

A SECTORAL ANALYSIS OF AMERICAN AID IN NEPAL

A Thesis
Submitted to
The Central Department of Economics
Faculty of Humanities and Social Science, Tribhuvan University
In the Partial Fulfillment of Required Degree of Masters of Arts in
Economics

By: **Narendra Thapa**
Central Department of Economics
Tribhuvan University, Kirtipur
Kathmandu, Nepal

September 2008

ACKNOWLEDGEMENT

This thesis entitled "A Sectoral Analysis of American Aid in Nepal" is prepared to cater to the requirement for the degree of Master of Arts in Economics. During the study period, many visible and invisible hands helped materialize my desired objective.

As my very first vote of thanks, I would like to overwhelmingly grant sincere gratitude to Prof. Dr. Kanhaiya Ram Bhakta Mathema of Central Department of Economics. His valuable suggestions, stimuli and support provided me a right avenue. Hence, the deed I did would be incomplete without any kind of kudos to him.

Prof. Dr. Madhavi Singh Shah, the head, in addition to the other respected teachers of CEDECON, deserves profound gratitude for providing precious suggestions, information and comments. Literally, another sum of thanks goes to all the staff members of TU Central Library. They have assisted me in the course of this study. I can't help thanking Mr. James Ellis and Ms. Stuti Basnyet, staffs of USAID for providing necessary data and information required for this work. The other names that I shouldn't forget to mention are the staffs of Nepal Rastra Bank, Ministry of Finance, General Comptroller Office and Social Welfare Council in providing me the bulky amount of data. I humbly appreciate Mr. Safal Ghimire in providing further assistance and company. Genuinely acknowledgement goes to the rest of the several companies sharing their shoulder to back this responsibility. Their valuable expertise and time to assist in the production of this thesis are never to be forgotten. Finally, I have tried much not to err anything during this research process, if any, drawbacks are regretted.

Narendra Thapa
Central Department of Economics
Kirtipur, Kathmandu, Nepal
September, 2008

TABLE OF CONTENTS

ACKNOWLEDGEMENT	---i
TABLE OF CONTENTS	---ii
LIST OF TABLES	---v
LIST OF FIGURES	---vi
ACRONYMS	---vii
CHAPTER 1: INTRODUCTION	---1
1.1 Background:	---1
1.2 Statement of the Problem	---3
1.3 Objectives of the Study	---4
1.4 Significance of the Study	---4
1.5 Research Methodology	---5
1.6 Limitation of the Study	---5
CHAPTER 2: REVIEW OF LITERATURE	---6
CHAPTER 3: FOREIGN AID IN NEPAL	---22
3.1 Historical Background	---22
3.2 Foreign Aid Policies	---23
3.3 Objectives of the Foreign Aid Policy	---24
3.4 Resource Gap Problem and Need of Foreign Aid	---25
3.5 Trends and Magnitude of Foreign Aid in Nepal	---27
3.6 Foreign Aid Commitment and Disbursement	---30
3.7 Foreign Aid in Different Sectors	---33
CHAPTER 4: AMERICAN AID IN NEPAL	---37
4.1 Historical Background of American Aid	---37
4.2 Objectives of U.S Aid to Nepal	---39
4.3 Total Magnitude of US Aid (1951-2007)	---40
4.4 Trends and Pattern of US Aid (1991-2007)	---42
CHAPTER 5: SECTORAL ANALYSIS OF AMERICAN AID IN NEPAL	---44

5.1 Sector-Wise Distribution of US Aid	---44
5.2 American Assistance during 1950s:	---48
5.2.1 Agricultural Development	---48
5.2.2 Rural Development	---48
5.2.3 Health	---49
5.2.4 Education	---49
5.2.5 Transportation and Communication	---50
5.2.6 Industrial and Capital Development	---50
5.3 American Assistance during 1960s:	---51
5.3.1 Institution Building	---51
5.3.2 Agricultural Development:	---51
5.3.3 Rural Development and Local Government:	---51
5.3.4 Health and Family Planning:	---52
5.3.5 Education:	---52
5.3.6 Transportation:	---52
5.3.7 Industrial Development:	---53
5.4 American Assistance during 1970s:	---53
5.4.1 Agricultural Development	---53
5.4.2 Health and Family Planning	---53
5.4.3 Education	---54
5.4.4 Transportation	---54
5.5 American Assistance during 1980s:	---55
5.5.1 Decentralization	---55
5.5.2 Agriculture	---55
5.5.3 Rural Development	---55
5.5.4 Natural Resource Management	---56
5.5.5 Health and Family Planning	---56
5.5.6 Education	---57
5.5.7 Transportation	---57

5.6 American Assistance during 1990s:	---57
5.6.1 Agriculture, Natural Resource Management, Rural Development, and Conservation	---57
5.6.2 Health and Family Planning	---58
5.6.3 Economic Liberalization	---59
5.7 Strategies and Programs of U.S Agencies after 2000	---59
CHAPTER 6: CONCLUSION AND RECOMMENDATIONS	---66
6.1 Conclusion	---66
6.2 Recommendations	---68
BIBLIOGRAPHY	---71

LIST OF TABLES

Table 1: Resource Gap in Nepalese Economy	.....26
Table 2: Trend and Structure of Foreign Aid to Nepal	.....28
Table 3: Foreign Aid Commitment and Disbursement	.....31
Table 4: Foreign Aid Disbursement by Sectors	.....35
Table 5: US Aid to Nepal (1951-2007)	.....41
Table 6: Trend and Pattern of US Aid	.....43
Table 7: Sector-wise Distribution of US Aid to Nepal (1991-2004)	.....45
Table 8: Sector-wise Distribution of US Aid to Nepal (2006-2007)	.....47

LIST OF FIGURES

Figure i: Resource Gap in Nepalese Economy	.....27
Figure ii: Trend and Structure of Foreign Aid to Nepal	.....29
Figure iii: Foreign Aid Commitment and Disbursement	.....32
Figure iv: Sector-wise Distribution of US Aid to Nepal	.....45

ACRONYMS

ADB	=	Asian Development Bank
CBS	=	Central Bureau of Statistics
CRS	=	Contraceptive Retail Sales
DOA	=	Department of Agriculture
EU	=	European Union
FHI	=	Family Health International
FNCCI	=	Federation of Nepalese Chambers of Commerce and Industry
FY	=	Fiscal Year
GoN	=	Government of Nepal
IAAS	=	Institute of Agriculture and Animal Science
IBRD	=	International Bank for Reconstruction and Development
IDA	=	International Development Association for the World Bank
ILO	=	International labor Organization
IMF	=	International Monetary Fund
LDC	=	Least Developed Countries
LIC	=	Low Income Country
MOF	=	Ministry of Finance
NAG	=	Nepal Aid Group
NEPC	=	National Education Planning Commission
NGDO	=	Non-Governmental Development Organization
NIDC	=	National Industrial Development Corporation
NPC	=	National Planning Commission
NRB	=	Nepal Rastra Bank
ODA	=	Official Development Assistance

OECD	=	Organization of Economic Cooperation and Development
OPEC	=	Organization of Petroleum Exporting Countries
OTI	=	Office of Transition Initiatives
PVO	=	Private Voluntary Organization
RAD	=	Rural Area Development
RCUP	=	Resource Conservation and Utilization Project
RTO	=	Regional Transport Organization
SIRE	=	Sustainable Income and Rural Enterprise
UN	=	United Nations
UNDP	=	United Nations Development Program
USA	=	United States of America
USAID	=	United States Agency for International Development
USOM	=	United States Operation Mission
VAT	=	Value Added Tax
VDP	=	Village Development Program
WB	=	World Bank
WHO	=	World Health Organization
WHR	=	Western Hills Road
\$	=	US Dollar