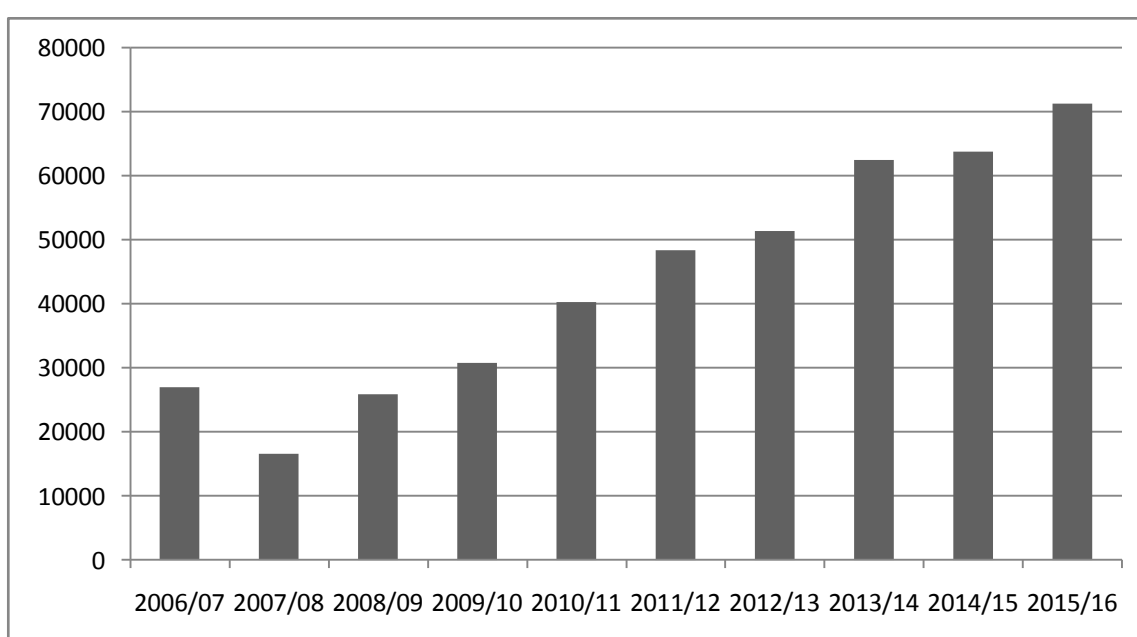
Table 4.10 The additional irrigation facility during 2006 to 2015/16

Hect.

2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/1	2013/1	2014/15	2015/16
						3	4		
26967.5	16613	25850	30718	40263.2	48322.3	51336.4	62448.7	63678.21	71223.9

Source: Compiled from various issues of Economic survey. MOF (2006/07 to 2015/16))

Figure 4.10 The additional irrigation facility during 2006 to 2015/16



Source : Based on the table 4.10

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

4.8.4 Uses of Fertilizer and Important seeds

Improved seeds have to be accompanied by chemical fertilizer to obtain the maximum yield. Nepalese agricultural soil has been under cultivation for a long period of time. Farmers only use traditionally produced fertilizer in their cultivated land which can only generate less productivity, than improved chemical fertilizers. After 1990, the distribution of improved

seeds has increased by the increment of the participation of private sector. In 2014/15, the national seeds company Ltd, has distributed 3348Metric Ton of seeds of rice, maize, wheat vegetables and jute. In 2015/16 this company has been distribution 1847 Metric Ton of seeds. Following tables shows the use of fertilizer and improved seeds.

**Table 4.11 Uses of fertilizer and improved seeds during 2001/02 to 2015/16
(Metric Ton)**

FY	Chemical Fertilizer(Nutrients)				Improved Seeds			
	Total	Nitrogen	Phosphorous	Potash	Total	Rice	Maize	Wheat
2003/04	11711	5465	5233	1013	2190	504	20	1666
2004/05	18458	8118	8941	1399	2749	510	2	2237
2005/06	8136	2856	4994	286	3514	644	11	2859
2006/07	12751	8781	3970	0	3380	900	30	2450
2007/08	3285	1939	1346	0	3781	897	1	2883
2008/09	3157	2918	239	0	3947	931	0	3016
2009/10	42178	28407	12356	1415	4337	850	0.1	3487
2010/11	9322	5321	3921	80	4922	1020	40	3862
2011/12	48212	35322	8822	4068	5632	1250	3	4379
2012/13	3157	2918	239	0	3947	931	0	3016
2013/14	19713	10610	8562	514	2654	89	41	2524
2014/15	38950	21838	15332	1780	2053	353	20	1680
2015/16	9322	5321	2921	80	4922	1020	40	3862

Sources: - Economic Survey 2015/16

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

4.8.5 Climate

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

4.8.6 Employment opportunity in Agricultural sector

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

4.8.7 Export of Agricultural Commodities of Nepal

Nepal is one of the least developed countries of the world because of its static condition of industrialization most of the industries are in poor conditions. So the contribution of agricultural sector to the GDP is higher than the industrial sector. Agricultural products like rice, sugarcane, tobacco, oilseeds, most of them are in poor condition. Dry ginger, species, pulses, jute, tea are the main exporting products of Nepal. Besides this animal, vegetable oil fats are also the expanding commodities of agricultural sector. Agricultural is the main supplier of raw materials to agro- based industries, The small and cottage industries as well as large – scale industries depend on agriculture for raw materials. Jute, Sugarcane, tea, tobacco, oilseed& rice are the most important raw materials. Jute, sugarcane, tea, tobacco, oilseed, rice are the most important raw materials in running agro-based industries on Nepal. When agro-based industries are established within Nepal, when endogenous workers

and unemployed people get employment, which ultimately generates production, reduces imports increase exports and makes the nation economically strong

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

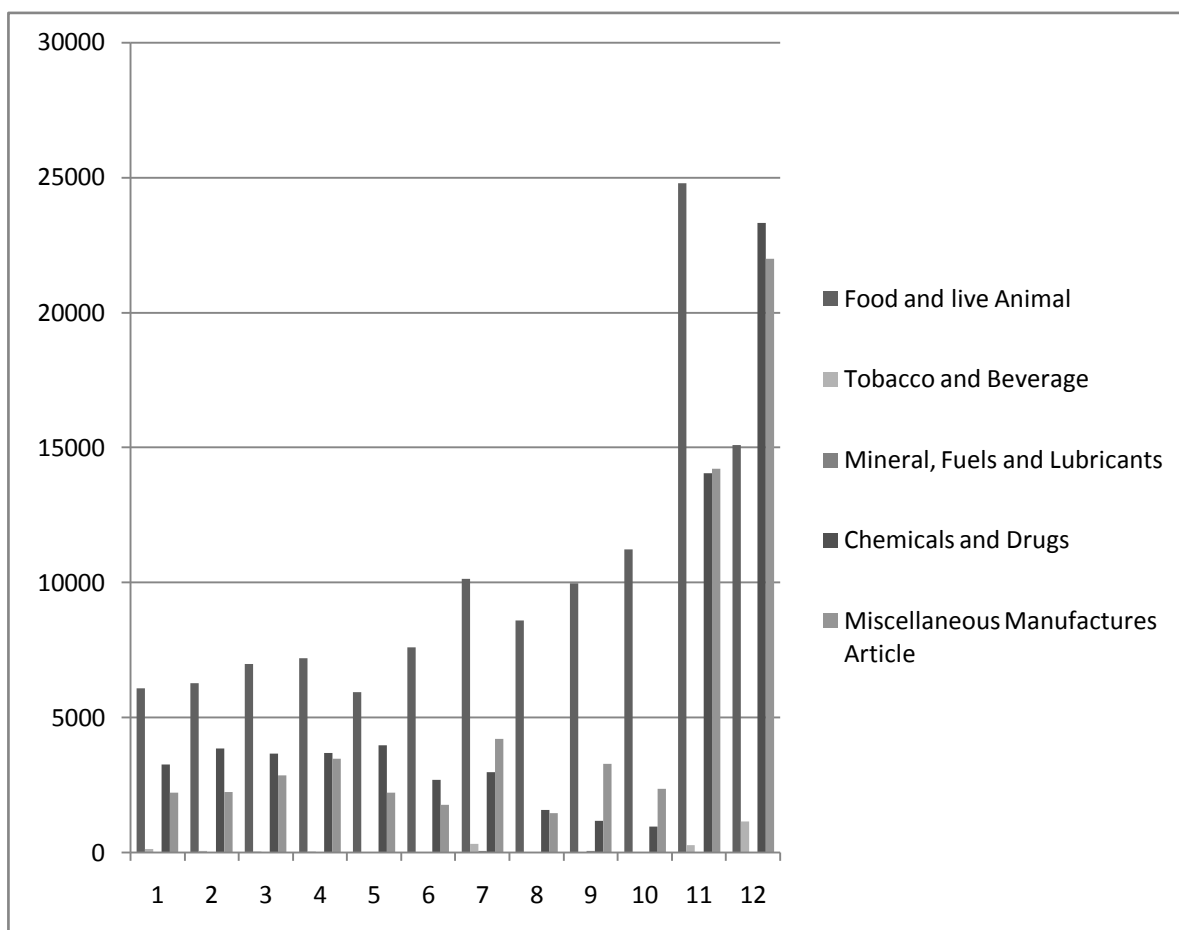
Table 4.12 Total export of major commodities of Nepal

(In Million)

FY	Food and live Animal	Tobacco and Beverage	Mineral, Fuels and Lubricants	Chemicals and Drugs	Miscellaneous Manufactures Article
2002/03	6100.9	138.7	5.5	3279.0	2225.7
2003/04	6276.9	55.2	14.5	3865.9	2262.5
2004/05	6993.5	31.6	4.2	3677.6	2876.2
2005/06	7192.0	25.0	3.2	3686.9	3477.7
2006/07	5944.3	12.0	0.0	3977.4	2217.2
2007/08	7617.4	10.7	0.0	2696.3	1783.7
2008/09	10151.1	329.5	40.6	2990.8	4213.1
2009/10	8598.6	0.0	0.0	1576.6	1471.3
2010/11	9982.7	22.32	43.09	1180.8	3290.0
2011/12	11222.8	10.72	2.78	980.0	2380.0
2012/13	24776.6	275.6	3.3	14041.7	14228.6
2013/14	15094.2	1145.7	4.6	23308.3	21979.5

Sources: Quarterly Bulletin of NRB, Mid – April 2016, Vol 45

Figure 4.12 Total export of major commodities of Nepal



Source : Based on the table 4.12

This table 4.12 and figure 4.12 show that the export of food and animal is increase per year. Export of tobacco and beverage has some fluctuation, mineral, fuels and lubricants have slightly fluctuates in FY 1997/98 20.9 million to 3.2 million in FY 2005/06. Export of chemical and drugs and miscellaneous manufactures article has also increased after FY1997/98 to 2000/01 and after FY203/04 to 2005/06 it starts to decrease and after FY2003/04 to 2007/08 it starts to increase. Overall situation of agricultural exports slightly increased from 2003 to 2016.

4.8.8 Contribution and Important of Agriculture in the Nepalese Economy

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

export sectors. That is why agriculture sector is considered to be the backbone of the Nepalese economy.

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

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

4.8.9 Foreign Aid Disbursement by the sectors

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

In 1956, when Nepal began to leap forward in the path of planned economic development, Nepal was in dire need of infrastructure such as transport, communication and hydro-

electricity in the country. Realizing the importance of transportation facilities, road construction emerged as the priority at the initial periods. Sectoral allocation of foreign aid in different sectors in the review period is shown in the table below.

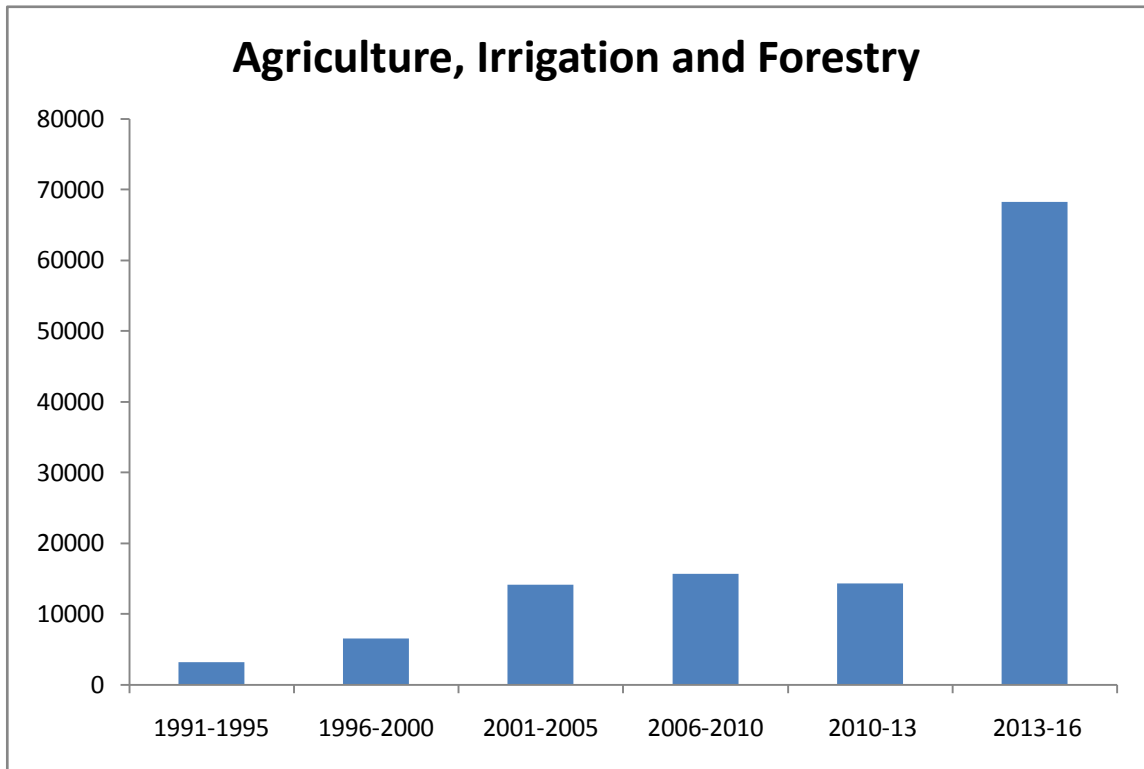
Table 4. 13 Sectoral Allocation of Foreign Aid

(In Million)

Year	Transport, Power and Communication	Agriculture, Irrigation and Forestry	Social Service Sector	Industry and Commerce	Total
1991-1995	4252.1 (40.45)	3186.8 (30.32)	1962.4 (18.67)	1109.5 (10.56)	10510.8
1996-2000	11378.7 (47.92)	6519.2 (27.45)	4094.9 (17.25)	1752.6 (7.38)	23745.4
2001-2005	17744.6 (38.10)	14107.5 (30.29)	9583.7 (20.58)	5132.1 (11.02)	46567.9
2006-2010	32140.5 (46.10)	15672.9 (22.48)	20959.3 (30.1)	940.6 (1.34)	69713.3
2010-13	14263.8 (22.00)	14263.8 (22.00)	35243.2 (54.36)	1060.5 (1.64)	64831.3
2013-16	10985.9 (4.1)	68260 (25.22)	174079.2 (64.31)	17382 (6.42)	270707.1
Total	189638.7 (32.42)	122010.2 (20.86)	245922.7 (42.04)	27377.3 (4.68)	584948.9

Source: Economic Surveys of Nepal Various Issues

Figure 4. 13 Sectoral Allocation of Foreign Aid



Source : Based on table 4.13

It is clear from the table 4.13 and figure 4.13 show that since the very beginning transportation, power and communication sector has been the biggest recipient of foreign aid. This sector has received greater amount of loans than grants. In the period 1991/1995 to 1984/85, this sector received the largest portion of aid which was 40.45 percent of the total aid. Share of aid received by industry and commerce sector was relatively smaller than other sectors. The source wise annual aid disbursement indicated that the percentage share of agriculture in 1980s was smaller in comparison to transport and communication sectors. Share of aid to agriculture, irrigation and forestry sector was quite high until 2010 to 13 after which it began to fall. Social service sector has also remained an important sector from the perspective of aid receipt. The increasing trend of aid into this sector is a reflection of donor priority. In the period 2013 to 16, out of the total disbursed aid of Rs. 584948.9 millions, 42.04 percent was distributed to social services, 20.86 percent agriculture, irrigation and forestry, 32.45 percent transport communication and power, , and 4.68 percent to industry and commerce.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

[Nepal](#) relies heavily on [foreign aid](#), and donors coordinate [development aid](#) policy through the Nepal Development Forum, whose members include donor countries, international financial institutions (such as the [World Bank](#)), and inter-governmental organizations (such as the [United Nations](#)). The [United Kingdom](#) is Nepal's largest bilateral aid donor and the World Bank and [Asian Development Bank](#) are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and [corruption](#) in poverty relief efforts as well as the country's apparently poor capacity to utilize aid. According to World Bank figures, official development assistance increased from US\$8.2 million in 1960 to US\$369 million in 2003 and then fell to US\$177 million in 2004. According to Nepal's Ministry of Finance, total foreign aid committed in fiscal year (FY) 2003 was US\$555 million, with 63.3 percent in grants and 36.7 percent in loans. In FY2004, total foreign aid committed was US\$320 million, of which 37.7 percent was grants and 62.3 percent, loans. In June 2004, active World Bank credits totaled US\$302 million, with the greatest portions allocated to the financial sector (US\$91.5 million) and to energy and mining (US\$75.6 million). By the end of 2012, the outstanding World Bank IDA loan totaled [\\$ 1.48 billion](#).

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 Conclusion

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 government should guide the foreign assistance, towards the productive sector.
- (ii) The government of Nepal should focus on effective use of foreign aid in agricultural development.
- (iii) Harmony and Consistency in between Acts, Policies and International Commitments should be maintained.
- (iv) Furthermore, the effective aid policy should be developed in the country so that the donor country could donate huge amount aid in agricultural as well as infrastructural development.

- (v) Donors should reform the current trend of allocating aid towards addressing the needs of Nepalese economy instead of sticking on their own priority and interest.
- (vi) Donors should initiate to formulate development programs prioritizing the need of target group. They should emphasize on participatory approach while implementing these programs for effecting result.
- (vii) Donors should divert the aid from other non-productive sectors to agriculture as it is the major backbone of Nepalese economy.
- (viii) Selected projects should be implemented with full commitment so that it can generate sufficient resources to pay back the loan.
- (ix) Similarly, by making formal agreements, emphasis should be given on employing local labours also the entire freedom in the selection, of the projects should not be provided to donors.
- (x) The priority list of viable projects according to the development need of the country should be developed.
- (xi) The transparency and accountability of foreign aid should also be maintained for that definite policies and guideline should be outlined.
- (xii) Local capacity building should be given outmost priority by giving preference to domestic rather than foreign consultants and contractors to strengthen national human resource.
- (xiii) The government should increase absorption capacity of foreign aid, for this a separate aid-administering body must be formed which leads to bridging the gap between aid commitment and disbursement.
- (xiv) Similarly the foreign aid should be spent in development expenditure but not in regular expenditure.