

CHAPTER 1

INTRODUCTION

1.1 Background:

Nepal is a small landlocked country embodied with natural beauties but bereft of economical prosperity. With area is of 147,181 square kilometers with 80°4' to 88°12' east longitude and 26°22' to 30°27' north latitude, the shape of Nepal is like a rectangle with length 885 kilometers and width an average of 193 kilometers. According to the census of 2001, the total population is 23,151,423. Nepal has more to do with the foreign assistance when we talk about development efforts in this country.

The term 'Foreign aid' can be defined as the administered transfer of resources from one country to another especially from developed to developing countries. The transfer of resources takes place in various forms like financial, technical, or commodities. "It is given at a concessional term and with a view, when it is purely economic, to promoting development and general welfare of the people in the recipient countries" (Khadka, 1991). The foreign aid or assistance, according to the Organization for Economic Co-operation and Development (OECD), refers to the flow which qualifies as Official Development Assistance (ODA) that is grant or loan undertaken by official with promotion of economic development or welfare as the main objective. Foreign aid refers to the assistance given by richer countries to the poorer ones. According to Todaro, "Foreign Aid is the international transfer of public funds in the form of loan or grant either directly by the one government to another or indirectly through the vehicle of multilateral agencies". In 1960s, United Nations (UN) defined foreign aid as, "All transaction for a country or international organizations which result in a permanent net addition to total resources available for economic development of another country".

In this way, foreign aid is defined in various terms but the subject matter of foreign aid is concerned with economic and social progress of the country. Foreign

aid generally serves three non separable and mutually interdependent objectives: political, economic, and humanitarian. It consists of grants, loans, technical assistance etc. and can be provided bilaterally as well as multilaterally to promote economic development and welfare of the Least Developed Countries (LDCs). The aid given by the government of one country to the government of another is called bilateral aid and the aid channeled through the international agencies such as IBRD, IDA, OPEC, IMF, ILO, ADB etc is called multilateral aid. In bilateral aid, assistance will be received from the individual's donors, where as in case of multilateral aid, international agencies will be seen in the lead role. Nepal is also receiving foreign aid from bilateral as well as multilateral sources. Many countries like U.S, Germany, Italy, Japan, Australia, France, Canada and UK etc. are providing aid to Nepal as bilateral sources.

On the basis of nature, terms, conditions and sources, Foreign aid is classified into various forms; capital aid, commodity aid, technical aid and financial aid. Financial transfer as well as the supply of machinery plant, components, and parts is included in capital aid. Commodity aid usually takes the form of surplus product of the donor countries. Technical aid involves the training to the provision of foreign personnel/experts to carry out the required development tasks in the recipient country. Financial aid includes the grants or loans, grants do not have any repayment liabilities whereas loans do.

In the developing countries like Nepal, domestic resources are inadequate to meet the financial requirements of economic development. The present level of capital formation of Nepal too low and any substantial increase in saving is not possible due to extremely low level of income and wide spread poverty. At this situation, foreign aid is advantageous for the acceleration of growth mechanism. It is a supplement to poor domestic savings of less and backward economies.

On the other hand, the Unites States established official relations with Nepal in 1947 and opened its Kathmandu Embassy in 1959. Relation between the

two countries has always been friendly. US policy objectives towards Nepal are to build a peaceful, prosperous and democratic society.

Foreign aid in Nepal started with the aid of America since 1951. In recent years, annual bilateral US economic assistance through US Agency for International Development (USAID) is \$ 40 million in average. USAID is supporting agriculture, hydropower development, peace process etc. in Nepal. USAID had also supported for constitutional assembly election in Nepal.

1.2 Statement of the Problem

Economic development relies on the utilization of available resources. The higher the utilization of available resources to finance the development programs, it is not able to utilize this all to their full extent due to the lack of domestic sources of capital and technology. People are moving around the vicious circle of poverty: about 31 % of population is below the poverty line. Level of income, saving and investment is very low. To increase these all, foreign aid stands as an inseparable actor in the developing countries like Nepal.

Underdeveloped infrastructures, lack of good governance, adverse geographical structure, political instability, lack of proper education, and traditional farming are the major hurdles in the economic development of Nepal. The most serious of these constraints is the political constraint, i. e. lack of grassroots level of political institutions, lack of responsible government, over-centralization of political and economic powers, heavy bureaucratization and lack of political priority to developmental works (Khadka, 1991). This country is receiving foreign aid especially for the development of agriculture, industry, education, infrastructure etc. But the problem is that the foreign aid has not been fully utilized in these sectors which may be due to the inefficiency of administration, non-availability of suitable contractors, resulting delays in the implementation of projects etc. Hence large amount of foreign assistance is driven back to the donor countries. It seems to be a controversy that on the one hand, the

disbursement of the foreign aid has been increasing steadily, while on the other hand: Nepal has been facing a problem of under spending at the time. Although aid in Nepal is used for the construction of various projects, sometimes the donors are using aid as an instrument mostly to serve their own interest rather than giving benefit to Nepal. So, the more the study is of foreign assistance inflow, pattern and magnitude of American aid in Nepal, the more knowledge will be there on how American aid is distributed in different sectors of Nepal.

1.3 Objectives of the Study

Major objectives of the study are to analyze the sectoral allocation of American aid in Nepal. In this study, special emphasis will be given to the US aid. However, the specific objectives are as follows:

- 1) To analyze the trend of foreign aid in Nepal.
- 2) To study the trend and magnitude of American aid in Nepal.
- 3) To present the sectoral analysis of American aid in Nepal.
- 4) To provide suggestions and recommendations for the proper utilization of foreign aid.

1.4 Significance of the Study

Nepal, a land-locked country, is a blessed yam between Asia's two strong stones, China and India. Being supplied to a developing country, foreign aid plays an important role in the development of Nepalese economy. We do have very low saving and investment rate. Hence, to fulfill the saving-investment gap and to pull the economy out of vicious circle of poverty, foreign assistance seems an obvious necessity. Foreign assistance in the form of grant, loans, technological know-how, training, scholarship etc. has multiplier effect on income and accelerator effect on investment and ultimately the country can be self-sufficient to finance investment. Hence, foreign aid today has been acting as the cornerstones for developing economies like Nepal.

Nepal had received the first bilateral aid from US under the four point program. The trend of foreign aid to Nepal started from US then followed by other

countries and multilateral agencies. Aid received by Nepal from America covers many sectors of the country. Hence this study will be going to analyze the sectoral allocation of American aid in Nepal.

1.5 Research methodology

In this study, the methodology adopted will be purely a desktop research type i.e. the study will be descriptive. The source of information and data for this research will be secondary. These will be collected from published materials of various sectors, embassy of US, NPC, WB, NRB, CBS, MOF, USAID, UNDP etc.

Information will also be collected from different articles, journals, newspapers and books. There will be compilations of data to make the study easier.

1.6 Limitation of the Study

To achieve the specific goal of the study, there are some limitations. In this study, the data are of secondary type and in some cases it covers the period from FY 1951/52 to 2006/07.

This study is limited to the transfer of resources from one country to another in the form of loan and grants on government basis. Therefore, the assistance from foreign private investors is excluded. The errors in the data collection may also limit the significance of the study. Similarly, military type of assistance is excluded from the research study. The study is based mainly on American aid.

CHAPTER 2

REVIEW OF LITERATURE

While going through the review of literature in the aforementioned subject, there are plethora of information scattered in the libraries and virtual sources. Taking this fact into account, the research study hereby deals on some of the relevant issues currently in the arena of Foreign Aid sector in Nepal.

The country started to bag Foreign Aid since 1951 first from America and followed by India. But first, here are some discussions on what Foreign Aid does mean. In the recent context of literature, the transfer of capital and technologies from developed and advanced world to the underdeveloped 'third world' either in the form of loan or the grants on occasional scale is known as Foreign Aid. For Nepal, US aid paid high concentration on agriculture and rural development, basic infrastructure with health and education. Whereas Indian aid concentrated on administrative reforms, transportation, communication, irrigation, education and drinking water. While talking about sectional distribution, transport, power and communication sectors attracted considerable amount of Foreign Aid followed by agriculture, irrigation and forestry. The social service sector has attracted Foreign Aid in increasing amount, standing as the third sector to get Foreign Aid in huge amount while the industry and commerce sectors failed to sufficiently absorb this.

There are many books, booklets, journals and articles written by Nepalese as well as foreign writers on this subject. There are also some dissertations referring to Foreign Aid submitted by the students of economics for the fulfillment of their Master's Degree. Below this paragraph, here is a bird-eye view about the presumption and proposition about some of the writers.

Wilfred Owen (1964) has penned a book "Strategy for Mobility". In it, he has focused on the Foreign Aid giving a considerable space on the role and goals of Foreign Aid in the developing countries.

According to him, along with a shortage of funds, it is noted that developing countries lack skills and experience as well as organizational arrangements to perform the tasks imposed by the transport function. A large number and variety of programs to cater to these needs should be conducted by international agencies, individual countries and private institutions.

The task of improving transport will not be accomplished without drawing attention heavily on the productive capacity of the industrialized nations. Since the foreign exchange earned by developing countries falls short of the needed imports, much of what is necessary for transport improvement must be obtained through loans, grants and foreign private investment that furnish capital and foreign exchange. Furthermore, this literature adds that transport development should be a continuing effort with donor countries making long-term financial and administrative arrangements that developing countries can rely on.

Ian Malcolm David and Juliet Many Clifford (1965) in the book "International Military Aid", have tried to explain about the non-military aid to poor or developing countries. Public aid includes direct government to government aid and also aid provided through international organizations. They have defined aid as an ambiguous word and refer only to the value of the subsidy implicit in the total flow of resources from the government of rich countries to the government of poor countries.

Although aid in the form of direct transfer of funds from one independent government to another with the intension of helping the people of a country is new, the cause of finance in diplomacy has a long history. Some transactions that find their way into aid statistics today are little different from their early counterparts.

The use of subsidies and loans in diplomacy incorporated many of the problems which now face those who make decisions about Foreign Aid. Government should not give aid without expecting to achieve something which is

in the interest of donor country. Economic development should be sole purpose of aid and those who believe that the donor's self interest is not always best served by trying to maximize economic development.

Andrew F. Westwood (1966) in the book "Foreign Aid in a Foreign Policy Framework" has details on the relationship between Foreign Aid and foreign policy. He has described Foreign Aid as an "instrument of foreign policy" has now become part of the conventional wisdom, at least in the so called donor countries.

According to him, Foreign Aid has gradually become an integral aspect of United States relations with the countries of Asia, Africa, and Latin America. Foreign Aid forms and purposes in the modern world are new and for Americans, aid is one of the novel aspects of their involvement in the world as a great power.

Aid for economic development often has been provided because it seemed clear that development would not succeed without aid, whatever the chances for success are with aid. The experience with aid to underdeveloped countries perhaps above all has been a process of trying, and of trial and error. United States never provides a single "missing components". It always provides at least two components, aid and the action of a powerful nation in providing aid. In many instances, this action has been a good deal more potent than the aid itself.

Raymond F. Mikesell (1969), in the book "The Economics of Foreign Aid" has described the Foreign Aid as a means of carrying out national foreign- policy objectives. Nonetheless, Foreign Aid may serve several national objectives, the relative importance of which not only differs in individual situation, but may have a much greater appeal to certain politically vocal groups than to others.

The US national foreign-assistance objectives that are usually stressed in official policy statements are divided into three categories, a) national security b) humanitarian and c) national economic benefit. The weight which is given to these objectives differ with the type of program in the recipient country, but all three

needs to be carefully examined as a basis for analyzing the probable relationship between aid and the ultimate objectives.

The writer has concluded that there are a number of differences between the development and Foreign Aid, objectives of the developing countries and those of the western donors. These differences arise from the approaches to development, including development policies, from the preference with respect to forms, terms and conditions of aid and even from the attitudes towards aid itself.

Bhuchandra P. R. Baidhya (1984) in the book "Foreign Aid and Economic Development" has mainly thrown light on analyzing the nature and assessing the role of the Chinese aid to Nepal during the period 1955-1980. The study has also discussed about the role of Foreign Aid in economic development of Nepal.

This includes the discussions on aid as a factor of economic development of less developed countries. An attempt is also made to assess the contribution of aid to the growth of GDP. Certain incidental effects of the aid are also highlighted. It deals with the determinants, evolution, extent and nature and other key features of the Chinese aid to Nepal.

As a conclusive remark, the study establishes that china has fully accomplished the goals of its aid to Nepal during the study period. To establish the Chinese presence in this state and to reduce India's dominant position in Nepal were the main goals of Chinese aid. The more important achievement was that the interest of some other major donors in the state to provide the aid was also increased. Metaphorically talking about the Foreign Aid, he adds, it would be a gross mistake to assume that everything which comes to the net is a fish. Foreign Aid is a supplement, not a substitute, to the domestic efforts and resources, the book states.

Nagendra K. R. Singh (1996) in the book "Foreign Aid, Economic Growth and Politics in Nepal" imparts the view about the evolution of Foreign Aid in

Nepal in its continued expansion. A description of political role of Foreign Aid is sincerely prevalent. He emphasizes the different sectors where the Foreign Aid has failed to get the desired results.

According to the book, on the demand side, the re-widening resource gap and trade deficits have obviously called for more and more aid. The need for aid is all the more increased by improved absorptive capacity, high maintenance bills, and the effects of domestic and international inflation. On the supply side, aid has always been a commodity in plentiful supply. The challenges, indeed is one of spending the available aid more effectively and economically.

Economic aid has failed to hasten the pace of democratization of Nepalese society as desired by western donors, to encourage the political stability in promoting gradual social revolution. He has also concluded that Foreign Aid in general has not helped Nepal in the mobilization of internal resources and uplifting its GNP because a part of aid has generally been utilized to meet the local cost of the project, secondly the multiplier benefit of the projects have been shared by the donor countries as well.

The book of Mr. Dharmdasani (1998), "Dynamics of Foreign Aid in South Asia" has elaborated mainly on Nepal regarding the Foreign Aid. He has described about the nature, dimensions and implications of Foreign Aid in Nepal. The central thesis of the study is that within the prevailing structure constraints of Nepalese society, the process of development has itself contributed to the external assistance.

This study has examined the contribution of Foreign Aid in the process of planned development up to the period of Sixth Plan. As the book says, only a few countries among the bilateral donors in Nepal have contributed in a manner that can lead to self sustaining growth.

According to him, there are mainly three engines of growth in Nepal- Foreign Aid, tourism and smuggling, out of which the first one is definitely major

source of financial inflow. Without it, it would be difficult for the state to sustain its economic growth and development. The writer has made this point more clear by pin-pointing the view that due to low savings and lack of viable taxation system and inability to generate internal resources, it is not possible for Nepal at the present stage of development to discard Foreign Aid immediately.

Ross Mallick (1998) in his book "Development Ethnicity and Human Rights in South Asia" has written that half of the world's poor people are Asian yet; overseas development assistance for the subcontinent is less in per capita terms than for many other third world regions. Foreign Aid programs have not regarded poverty eradication and human rights as their top priority. It is doubtful that much of the aid would ever reach the "poorest of the poor."

The World Bank, the international monetary fund, parts of the international business community and most bilateral aid donors have in practice entered in a close and mutually reinforcing web of relationship. Because of its commitment to economic liberalization and its generally pro-western foreign policy stance. Srilanka has created a very favorable impression and image overseas and received a great deal of support.

Rehman Sobhan (1999) in his article entitled "Aid and Governance in South Asia" has tried to focus the aid dependence for the Low Income Countries (LICs). According to him, while the external resource gap is financed both by aid as well as commercial flows of capital, for most LICs, their resource gap remains underwritten by aid so that the size of the gap in relation to GDP remains a measure of aid dependence.

While there are many complex reasons to explain growth of aid dependence in South Asia and other LICs, it is note-worthy that significant aid inflows have not brought about dramatic improvements in economic performance or served to significantly reduce poverty in most LICs. Again, South Asia, notwithstanding the

sizeable flows of aid into the region, is far from being an eloquent testimony to the transformational impact of aid.

He has argued that the root cause of growing aid dependence lies in the deterioration in the quality or governance in most LICs. This proposition applies with particular potency to South Asia where it is argued that deterioration in governance is, in no small measure, influenced by the nature of the aid relationship.

ADB's technical assistance report (2005) has focused that technical assistance (TA) will support to i) establish village list of most disadvantaged households ii) establish and implement the household development grants (HDG). The impact of TA will be the reduction of extreme poverty and a more equitable impact of rural development interventions through the integration of the most disadvantaged and underserved households. The outcome is to allow the most disadvantaged households to effectively participate in and benefit from rural development projects through the implementation of an innovative package of activities aimed at the acceleration of their socio-economic status and the removal of socio-cultural and financial constraints that keep them participating effectively in these development programs.

In an article entitled "Macro Vulnerability in Low Income Countries and Aid Response", Patrick Guyllaumont (2006) has elaborately detailed on the economic vulnerability of developing countries. He has used the hypothesis that aid lowers the negative impact of instability and is more effective in vulnerable countries.

He has proposed the macro vulnerability as the risk that poor countries will see their development hammered and hampered by the exogenous shocks they face, both natural and external. If structural economic vulnerability is an obstacle to growth and poverty reduction, it follows that it is a key variable to be

considered in the formulation of aid policies, after considering the way in which aid actually contributes to dampening or to harnessing the effect of vulnerability.

A brief synopsis of the implications for aid policy can be gathered from the book. Aid can be used as insurance in a new conditionality framework. Aid selectivity principles have to be revisited so that vulnerability becomes one of the main criteria, because it spirals aid ineffectiveness and it is a structural handicap to growth.

Sriram Poudyal (1983) in his research study entitled "Impact of Foreign Aid on Nepal's Development" has discussed on the complementarities of Foreign Aided projects and the relationship between aid and gross domestic product (GDP), aid and savings and aid and consumption in Nepal. The study focuses at the policy implications.

His research was primarily based on secondary data and field observations. Both the descriptive as well as quantitative techniques have been used to examine the issues. The use of correlation and regression analysis to find the relationship between Foreign Aid, GDP growth rate, saving and consumption is prevalent in the research.

Concluding that if aid is utilized in road construction, he further aids, maximum benefits from roads can be obtained only if in areas opened up by roads complementary development programs are launched simultaneously like agriculture, and industry etc. He has suggested that GDP growth is more responsive to domestic saving than Foreign Aid. Positive effect of Foreign Aid is more on savings than on consumption. GDP, domestic savings and consumptions are all highly stable increasing functions of Foreign Aid. Virtually, his findings depicts that in the absence of Foreign Aid and ,equally important, in it's effective utilization, at least for some years to come, the prospects for improving the socio-economic situation of the country doesn't appear to be quite promising.

Narayan Khadka (1991) in his book "Foreign Aid, Poverty and Stagnation in Nepal" has done a basic analytical research on the macroeconomic performance of Foreign Aid in Nepal. Some of the objectives of this book are; (1) to examine the socio-cultural and political constraints to development (2) to find out the source wise and sector wise allocation of aid over the past three decades (3) to evaluate the macroeconomic impact of aid on the economy (4) to analyze the policy implications for aid and development in the future. This study is based on both primary and secondary type of data.

According to him, for the elevation of poverty in Nepal, aid has not been effective. Aid has created dualisms between urban and rural areas in terms of consumption. It has not contributed to attain the goals, to increase the GNP, to establish institutional political machineries through which the distribution of benefit would trickle down etc. In this way, aid in Nepal has failed to alleviate poverty and development of the country. The aid GNP ratio endorsed by international organizations and bodies also remained unfulfilled.

The role of aid is to bridge the resource gap and eventually create for mobilizing domestic resources in order to meet the future investment requirements. The continuous inflow of aid in the Nepalese economy helped to create a prospect for channelizing part of the resources for reinvestment if sufficient institutional structure permits. At last he has added that learning from crisis is better than becoming chronically dependent on aid.

Kishor K. Gurugharana (1992) is another proponent of theories of Foreign Aid in the context of Nepal. In one of his article, "Development Cooperation: An Appraisal of the Activities of Donor Agencies in Nepal" in NEFAS' book "Foreign Aid" he discusses Foreign Aid as percentage of development expenditure. A genuine discussion follows the impacts of bilateral and multilateral aid in Nepalese economy.

Many bilateral and multilateral donors have keenly taken interest for the investment in Nepal. Many factors such as geopolitical, socio-economic as well as non-aligned and friendly relation with many countries caused substantial aid inflow in Nepal. It is getting bilateral aid either on the humanitarian basis or just to fulfill the vested motives of donor countries. Multilateral agencies are providing loans aid in term of concession for the infrastructures development of Nepal.

According to him, the aid recipient country has both positive as well as negative impacts. There are some improvements in the field of infrastructures such as education, health, human resource development, transport, communication, irrigation and power etc by utilizing them. On the other hand, due to heavy dependence on aid, we are now ultimately trapped in aid. Nepal has not yet received the quantum of aid comparable to those of other needed recipients. It is like the giving of medicine far below the prescribed dose. The effect not only prolongs the diseases, but also eventually increases its severity.

A critical judgment in the case of Least Developed Countries (LDCs) in the context of various agreements and guidelines are brought into flash by Dr. Rambhakta P.B. Thakur (1994). His book entitled "North-south Cooperation and Foreign Aid in Nepal" has studied about the Foreign Aid which is the cardinal and crucial point of the mentioned research work. He has also examined the needs of Foreign Aid in least developed countries. Its main aim is to demonstrate the urgency of Foreign Aid to the least developed countries.

Aid is needed to flower the economy and to have an access to the stage of self reliance. From this point of view, he has described the "supplemental theory". It considers aid as a supplement to the recipient's own resources and purports a positive relationship between aid and the total volume of resources available for development purposes. The opportunities created by the availability of aid help the recipients to increase its own developmental efforts. Countries like Nepal have to spend huge amount on production so as to generate income and increase savings

for maintaining the level of investment needed for economic growth. Eventually, it reaches the point at which savings are sufficient to finance the volume of investment without Foreign Aid.

He has concluded that, as the Least Developed Countries are almost at the point of bankruptcy, they urgently need massive transfer of financial resources for their development plans. He has also added that the problem of Foreign Aid is so wide and at the same time so deep, that no study on this important topic can claim to be a complete one. So, he has recommended some more research work in this field.

Keshav P. Acharya (1998) in his research study entitled "A Review of Foreign Aid in Nepal" has tried to explain the implication of Foreign Aid in Nepal in a simple way. He has also explained the various sectors which are either success or failure of getting the maximum benefit from Foreign Aid.

He has described Foreign Aid as it helps bridge the gap between the short falls of the national savings to the national investment. It also supports to fill the gap between the excess of imports of goods and services over their exports.

He has added that Foreign Aid is not invested according to the needs and demands of the people. Nepal's infrastructure is the major beneficiary of Foreign Aid. Agriculture is getting declining share of Foreign Aid whereas that of the social services sectors seems to be on the rise. He has focused his study that except for irrigation, all of the infrastructures are almost urban. So Foreign Aid in Nepal has widened the rift in economic opportunities between the Haves and Haves not. Due to the failure of Foreign Aid in Nepal, he has said that, since years without any perceptible improvement in their level of living. Thus, if Nepal is to prosper sustainably, there are no alternatives to massive extent of domestic resources mobilization.

Nepal Development Forum (2000) has inked several issues under the topics INGO co-operation in Nepal. Likewise, US Agency for International Development in its briefing has introduced Nepal as one of the poorest country having rapid growth rates of population and degrading environment but the agency appreciated Nepal's political scenario after the free election system was restored a decade ago.

US assistance is already provided during the second half of the last century to Nepal for its infrastructure development and for accelerating transition to market economy. The current focus of the US assistance is in projects concerning agriculture, family planning, women empowerment and hydro-project etc. The US interest in Nepal is attributed to strengthen of democracy, human rights, peace and stability as instrument to facilitate US-Nepal partnership on global issues.

Laxman Acharya (2004) in his research study entitled "A Review of Foreign Aid in Nepal 2003" has studied the origin of Foreign Aid in the world. The study deals on the importance of Foreign Aid in Nepal and also gives some suggestions and recommendations for the proper utilization of Foreign Aid.

An analysis of the data from 1985 to 2003 is available there in the study and a conclusion that very little of total production is ever left for saving and investment. Higher rates of consumption widen the saving-investment gap. This gap must then be narrowed with Foreign Aid. He has also analyzed the sectoral allocation of Foreign Aid from 1975 to 2002 and concluded that, since the very beginning, the transport, power and communication sector has been the biggest recipient of Foreign Aid. The industries and commerce sector has declined in priority successively.

An argument can also be found that aid conditionality is used by donor countries or agencies in order to synchronize economic policies of recipient countries with their own. Such policies merely contributed to further deepening unequal trade relations between poor and rich countries.

An article penned by Sohan Kumar Karna (2007) talks about the ambiguity of the interests on foreign aid. In "An Inflow of Foreign Aid in Nepal", Karna voices his confusion on whether the interest is employed by the donors or the recipients. He links foreign aid to the reduction of poverty and creation of just world. Strongly backed by data driven analysis, the article tries to identify the unlinked rift between need and actual availability of the aids due to missed targets and aid diplomacy.

The articulation of Karna gives stress on the need to fill the saving investment and export import gap. Nepal is also suffering from the strategic interest of the 'good' neighbors. It also depicts chronological status of sector wise allocation of foreign aid during the bygone three decades. Indeed, foreign aid has eased the logjams in technologies, bottlenecks in transportation and filled the vacuum of development needs. It has been a principal player in Nepal's periodic plans. But to our dismay, the unproductive expense of grants and ineffective preparedness in loan taking pitched our way to the economic fragility of this very country. Furthermore, underutilization of the total committed aid has been the next shortcoming.

Karna discusses about the challenges of foreign aid and comes into the conclusion that miscalculation, missed targets, missed estimations in economic distribution are the major hurdles. A focus on redistributive efforts to build the sense of belongingness and feeling of ownership is needed. The article projects the increasing volume of aid and looming large number of donors. Yet some of the sectors remain untouched by these assistances. This is due to the miscalculation of the actual problems. Despite of some critical lines, he establishes foreign aid as the crux of Nepalese economy and splendor in its development efforts. It has been working as lubricants for gearing up the national economy. Efforts should be employed on domestic resource mobilization, creation of conducive environment

for investment and government initiatives to do so. Virtually, he has not forgotten to stress economic liberalization for overall growth.

In a conclusive remark of the article, Dr. Karna looks for the government efforts first, as all writers do, to make something done. This sounds more helpless because hardly we find stress on the need of the efforts from the side of the people. The need of efforts from bottom level, i.e. from the side of the citizens too, is missing. Hitherto, the article has nicer merit points when it points to the issues of transparency and accountability with an urgent need of the harmonization of the aid.

In a research entitled "Economic Implication of Foreign Aid", Dr. Harka Gurung focuses on the prime purpose to examine the economic impact of aid programs in developing countries. He has considered the relationship between political instability and Foreign Aid.

According to him, poor health, weak communications and archaic administration all conspired to frustrate the early efforts in development. Economic development continued to be externally oriented and aid agencies had to establish their programs. In a situation where a considerable proportion of aid programs are less related to economic considerations than strategic and political implications, it seems presumptuous to expect too much of aid programs in economic growth.

The great diversity of technical problems is still engaged a large number of foreign advisors, experts and technicians mainly in the field of agriculture, engineering, education and resource management. At the same time, foreign assistance has been the principal source for technical training for a large number of Nepalese. It seems within the realm of possibility that Foreign Aid can contribute to economic development whatever their intentions, provided the recipient countries have the capacity to adapt them to their real needs.

An MA thesis paper of Narayan Prasad Poudel (2006) entitled "Role of Foreign Aid in Nepal with Special References to Agriculture Sector" has following main objectives: to analyze the nature and trends in Foreign Aid, to examine the status of agricultural development, and to assess the contribution of Foreign Aid to the agricultural GDP. His study was primarily based on secondary data, the necessary data for the study were collected mainly from concerned institutions and the various publications carried out by ministry of finance, National planning commission, CBS, NRB etc. He has used the regression analysis to measure the contribution of Foreign Aid in agricultural sector.

In a nutshell, he concludes 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. Inadequate investment, diffusion availability of proper prioritization and insufficient availability of production materials in the market due to weak sector wise policies related to agriculture have mainly been responsible for the failure of significantly increase agricultural production and productivity.

On the basis of the above findings, Poudel has following recommendations for donors to be suggested: they should reform the current trend of allocating aid towards addressing the needs of sticking on their own priority and interest; and they should divert aid from other non-productive sectors to agriculture sector as it is the major backbone of Nepalese economy.

Many studies are performed to determine whether the Foreign Aid succeeded or failed in overall sectors. Several studies are about how internal resources can be mobilized with the help of Foreign Aid. They are principally aimed at the impact of aid from bilateral and multilateral donors in order to solve the savings-investment gap. Some of the literature can also be found on the issues of Foreign Aid in general but this research study concentrates only on US aid. This research focuses on many organizations and agencies through which US has been providing assistance to Nepal such as USAID. In nutshell, this research study

mainly throws light on distribution of American aid in different sectors like agriculture, infrastructure development, industry, health etc. and its impact on these sectors about employment generation, improvement in these sectors etc in every decade. In this way, this research study differs from the rest of the studies done before this time.

CHAPTER 3

FOREIGN AID IN NEPAL

3.1 Historical Background

Nepal ranks among the world's poorest countries till now with a per capita income of \$ 476 (*preliminary data provided in CBS, 2008*). Hence it relies on foreign assistance for its development programs. The history of foreign assistance in Nepal begins with the signing of an agreement with the United States of America under its 'Point Four program' in 1951 after the overthrow of the then feudalistic-exploitative Rana regime. An isolated, agrarian society until the mid-20th century, Nepal entered the modern era in 1951 without schools, hospitals, roads, telecommunications, electric power, or industry. Following the US, India had also started its bilateral aid program. US assistance had been utilized in agriculture, education, health, transport, as well as manpower development activities. Indian aid had been utilized in transportation, hydropower, irrigation, agriculture, horticulture, and telecommunications.

Joining to the Colombo Plan in 1952 was another pioneering effort for the growth of foreign aid through bilateral sources in Nepal. During the 1950s, many Nepalese received scholarships through the Colombo Plan to go to different countries for studies in technical and professional areas. Nepal got considerable amount of aid for various projects from the USSR, China, the UK, France etc after joining the Colombo Plan.

Beginning in the 1960s, some bilateral assistance was in the form of loans. Until the mid 1960s, Nepal depended mostly, if not totally on foreign grants for all its development projects. 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.

The Nepal Aid Group (NAG) was created in 1976. By 1987 sixteen countries and six international agencies participated in the group. The level of

commitment from NAG had increased from Rs.1.5 billion in 1976/77 to Rs.5.6 billion in 1987/88. The bulk of foreign aid contributes after 1976 came from this group.

By 1991, Nepal was receiving external assistance in the form of project aid, commodity aid, technical assistance, and program aid. Project aid funded irrigation program, hydroelectric plants and roads. Commodity assistance targets 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 technical fields and resulted in the development of skilled labor. Program aid supported various projects, in particular the agriculture and health fields.

3.2 Foreign Aid Policies

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

- a) Foreign Aid will be utilized after careful scrutiny of the purpose, content, and benefits of such projects and programs. Foreign loans will be channeled, especially in projects having high rates of return and in infrastructure related development projects. Higher studies and study visit teams will be banned from loan amounts, expenditure on consultants and foreign experts will be minimized from loan proceeds, and government will not guarantee to provide loans to government-owned enterprises or other institutions.
- b) Grant will be encouraged and utilized effectively. Co-financing arrangements through grants shall be emphasized for financing the expenses of overhead costs and technical expenses.

- c) Building domestic institutional capacity, facilitating the transfer of technical know-how and making appropriate selections of technical assistance shall gradually reduce reliance on technical assistance and expatriate consultants.
- d) When utilizing foreign aid, consideration will be given for using foreign aid to finance projects that will bring about improvements in the domestic revenue mobilization capacity through higher GDP, employment growth and acceleration of economic growth.
- e) Foreign Aid shall be accepted to improve the efficiency in the utilization of the country's capital stock, especially by financing critical inputs, supplies and all other relevant expenditure items, except general recurring overhead costs.
- f) Partnership among the government, private sector, the civil society (mainly Non-Governmental Development Organizations-NGDOs and community-based organizations) and donors will be fostered to strengthen domestic aid management capacity.
- g) The role of donors will be promoted as facilitators and supporters in the development endeavors of the country.
- h) Foreign Aid would be utilized as an important tool for private sector development in consonance with the spirit and framework of economic liberalization.

3.3 Objectives of the Foreign Aid Policy

The above mentioned policies are important to achieve the objectives of the foreign aid policy as well as to deal with problems that have been impediments to the effective utilization of foreign aid. The broad objectives of the aid policy, which are to be achieved through the adoption of policies, are as follows;

- a) To ensure the compatibility and convergence of foreign aided development activities with nationally determined development priorities. Through greater convergence between foreign-aided projects and national priorities, aid-supported activities become an integral part of the overall development process.
- b) To improve the quality, effectiveness and efficiency of foreign aid operations. A broad range of appropriate policies and practices on the part of Nepal and donors in project selection, design, management, review, monitoring and evaluation are imperative.
- c) To enhance the contribution to poverty reduction through enabling rates of economic growth while ensuring distributional equity.
- d) To facilitate the transition to a more equal partnership between Nepal and donor institutions.

3.4 Resource Gap Problem and Need of Foreign Aid

Resource gap is the difference between total expenditure and total revenue of the government of a country. When a country is spending more on investment and government expenditure than its internal resources, there will be a resource gap within the economy. Nepal has been experiencing a serious and growing resource gap in her regular as well as development finance. In other words, the resource gap problem arises due to the increase in government expenditure than that in government revenue. Nepal is a developing country having poor infrastructure and suffering from diverse internal conflicts also. So large amount of money should be invested in infrastructural development, security, industrial development, and allowance for poor, marginalized as well as conflict-afflicted people. On the revenue side, due to the poor government administration and

political conflict, expected amount of VAT is not collected. Tax evasion on income and poverty is also pervasive.

The following table reflects the serious position and growing financial resources crisis in Nepal.

Table 1: Resource Gap in Nepalese Economy

Fiscal Year	Total Government Expenditure	Government Actual Revenue	Rs. in million
			Resource Gap
1990/91	23549.8	10729.9	12819.9
1991/92	26418.2	13512.6	12905.6
1992/93	30897.7	15148.7	15749
1993/94	31335	19580.8	11754.2
1994/95	41494.6	24704.4	16790.2
1995/96	46542.4	27893.1	16649.3
1996/97	50723.7	30373.5	20350.2
1997/98	56118.3	32937.9	23180.4
1998/99	59579	37251	22328
1999/2000	66272.5	42893.8	23378.7
2000/01	79835.1	48893.8	30941.5
2001/02	80072.2	50445.5	29626.7
2002/03	84006.1	56229.8	17776.3
2003/04	89442.6	62331	27111.6
2004/05	102560.4	70122.7	32437.7
2005/06	110889.2	72282.1	38607.1
2006/07*	131851	86135.5	45715.5

* indicates revised estimates

Sources: 1) Various Issues of Economic Survey, MoF/N

2) Budget Speech 2007/08, MoF/N

Figure i: Resource Gap in Nepalese Economy

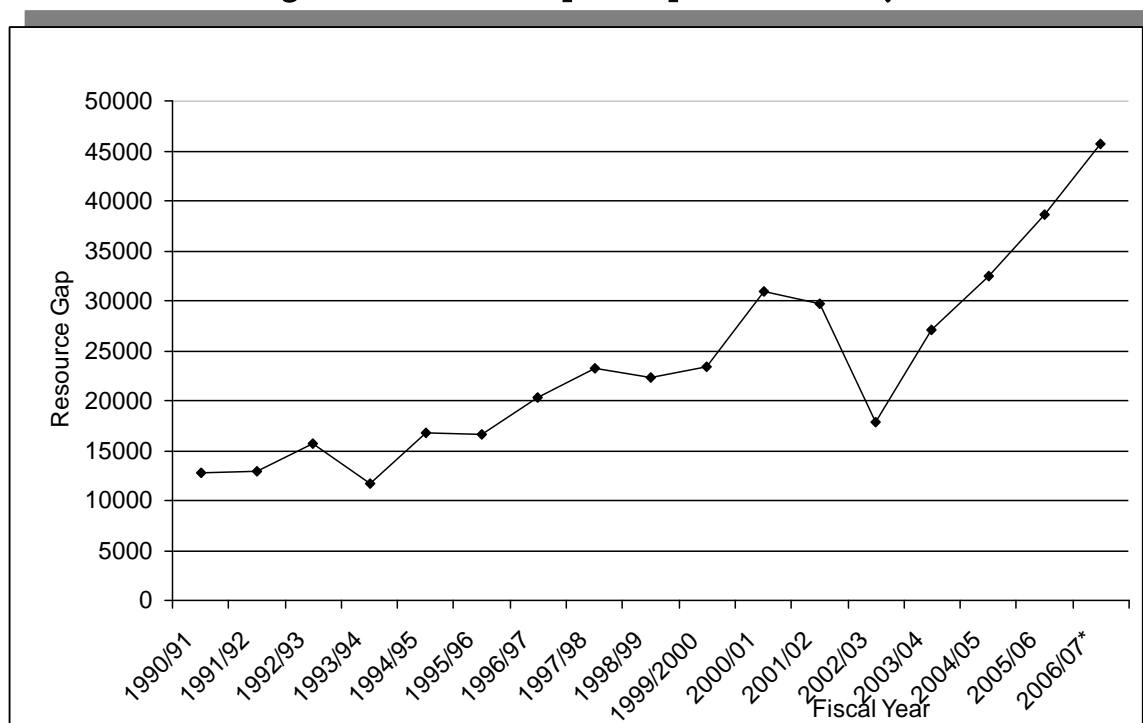


Table 1 show that the resource gap is in increasing trend. In the FY 1990/91, it was Rs.12819.9 million. In FY 1993/94, it was decreased to Rs.11754.2 million. Again it started to increase and reached to Rs.23180.4 million in FY 1997/98. After the FY 2002/03, the gap is increasing till 2006/07.

To fulfill the development plan outlay and to narrow the resource gap, the role of foreign aid is considered to be a significant instrument. At present, among all the donor countries for Nepal, America takes the major position to give loan as well as grant assistance. So, US assistance needs to be given great importance and its study can be quite significant.

3.5 Trends and Magnitude of Foreign Aid in Nepal

Nepal has been a recipient of foreign assistance since 1951. Until 1960/61, the foreign assistance was in the form of grants. Beginning of the 1960s, Nepal started to receive bilateral assistance in the form of loans also. Foreign assistance has been used to fulfill the resource gap problem in Nepal.

The following table shows the total foreign aid inflow in Nepal on the disbursement basis.

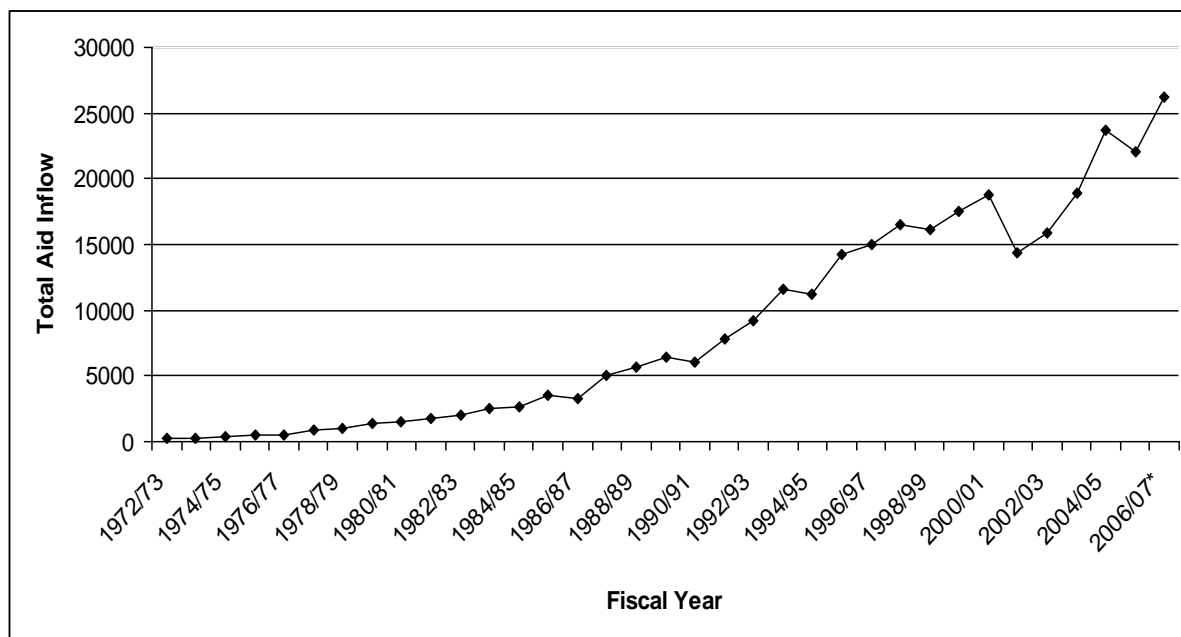
Table 2: Trend and Structure of Foreign Aid to Nepal

Fiscal Year	Rs. in million		
	Grants	Loan	Total Aid Inflow
1972/73	180.2	47.4	227.6
1973/74	222.6	87.9	310.5
1974/75	282.8	103.9	386.7
1975/76	359.7	145.9	505.6
1976/77	392.5	164.4	556.9
1977/78	466.6	381.8	848.4
1978/79	599.3	390.1	989.4
1979/80	805.6	534.9	1340.5
1980/81	868.9	693.3	1562.2
1981/82	992.5	730.7	1723.2
1982/83	1090.1	985.8	2075.9
1983/84	876.6	1670.9	2547.5
1984/85	923.4	1753	2676.4
1985/86	1120.6	2370.9	3491.5
1986/87	1078.3	2236.1	3314.4
1987/88	1984	3094.3	5078.3
1988/89	1478.2	4188.7	5666.9
1989/90	1798.8	4628.3	6427.1
1990/91	1630	4360	5990
1991/92	1531	6269.4	7800.4
1992/93	3273.9	5961.7	9235.6
1993/94	2393.6	9193.6	11587.2
1994/95	3937.1	7312.3	11249.4
1995/96	4825.1	9463.9	14289
1996/97	5988.3	9043.6	15031.9
1997/98	5402.6	11054.5	16457.1
1998/99	4336.6	11852.4	16189
1999/2000	5711.7	11812.2	17523.9
2000/01	6753.4	12044	18797.4
2001/02	6686.1	7698.7	14384.8
2002/03	11339.1	4546.4	15885.5
2003/04	11283.4	7629	18912.4
2004/05	14391.2	9266.1	23657.3
2005/06	13827.5	8214.3	22041.8
2006/07*	15946	10331	26277

* indicates revised estimation

Source: 1) Various Issues of Economic Survey, MOF/N
2) Budget Speech 2007/08, MOF/N

Figure ii: Trend and Structure of Foreign Aid to Nepal



In the above table, the data up to 1971/72 is not shown because reviewing the year to year aid inflow, the trend is quite erratic up to 1971/72. Then, it is on the increasing trend. Increasing of the Nepal's expanding international relations, the introduction of development plan which help to rationalize the demand of aid and the bonus effect of the cold war and feeling of the competition among the donors for aid are the main factors responsible for a marked increased in aid to Nepal.

The above table and graph clearly displays the increasing trend of foreign aid in Nepal. But in some fiscal year like 1986/87, 1990/91, 1997/95, 1998/99, 20001/02, 2005/06, the total aid inflow had decreased than that of the previous year.

In the early stage of obtaining foreign aid, there was greater percentage of grant aid while the amount of loan was smaller. Before the FY 1976/77, more than 70 percent of aid was received in the form of grant. In the FY 1972/73, share of

grants in total foreign assistance to Nepal was 79.2 percent and that of loan was only 20.8 percent. But the situation changed after the year 1980s. Due to the emergence of new and bigger international lenders (especially IDA and ADB), providing bigger and bigger loan package, the share of grants began to fall. After the FY 1982/83, the share of loan in total aid was increasing. In the FY 1991/92; the foreign grant recorded the lowest i.e. 19.6 percent of the total foreign aid. After the FY 2001/02, again the grant component of foreign aid was increasing. In the FY 2002/03, Nepal received Rs.15885.5 million, 71.4 percent of foreign aid in the form of grants and 28.6 percent in the form of loans. In the FY 2005/06, Nepal received Rs.22041.8 million, out of which, the share of grants in total foreign aid was 62.7 percent and that of loan was 37.3 percent. In the same manner, Nepal received more than 60 percent of the total aid inflow as grants in the FY 2006/07.

3.6 Foreign Aid Commitment and Disbursement

Foreign aid commitment refers to the expression of the donors to provide financial support of specified amount under agreed terms and conditions for specific purpose, to the recipient country where as disbursement refers to the actual transfer of financial resources. Due to the delay in timely implementation of the projects, there has been inefficiency in the disbursement of the committed amounts of foreign aid. There has been a high increase in non-disbursed amounts although there has been substantial increase in foreign aid commitments. The main cause for the shortfalls in disbursement is the time lag because aid for the many projects is committed in one year and committed aid is being disbursed in subsequent years.

Unless there is a substantial improvement in our absorptive capacity, it will be very difficult to utilize foreign aid. 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. As such concrete steps should be taken towards the solution of present obstacles (like delay

in the approval of lender, weakness in administrative management and co-ordination, and impractical financial rules and regulations etc) to enhance the absorptive capacity.

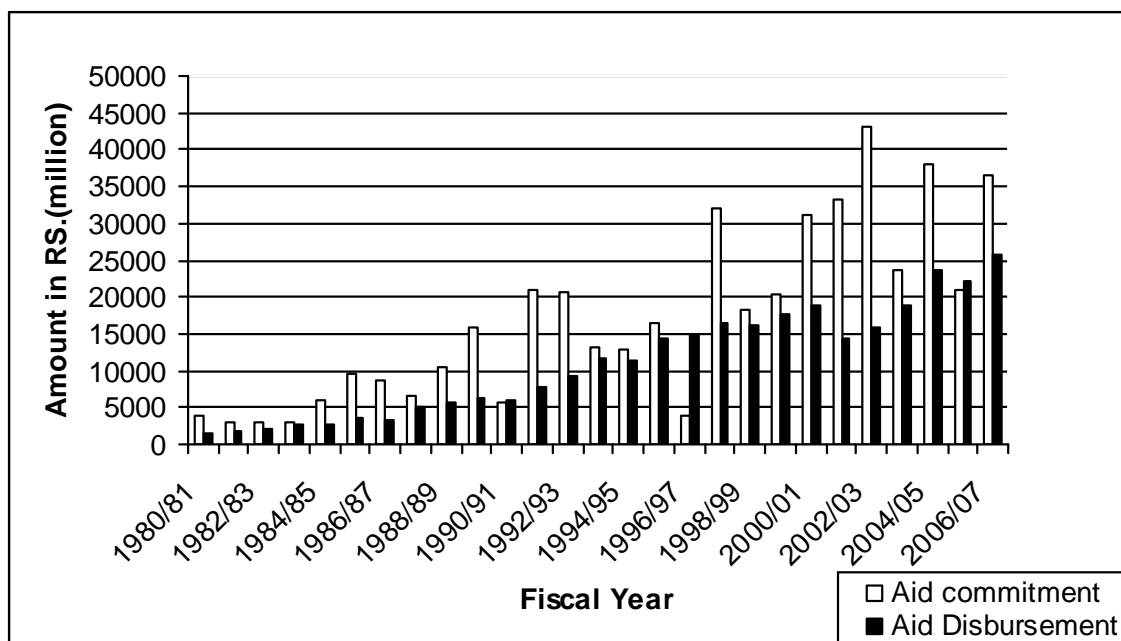
Table 3: Foreign Aid Commitment and Disbursement

Rs. in million

Fiscal Year	Aid Commitment	Aid Disbursement	Disbursement as Percentage of Commitment
1980/81	4012.6	1562.2	38.9
1981/82	2886.1	1723.2	59.7
1982/83	2959.2	2075.9	70.2
1983/84	3099.6	2547.5	82.2
1984/85	5991.4	2676.4	44.7
1985/86	9504.2	3491.5	36.7
1986/87	8727.5	3314.4	38
1987/88	6449.6	5078.5	78.7
1988/89	10403	5666.9	54.5
1989/90	15830	6427.1	40.6
1990/91	5665.4	5990	105.7
1991/92	21084.1	7800.4	37
1992/93	20526.7	9235.6	45
1993/94	13172.2	11557.2	87.7
1994/95	12876.8	11249.4	87.4
1995/96	16537.3	14289	86.4
1996/97	3964.3	15031.9	37.9
1997/98	32022.1	16457.1	51.4
1998/99	18352.5	16189	88.2
1999/2000	20448	17523.9	85.7
2000/01	31286.9	18797.4	60.1
2001/02	33227.8	14384.8	43.3
2002/03	43202.7	15885.5	36.8
2003/04	23738	18912.4	79.7
2004/05	38152.3	23657.3	62
2005/06	20924.2	22101.9	105.6
2006/07	36562.79	25854.37	70.7

Sources: 1) Various issues of economic survey. MOF/N
2) Financial Comptroller General Office

Figure iii: Foreign Aid commitment and Disbursement



The table 3 shows that in the fiscal year 1980/81, only 38.9 percent of the total committed aid was disbursed. Then the percentage of disbursement of foreign aid was in decreasing trend till FY 1985/86, then, it is fluctuating. In the FY 1990/91, the amount of commitment aid was greater than disbursement aid ie.105.7 percent of total committed aid was disbursed. In this year, there was the restoration of the democracy, so perhaps; the donor countries disbursed the foreign aid in greater amount, which they committed. The disbursed aid was more than 80 percent of the committed aid from the FY 1993/94 to FY 1995/96. In the FY 2005/06, again, the amount of committed aid was greater than disbursed aid ie.Rs.22101.9 million was disbursed including bilateral as well as multilateral grants and loan, although the committed aid was Rs.20924.2 million. This is because of the Comprehensive Peace Agreement bilaterally signed by Communist Party of Nepal (Maoist) and Nepal government in this fiscal year. In the FY

2006/07, the amount of disbursement aid was 70.7 percent of the total commitment aid.

The poor absorptive capacity is the main cause of raising the difference between foreign aid commitment and disbursement. One of the major constraints of absorptive capacity in Nepal is the lack of skilled manpower, technology, innovative entrepreneurs and efficient institutional set up. The lack of adequate local cost in meeting the administrative and institutional costs of the aid financed projects/programs is also another constraint in absorptive capacity. Donors seek to provide the assistance in their own priority on installment basis and they also observe the performance in implementing the projects in different sectors. If they do not find good performance of foreign aid utilization, they will not disburse the whole committed aid. The lack of efficient administration, centralization of power, and delay in the implementation of the foreign aided projects as well as political instability are yet the main constraint in effective utilization of foreign aid.

It will be very difficult to utilize the foreign aid unless there is a substantial improvement in our absorptive capacity. Absorptive capacity of the country can be improved by efficient administration, decentralization of the power, political stability as well as involving the beneficiaries in the decision-making process and in the implementation of the projects.

3.7 Foreign Aid in Different Sectors

Foreign aid has evolved almost all sectors of the Nepalese economy-transport and communication, industry and power, agriculture and social services. The sectoral priority attached by the Nepalese government in each successive development plan shows that more than 30% of the resources estimated were invested in transport, communication and power generation projects. Most of these projects were implemented through the financial and technical assistance from donor agencies.

The bilateral aid received from different donors and their principal areas of focus include USA (Agriculture, health, family planning, environmental protection, democratization, governance, and hydropower development), Denmark (education, decentralization, governance and environment), the UK (governance, rural development, health and HIV/AIDS), Germany (rural, urban development and health), Switzerland (roads and rural infrastructure, and technical training), Netherlands (community development), Finland (environmental and rural water), Canada (civil society, environment, and gender). The major multilateral donors include the United Nations Development Program (local planning and governance, urban infrastructure, rural energy and HIV/AIDS), the ADB (governance, education, water power, agriculture and roads), the WB (education, roads, water, power, telecommunications, financial sector reform, and health sector reform), the European Union (urban development and education), United Nations World Food Program (food for work programs) etc.

Foreign aid disbursement by sectors from FY 1980/81 to FY2006/07 is illustrated in the following table.

Table 4: Foreign Aid Disbursement by Sectors

Fiscal Year	Rs. in million			
	Transport, Power and Communication	Agriculture, Irrigation and Forestry	Industry and Commerce	Social Service Sector
1980/81	1000	322.6	67.7	146.4
1981/82	775.6	454.3	143.9	335.9
1982/83	648.3	599.2	211.2	612.4
1983/84	859.1	757.6	494.9	432.4
1984/85	969.1	1053.1	191.8	435.3
1985/86	1321.2	1298.8	275.7	586.4
1986/87	1473.7	1037.6	183.4	585.4
1987/88	2784.6	1226.3	445.7	522.3
1988/89	3120.1	1466.8	191.2	845
1989/90	2679.1	1489.7	656.6	1555.8
1990/91	2575.6	1253.2	1390.9	1575.8
1991/92	2485.1	1945.4	2174.3	1191.6
1992/93	3939.6	1927.4	696.9	2667.6
1993/94	4169.4	5519.1	389.9	1468.6
1994/95	4574.9	3462.4	480.3	2680.1
1995/96	8052.7	3399.6	15.9	2636.2
1996/97	8504.5	2827.5	23.4	3665
1997/98	8989.6	2852.1	198.1	4417.3
1998/99	3383.9	3383.9	404.7	4446.4
1999/2000	3209.8	3209.8	298.5	5794.4
2000/2001	3774.8	3774.8	19.9	5759.5
2001/02	3285.8	3285.8	368.7	4685.8
2002/03	2177.9	2177.9	401.2	5321
2003/04	2429.6	2429.6	146.8	8730.1
2004/05	2595.7	2595.7	123.9	10746.8
2005/06	2396.3	2396.3	105.3	11162.2
2006/07	2882.4	2882.4	6661.9	15159.4
Total	85058.4	59028.9	16762.7	98165.1

Source: 1) Various Issues of Economic Survey. MoF/N
 2) Financial Comptroller General Office

The table 4 shows that in the FY 1980/81, the total disbursed aid was distributed to agriculture, irrigation and forest at 20.7 percent of total disbursed aid; transport, power and communication 64 percent; industry and commerce 4.5

percent; social service sector 9 percent. In the FY 1989/90, agriculture, irrigation and forest sector received 23.2 percent; transport, power and communication sector received 41.7 percent; industry and commerce sector received 10.2 percent and social service sector received 24 percent of the total disbursed aid.

From the above table, it can be seen that transport, power and communication sector has got the highest priority as compared to other sectors. On the average, from the FY 1980/81 to 2006/07, Transport, Power and Communication sector has received 28.40 percent. This shows that foreign aid has been directed mostly towards transport, power and communication sector. Although agriculture sector contributed 36 percent of GDP in Nepal (economic survey 2006), it has absorbed only 19.71 percent of total disbursed aid.

Donors do not seem to be keen in supporting other sector such as industry. One of the reasons for low priority of donors in the industrial sector is that they can not directly channeled fund to the private sector development. It has to go through the government and the donors of the industrialized countries will not have free hand to directly support the private sector. The unavailability of sufficient foreign aid for drinking water is incomprehensive. It is noted that the social service sector includes education, health, drinking water etc. Sectors such as Statistics, Administration, Planning, contingencies etc are not included because of very narrow amount of disbursed aid in these sectors.

CHAPTER 4

AMERICAN AID IN NEPAL

4.1 Historical Background of American Aid

Travel in Nepal was almost exclusively by foot till 1951 as only 376 kilometers of rough vehicle tracks existed in Kathmandu valley and also in the southern area bordered by India. Electricity was a fairy tale and there was a ceiling in food supplies. Inaccessibility of health services was a common phenomenon. Malaria was endemic with an estimated 25% of the population infected in the southern belt of the country, the Terai, at that time.

It was no more than two weeks after the announcement of the Rana prime minister for the introduction of constitutional reforms. The announcement was in consonance with the Delhi Agreement and it was about one week after the announcement of the decision to abandon the revolution for democracy movement, Nepal and the United States of America signed the point four assistance program in January 23, 1951. American aid under this program was made available first to establish a Village Training Center in Kathmandu in 1952. The point four program began to take shape in the first half of 1952. The main motive of the program was framed to meet some of the urgent needs of Nepal. Under this program, the noteworthy activities were national public health program, increase in food supply, introduction of new varieties of crops, improvements in the hard tools and machinery, and improvement to land, largely through irrigation.

Among the many accomplishments during the partnership's first hallmark decade, USAID and Nepal instituted malaria eradication program, founded the college of education, graduated the first class of 12 public health nurses and created Kathmandu's very first modern telephone exchange. In the preliminary years, US assistance concentrated on road expansion by which economic development would be facilitated. During the 1960s, US aid began to grasp the

complex problems involved in changing backward economy into a modern one. At that time, USAID assisted Nepal for building sustainable institutions; the framework for development and agreed upon an administrative reform program to refine government administration and promote economic growth. During this decade, USAID and Nepal established 104 health units around the country, expanded Bir Hospital to include a surgical wing, increased air passenger traffic from 25,000 in 1966 to 210,000 in 1970 and opened the country's first and largest industrial district, Balaju (<http://www.usaid.gov/np>, updated on March 17, 2008).

In the 1970's- integrating the elements throughout the decade, USAID/Nepal partnership focused on meeting the basic needs of the Nepali people through small-scale technical assistance projects. The major light was on consolidating on-going projects and initiating new ones focused on longer-term planning. Great strides made during this time included: doubling primary school enrollment, linking the food-poor hills to the Terai's strong agricultural base with the western hills road, increasing the population served by health facilities from 16% to 46%, establishing family planning services to 62 districts and increasing the yearly use of agricultural fertilizer by 18%. The 1980s- Tapping into potential during the 1980s, Nepal adopted the Basic Needs Program, which set standards for items including food, drinking water and basic health services. USAID and Nepal focused on promoting the private sector and strengthening Nepal's Private Voluntary Organization's capacity to design, implement and evaluate community based development efforts. (<http://www.usaid.gov/np>, updated on march 18, 2008). During the restoration of multiparty democracy in 1991, it focused on strengthening and promoting good governance to bring development to the grassroots level and assisted in the privatization of state-owned enterprises.

Since 1951 and through the end of FY 2004, the United States had provided more than \$791 million in bilateral economic assistance to Nepal; U.S contributions to multilateral organizations working in Nepal to date approach an additional \$725 million, including humanitarian assistance. (*source*

USAID/Nepal). During its five decades of assistance to Nepal's development, U.S aid has made significant contribution in women's empowerment, strengthening democracy, agriculture, forestry, rural development, health, family planning education and training, transportation and communication, private sector, good governance and conflict mitigation. In the recent years, U.S aid has focused on peace and security, governing justly and democratically, investing in people: health, and economic growth of Nepal.

4.2 Objectives of US Aid to Nepal

Since the donors started to assist the developing countries, they have been provided assistance for the various objectives. Generally foreign aid enters with three objectives: humanitarian, political-strategic and economic objectives. It is not easy to divide the foreign aid into different objectives. The objectives of aid may vary from donors to donors and from time to time. More often, the motives of aid are shadowed by the other things. They are narrowly strategic, broadly political, basically humanitarian and certainly economic. From the America's point of view, U.S assistance is playing a crucial role in supporting the transition to peace, building strong and representative government, establishing the rule of law, ending human right abuses, strengthening equitable social services delivery, and addressing poverty.

Even though the humanitarian motive of aid is widely published, it doesn't seem to be the only and the most crucial reason for foreign aid. The evolution of aid now seems to have been largely governed by political and economic interests of donors rather than the humanitarian considerations.

USAID/Nepal developed four program goals for the 1990's, which combined aid's global assistance strategies with Nepal's own development needs and priorities. These were:

- i. Strengthening the development of sound economic policies which rely on competitive markets operating with the minimum of government regulations.

- ii. Increasing the range of choice, availability, and use of the most essential child survival and family planning services through complimentary public, private and NGO efforts.
- iii. Accelerating the process of endowing private groups and users with control over and capacity to manage Nepal's economically important, renewable national resources.
- iv. Expanding access of farmers, rural groups and agro enterprises to market opportunities in order to increase their economic options and incomes.

In June 1995, the following strategic objectives were approved by USAID/Nepal:

- 1) Increased production and sales of forest and high-value agricultural products,
- 2) Reduced fertility and improved maternal and child health, and
- 3) Increased women's empowerment.

After 2001, the strategic objectives of USAID/Nepal were;

- 1. Increased producing and sales of forest and high-value agricultural products.
- 2. Reduced fertility and improved maternal and child health.
- 3. Increased women's empowerment.
- 4. Increased private sector investment in environmentally and socially sustainable hydropower development, and
- 5. Strengthened governance of natural and selected institutions.

4.3 Total Magnitude of US Aid (1951-2007)

Below mentioned table 5 depicts the amount of American assistance to Nepal for fifty-seven years through 1951 to 2007. The USAID office Nepal provided the data given in this table. It shows that during the last fifty-seven years (1951-2007) of US-Nepal cooperation, the US has provided a total sum of US

\$916.7 million to Nepal to be the partner in the modernization of the Nepalese economy. From table 5, it can be seen that over the period of 31 years from 1951-1981, the US had provided US\$ 202 million, however in the later 26 years from 1982 to 2007, it has provided US\$ 714.7 million. This is more than three fold of the last 31 years. Furthermore, when concentrating on the last 10 years, it can be seen that the US has provided one-third of the total aid to Nepal.

Table 5: US Aid to Nepal (1951-2007)

US\$ in million			
1951 through	Years covered	Amount committed during the period covered	Total through years covered
1972	22	136.8	136.8
1976	26	12.2	149
1981	31	53	202
1986	36	88	290
1991	41	161	451
1992	42	16.6	467
1993	43	21.1	488.6
1994	44	17.5	506.3
1995	45	25.7	532
1996	46	23.4	555.5
1997	47	27.7	583.2
1998	48	27.6	610.7
1999	49	18.5	629.3
2000	50	18.3	647.6
2001	51	22.2	669.8
2002	52	37.2	707
2003	53	39.9	746.9
2004	54	43.6	790.5
2005	55	43.8	834.3
2006	56	44.9	879.2
2007	57	37.5	916.7

Source: USAID, Office Record, Kathmandu.

4.4 Trends and Pattern of US Aid (1991-2007)

The table 6 projects the trend and pattern of American assistance to Nepal since last seventeen years. As shown in table 6, except some years, the US has provided more than US\$ 20 million as an aid to Nepal every year. The aid inflow has been fluctuating over the years. All the aid has been in the form of grants. There has been no loan component in the total assistance during these seventeen years. When we review year to year aid inflow, the trend is quite fluctuating up to the year 2000 but it is increasing over the years except the year 2007. This table shows that there has been sharp decline in the inflow of aid from US\$ 26.5 million in the year 1991 to US\$ 16.6 million in the year 1992. This is 37.4 percent less than that of the previous year. The aid inflow increased from US\$ 23.4million in the year 1996 to US\$ 27.6 million in the year 1998. Thereafter, it decreased up to the year 2000 and reached only US \$18.3 million. Again, it increased to US\$ 44.9 million in the year 2006 which is the highest volume of US aid to Nepal during the last seventeen years. In the year 2007, it decreased to US\$ 37.5 million only.

Table 6: Trend and Pattern of US Aid

US\$ in million

Fiscal Year	Total Aid	Annual % Change in Total Aid
1991	26.5	---
1992	16.6	-37.4
1993	21.1	27.1
1994	17.5	-17.1
1995	25.7	46.9
1996	23.4	-8.9
1997	27.7	18.4
1998	27.6	-0.4
1999	18.5	-32.9
2000	18.3	-1.1
2001	22.2	21.3
2002	37.2	67.6
2003	39.9	7.3
2004	43.6	9.3
2005	43.8	0.5
2006	44.9	2.5
2007	37.5	-16.5

Source: USAID, Office Record, Kathmandu

CHAPTER 5

SECTORAL ANALYSIS OF AMERICAN AID IN NEPAL

Since the initiation of the American assistance to Nepal, it has been covering all the major sectors of our economy. The major beneficiaries sectors of American assistance in Nepal are agriculture, rural development, education, health and family planning, democracy and governance, hydropower development, conflict mitigation, disaster assistance, transportation, communication etc.

5.1 Sector-wise Distribution of US Aid

The amount of US aid disbursed in diverse sectors has been given in the following two tables, one containing the data from the year 1991 to 2004 and another containing the remaining. The table 7 shows the amount of American assistance for the fourteen years and table 8 shows the amount of American assistance for last two years.

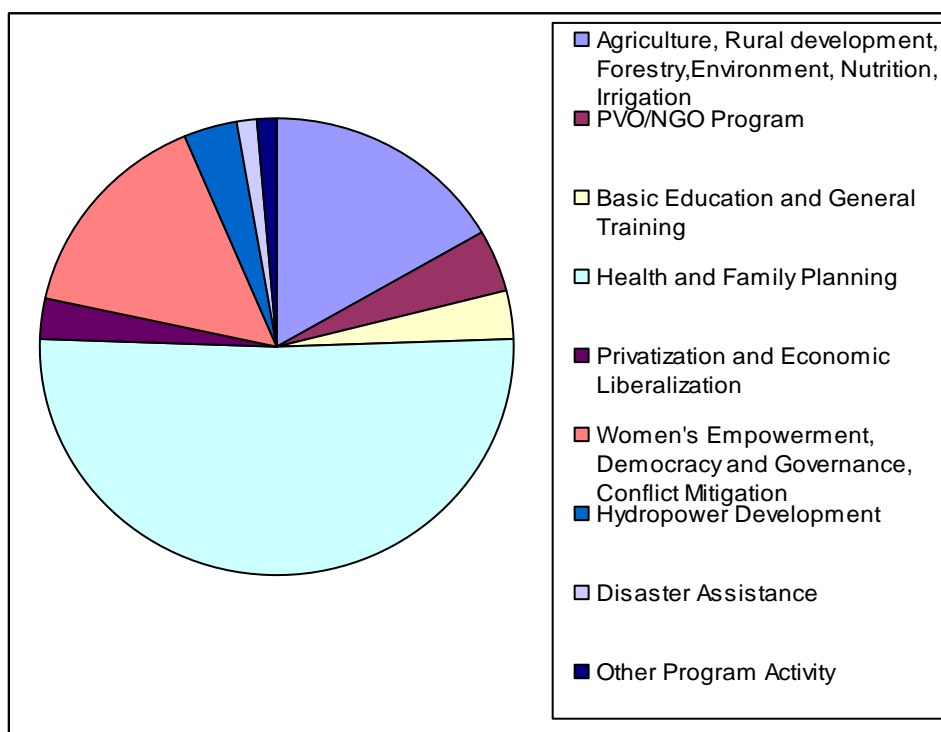
The table 7 shows that the US aid from the year 1991-2004 was concentrated on the health and family planning sectors ie.186.9 million US dollar, which was the 51 percent of total US aid. The agriculture, rural development, forestry, environment, nutrition and irrigation sectors got second priority which was about 16.8 percent of total American aid. Third priority had invested upon women's empowerment, democracy and governance, and conflict mitigation which were about 15.3 percent of total US aid. Similarly, the PVO/NGO program had got fourth priority, hydro power development fifth priority, basic education and general training sixth priority and disaster assistance eighth priority in these years.

Table 7: Sector-wise Distribution of US Aid to Nepal (1991-2004)

Sectors	US \$ in million		
	US \$	% of Total Aid	Rank
Agriculture, Rural development, Forestry, Environment, Nutrition, Irrigation	61.3	16.8	Second
PVO/NGO Program	15.6	4.3	Fourth
Basic Education and General Training	12.5	3.4	Sixth
Health and Family Planning	186.9	51	First
Privatization and Economic Liberalization	10.9	2.9	Seventh
Women's Empowerment, Democracy and Governance, Conflict Mitigation	55.9	15.3	Third
Hydropower Development	13	3.6	Fifth
Disaster Assistance	5	1.4	Eighth
Other Program Activity	4.7	1.3	Ninth
Total	365.8	100	

Source: USAID, Office Record, Kathmandu

Figure iv: Sector-wise Distribution of US Aid to Nepal



The table 8 also displays that large amount of American assistance is absorbed by Health sector i.e. US \$20,603,000 in the year 2006 and US \$17,985,000 in the year 2007. This sector embraces improvement in the child and maternal health, controlling infectious diseases and HIV/AIDS, and family planning. The sub-sectors HIV/AIDS and family planning are in higher priority under the health sector. Rural infrastructure, job skill training, agriculture productivity, micro enterprises and girls' scholarships under the sector Livelihoods are in the second priority which has got US \$7,128,450 in the year 2006 and US \$6,026,000 in 2007. Similarly, Democracy and Governance scored third priority in 2006 and Transition Initiatives in 2007.

Table 8: Sector-wise Distribution of US Aid to Nepal (2006-2007)

Amount in US \$

Program Activities	Fiscal Year	
	2006	2007
A) Mitigate Conflict and Support Peace		
i) Peace process (national/local)	850,000	1,050,000
ii) Mitigate conflict and support peace	3,223,643	500,000
iii) Assist victims of conflict	102,960	
Sub-total	4,176,603	1,550,000
B) Livelihoods		
i) Livelihoods/rural infrastructure	2,232,450	2,950,000
ii) Job skills training	2,263,100	2,000,000
iii) Agriculture productivity	1,485,000	1,076,000
iv) Micro enterprise	350,000	0
v) Girls' scholarships	797,900	0
Sub-total	7,128,450	6,026,000
C) Health		
i) Infectious diseases	315,000	400,000
ii) HIV/AIDS	7,326,000	7,019,000
iii) Child health	3,941,000	3,800,000
iv) Maternal health	1,710,000	1,165,000
v) Family planning	7,311,000	5,601,000
Sub-total	20,603,000	17,985,000
D) Democracy and Governance		
i) Support political parties/elections	2,990,000	1,000,000
ii) Strengthen civil society	1,567,000	1,583,000
iii) Reduce trafficking in persons	547,385	392,000
iv) Protect human rights	1,683,000	0
Sub-total	6,787,385	2,975,000
E) Strengthen Rule of Law		
i) Strengthen the justice sector	742,500	750,000
ii) Anti-corruption reforms	742,500	750,000
Sub-total	1,485,000	1,500,000
F) Transition Initiatives (OTI)	2,000,000	5,000,000
G) Disaster Response and Mitigation	2,777,254	2,500,000
Total	44,957,692	37,536,000

Source: USAID, Office Record, Kathmandu

5.2 American Assistance during 1950s:

During the period of 1950s, US assistance was pinpointed on agriculture development, Rural development, Health, Education, Transportation and Communication, Industrial and Capital Development etc.

5.2.1 Agricultural Development

In agricultural sector, the Point IV program had outlined ambitious goals such as: increased food production, sufficient irrigation to sustain three annual crops, land ownership to the tiller and establishment of an agricultural credit system. At that time, the first and biggest agriculturally oriented project was the Village Development Program (VDP). The United States Operation Mission (USOM) developed an agricultural research center in the Terai. In this decade, USOM began signing agreements on irrigation projects opted by the then government of Nepal. The goal was to increase year-round water in selected areas for the production of three crops in a year. After 1955, the USOM expanded agricultural investment through various projects which comprised establishment of an agricultural implements workshop; development of fish farms at Janakpur, Godavari, Pokhara, and Kathmandu, and establishment of a farm to grow medicinal herbs for export. An Agricultural Extension Service and an agricultural Economic Section to carry out market surveys were started in 1959 which received technical assistance, training and operational funding from USOM. It also provided loan funds for the Department of Co-operatives to lend to Rapti Valley farmers.

5.2.2 Rural Development

In the 1950s decade, at the local level, there was minimal governmental organization and no dialogue between villagers and the national government. In terms of rural development, Nepal was a blank state. Hence, USOM conceived a Rural Development Institution. Its main goal was to establish a nationwide system which would distribute increased services to villages, while providing a channel of communications through which people could express their wants to the

government. After some years, USOM significantly expanded the Village Development Program (VDP). In 1958, the Village Development Service was transferred to Ministry of Planning and Development and reorganized as the Village Development Service Department. Training school faculty and program manager for this department were trained in US and other countries also. The first five year plan outlined an ambitious plan to expand the VDP nationwide with the support of USOM.

5.2.3 Health

The emphasis of USOM was on expanding hospital based curative services and training a basic corps of health workers to expand service delivery. The major donors in health sectors were USOM and WHO. USOM provided operational cost assistance and technical advice for the country's first Nurse Training school. In this period, about 25 percent of the Nepal's population was plagued by Malaria. In 1952, with the creation of a malaria control office, anti-malaria program was begun with the assistance of US. To control most of the insect-borne diseases, the Insect-Borne Disease Control Bureau (IBDCB) was initiated with the joint effort of the then government and USOM in 1954. To our dismay of poor supervision, program inefficiencies, and a shortage of competent personnel, hampered the attainment of malaria control.

5.2.4 Education

American assistance facilitated as the cornerstone role in facilitating the education development in Nepal. In this decade, about 70 percent of its assistance was allocated for education development. It provided financial and advisory support to the National Education Planning Commission (NEPC). USOM also supported the co-operative services for Education Development providing the cost of development distributing the textbooks and other educational materials and equipments, and construction of schools. The main educational objective of USOM was to establish a basic education in order to provide a permanent means of meeting Nepal's need for education and trained citizens. Its earliest primary

education activities concentrated on infrastructure development as the simplest and most efficient means of providing universal access to education, financing the construction of 200 primary school classrooms. USOM assisted for the establishment of TU's central library, Laboratory school, College of education and contributed to the development of Amrit Science Campus. It also played an eminent role in adult literacy and radio education.

5.2.5 Transportation and Communication

The Regional Transport Organization (RTO) was formed under a tripartite agreement between the US, India and Nepal. Its primary goals were to stimulate trade and improve communications by developing a national road system. RTO was not a success and met completion only about 640 kilometers of road work. In this decade, USOM helped for the construction of the Hetauda-Kathmandu ropeway. US assistance of \$ 2.9 million was provided for the Nepal-India telecommunications project from which 1000 telephone lines were distributed in Kathmandu. USOM had supported for the construction of Radio Nepal's studio.

5.2.6 Industrial and Capital Development

"USOM's economic policy in the 1950s maintained that an increase in overall output, aided by elimination of policies restricted free markets, would naturally lead to broad based development. The Point IV Program held that technical know-how combined with relatively small amounts of economic assistance, would catalyze economic and social development". (Isaacson et al.2001). USOM supported the Industrial Development Corporation (IDC) to disseminate information and technical services. Later it was converted into National Industrial Development Corporation (NIDC). American assistance also provided technical consultants, commodity support, operational support and sponsored extensive participant training for NIDC staff. USOM also financed tourism industry and provided capital to small industries.

5.3 American Assistance during 1960s:

During this period, US assistance pivoted around institution building, agricultural development, rural development, health and family planning, education, transportation, industrial and capital development etc.

5.3.1 Institution Building

"Some of the more visible and successful examples of USAID assistance to institutional development in the 1960s included programs designed to strengthen the Development of Public Administration, which established standard administrative procedures and training for civil servants; the Central Bureau of Statistics, charged with gathering and compiling data to support improved economic planning; the Central Training Department established with the Ministry of Economic Planning to improve Panchayat training and Development, developed to encourage local leadership at the grassroots level. USAID assisted with the establishment of many other institutions in the Kathmandu valley and in rural areas to train technicians and administrators in agriculture, health and education".(Isaacson et al. 2001).

5.3.2 Agricultural Development:

In this decade, USAID assisted the Ministry of Agriculture in creating an effective Agricultural Extension Service. It provided support for salaries and operational costs, and training for Department of Agriculture (DOA) administrators. In 1963, the Cooperation Bank was established under the support of USAID. In greatest production potential areas, USAID and the then government of Nepal initiated concentrating resources and agricultural service programs. In 1966, the US assistance helped Nepal to establish the agricultural supply cooperation for the purchase, treat and store the improved varieties of seeds. US assisted about \$ 10.5 million in this sector at this time.

5.3.3 Rural Development and Local Government:

USAID had provided \$ 600,000 per year for three years in supporting administration, training and self-help development activities at village and district

levels. District Panchayat leaders and government officers were trained in Panchayat Training Institutes with the assistance of America. It narrowed its assistance in this sector due to the increased domination of Panchayat System in late 1960s but total assistance in this sector was more than \$ 4.2 million in this decade.

5.3.4 Health and Family Planning:

The United States became a principal helping hand in providing assistance to the Health Education Project for the training of public health educators and also for preparation of educational materials. It did further improvement in the expansion of Education Section Service to rural areas. With the request of Nepalese Ministry of Health, USAID provided 200,000 doses of dry vaccine and distributed in rural areas to control the smallpox. In 1968, it funded about 80 percent of the total budget of family planning project on Nepal. Further, it provided support for the maternal and child health section with health equipments and continued its assistance for malaria eradication program.

5.3.5 Education:

USAID provided about \$ 12 million on different education projects for the development of education. Its assistance was perpetual in different sectors of education in Nepal like College of Education, National Vocational Training Center, Primary education, Secondary education, Adult education and development of libraries. More than 50,000 books were supplied to the Tribhuvan University Central library and other rural colleges. American assistance gave more emphasis for the participant training in all segments of the education sector in this decade.

5.3.6 Transportation:

The Road Development Project got support from USAID for the improvement of many short roads in Kathmandu valley, including the Dillibazar, Baluwatar and Maharajganj roads and construction of bridge over the Dhobi Khola. America also assisted for improving and expanding the Rapti Valley road

linking Hetauda and Bharatpur. Not only for the construction of roads, it also supported for the construction of suspension bridges and airport construction in Nepal.

5.3.7 Industrial Development:

Since Nepal had large amount of forest, USAID gave more emphasis on forestry-based industries. Ground Water Section was established with the assistance of America. American assistance supported for the operation of the Balaju Industrial District and Hetauda Industrial District. USAID gave concentration for the electricity generation for industrial and private use also.

5.4 American Assistance during 1970s:

The different US assistance priorities sector in this decade area as follows:

5.4.1 Agricultural Development

USAID continued its assistance in agricultural research and extension through its Food Grain Project (FGP). It supported a planning survey on developing an agriculture education institution, and the institute of Agriculture and Animal science (IAAS). America provided \$ 460,000 grant to the Agricultural Development Council for its improvement and new research work in agriculture. In the early 1970s, USAID and the Nepal's government developed a field focused research system to begin the profound research needed to increase food grain production. 636 Nepalese were trained in agriculture and natural research under the US assistance during this period.

5.4.2 Health and Family Planning

During 1975, out of 75 districts, 43 districts were bereft of hospitals. Most of the Nepalese did not have access to modern health services. In this time, USAID worked integrately with WHO and the government of Nepal for the improvement of health sector. It formulated the Integrated Health Service Project and provided \$ 3.4 million. About 75 % of the budget of the Family Planning and Maternal Child Health project was provided by USAID between 1968 and 1972. It

provided \$ 3.6 million grant to malaria Control Project which was in action from 1975.

5.4.3 Education

USAID paid a focused attention on qualitative improvement of the education system through institutional development. Its assistance in this sector was channeled through Teacher and Technical Education Project and Radio Education Teacher Training Project. American assistance facilitated the Institute of Education for the development of research and evaluation component, utilization of educational materials and improvement in the curriculum and teaching methods. "USAID also supported HMG's goal of increased access to education in rural areas, particularly for girls. By the end of decade, female enrollment in primary grades had increased to nearly 20 percent, an encouraging improvement over the extremely low levels of the early 1970s." (Isaacson et al., 2001) During this decade, American assistance continued to the secondary education, teacher training and radio education. Due to the effort of American assistance, the Government of Nepal and some other donors, Nepal achieved some improvement in this sector like literacy rate increased to 21%, girls enrollment in primary level increased to 20%, 18.4% in lower secondary level and 16.5% in secondary level.

5.4.4 Transportation

The Western Hill Road (WHR) was established in 1969 with the involvement of USAID. The main purpose of WHR was to link the chronically food deficit hills and the more developed Terai. America supplied engineering assistance to it. During the construction of road, some part of it was afflicted by landslides. So, in 1979, USAID provided \$ 2.3 million to a landslide and soil stabilization project. The construction of road also provided the employment opportunities for the local farmers.

5.5 American Assistance during 1980s:

The priority sectors of American assistance during this decade were as follows:

5.5.1 Decentralization

"USAID focused primarily on strengthening the capacities of local government and communities to plan and implement development activities. Decentralized development administration was encouraged through its regionally based integrated rural development projects, and through assistance to HMG and PVOs (Private Voluntary Organizations). USAID sought to improve HMG administration by incorporating monitoring and evaluation components in its project and reinforcing these with in-country training".(Isaacson, 2001).

5.5.2 Agriculture

The programs of the Integrated Cereals Project (ICP) were extended until 1984 from 1981 with the American assistance of \$ 10 million and government funding of \$ 3.6 million. Seed Project and Input Storage Project (SPIS) which was the sister project of ICP was initiated in this decade with the USAID's fund of \$ 4 million and \$ 1.4 million from the Nepal government. It also supplied support for the Institute of Agriculture and Animal Science (IAAS) with \$ 5.5 million. But one of the evaluation team concluded that the aid investment to IAAS had not been effectively used. In the late 1980s, US assistance brought into focus an analytical review of problems and opportunities in developing a market-led private sector agricultural strategy. It aided to the National Agricultural Research Center for its research activities in agricultural sector. Irrigation management project was also established with the American assistance of \$ 9 million and government contribution of \$ 4 million to sustain efficient irrigation management practices.

5.5.3 Rural Development

USAID supplied \$ 1.4 million to a collaborative two year design project for rural development. The Rapti zone Rural Area Development (RAD) project was established to improve the income, health, education and agricultural sector of the

people of the Rapti zone. Here USAID's project such as Integrated Cereals Project, and Seed Production and Input Storage Project worked along with the RAD. USAID and the government of Nepal strongly directed their effort in order to design and initiate the RAD: phase II and its purpose was to increase household incomes and well-being through increased productivity and improved sustainable management of farm and forest resource system.

5.5.4 Natural Resource Management

At this time, USAID developed a large project of \$ 32.5 million called Resource Conservation and Utilization Project (RCUP). Its main goal was to assist the government of Nepal in the protection and restoration of the soil, water and plant resource upon which the rural population is totally dependent. It allocated its funds into energy alternatives, forest management, animal husbandry, agriculture improvement, watershed management, and irrigation etc. USAID funded \$ 8.7 million for the establishment of Institute of Forestry Project in 1987. USAID also facilitated in bio-diversity sector such as the extension of Sagarmatha National Park for the management of park, research, community resource conservation and development of tourism.

5.5.5 Health and Family Planning

USAID carried on its effort to develop a nationwide integrated health system through the Integrated Rural Health and Family Planning Project (IRH/FP). Its main purpose was to assist in improving overall management of health services and in expanding delivery in rural areas. This project had supported clinic and hospital based health services. USAID stretched its helping hand in family planning system through different PVOs funded by US. Like Nepal Red Cross Society, the mother's club and the Ex-servicemen's organization in distributing pills and condoms to villagers. American assistance also supplied support for the Nepal CRS Company in management and administrative system. USAID provided \$4.6 million for the insecticides to control malaria through IRH/FP.

5.5.6 Education

"USAID's strategy in the education sector during the 1980s was designed to take advantage of particular capabilities for technical transfer. USAID provided technical assistance to upgrade HMG's capacity to collect and analyze education statistics for more informed decision-making in the education sector; assisted with expansion of radio-based teacher training activities which aimed to expand its national literacy program and build a capacity within HMG to design, test, administer and evaluate activities to improve educational quality".(Isaacson, 2001).

5.5.7 Transportation

In the early decade, USAID provided \$ 3 million to the Trail Suspension Bridge Project in order to build more than 24 bridges in rural Nepal. Its main goal was to increase the flow of goods and services. Under this 44 bridges were built. At this time, USAID's assistance in transportation mainly paid attention on project involving inexpensive alternative.

5.6 American Assistance during 1990s:

The priorities sectors of American assistance during this decade are as follows:

5.6.1 Agriculture, Natural Resource Management, Rural Development, and Conservation:

The Sustainable Income and Rural Enterprise (SIRR) was established with the huge assistance of USAID. Its main objective was to increase rural household incomes through sustainable private sector agriculture and forestry enterprise. The Rapti Development Project, the Agro enterprise and Technology Systems Project (ATSP), the Forestry Development Project, and the Institute of Forestry were also included under the SIRE as the sub-project. SIRE funds provided \$ 1.36 million to the Rapti Development Project. The ATSP's purpose were; to link private agro-enterprises, farmers and public resources, in order to achieve medium term increase in farm incomes and in agriculture's contribution to economic growth, and

to strengthen the role of private sector in expanding markets for Nepali farmer produce etc. Already USAID/Nepal had supported ATS project with \$ 13 million and later when it came under the SIRE, USAID also provided it \$ 3.5million. The Forestry Development Project got support from USAID with \$ 8million and as being the umbrella project got support of SIRE, USAID again provided \$ 0.14 million. This project had strengthen the capacity of Ministry of Forest and Soil conservation by training planning unit staff for policy implementation and planning and by developing a program to stimulate local production and marketing of efficient stoves.

The Market Access for Rural Development (MARD) project was established with the USAID contribution of \$ 7.7 million and government of \$ 3million. This project provided support for the production of high-value, off-season crops, the organization of production and marketing groups, and the creation of rural collection centers for the consolidation of the crops in the rural people. The Nepal Resource Management Project got support from USAID with \$ 2.41 million. This project targeted on improving the management of forest, handing over community forests to groups, and improving the quality of life for the poorest, most marginalized households etc. Similarly the USAID/Nepal provided support to the Forestry Partnership Project, the Makalu Barun Conservation Project, and Northern Mountains Conservation Project etc.

5.6.2 Health and Family Planning

USAID established the Nepal Nutrition Intervention Project in Sarlahi which provided high dose Vitamin A capsules to the children. This resulted in the 30 percent reduction in infant mortality there. In 1992, USAID financially supported the National Vitamin A Deficiency Prevention and Control Program in order to eliminate the Vitamin A deficiency in Nepal. Many donors including USAID supported the Acute Respiratory Infection Strengthening Program and Control of Diarrheal Diseases program initiated by the Ministry of Health to reduce mortality in children through pneumonia and diarrhea. Through 1993,

USAID, National AIDS Prevention and Control Project, and Family Health International started a new project to reduce the rate of sexually transmitted HIV/AIDS infection. To increase the contraceptive prevalence, to reduce the total fertility, and to reduce the under-five mortality, USAID had played a crucial role in Nepal.

5.6.3 Economic Liberalization

USAID/Nepal provided theoretical and practical foreign exchange training assistance to Nepal Rastra Bank, Rastriya Banijya Bank, Nepal Bank Ltd., and Himalayan Bank in order to facilitate the liberalization process of Economic liberalization Project. The International Executive Services corps provided the services of highly qualified consultants to improve Nepali companies' expertise in production, finance, marketing and management, with the grant assistance of \$ 895,390 through USAID/Nepal. It also provided technical assistance to improve the production of Nepali carpet producers. To strengthen and promote Nepal's private sector, it sub-contracted the Federation of Nepalese Chambers of Commerce and Industry (FNCCI) to provide technical assistance in industrial sector.

5.7 Strategies and Programs of U.S Agencies after 2000

Under the American assistance to Nepal after 2000, USAID has been giving priorities to peace and security, democracy and governance, health and family planning, economic growth, and transition initiatives with its other efforts. We discuss them succinctly in the following lines:

a) Peace and Security:

USAID programs now support Nepal's national and peace building initiatives. USAID works with the ministry of Peace and Reconstruction to build capacity to manage peace and provide information worldwide. The conflict between the Maoist and the Nepal government resulted in the deaths of nearly 13,000 people, and beyond human toll, the conflict has severely disrupted the

national economy, with estimated losses to national poverty and the economy at more than \$1.5 billion.(source: USAID)

US assistance programs tries to promote peace and mitigate the negative effects of the conflict through the provision of quick and visible benefits to under-served and conflict-afflicted populations. Some of the program activities under this topic are:

- ✓ Increased National capacity to Transition to peace by providing technical assistance and training to GON and civil society networks. It has given emphasis on promoting the participation of women, dalits, and under-represented ethnic groups in a national dialogue for peace.
- ✓ Strengthen commodity capacity for peace by uniting people around activities that benefit the commodity.
- ✓ Education and skills training to increase agricultural productivity, to raise rural incomes and promotion of human rights.
- ✓ Expanded support for victims of the conflict by rehabilitating and providing comprehensive medical for them.

b) Democracy and Governance

U.S assistance is acting as one of the shoulder of responsibility to the re-establishment of representative democracy and restoration of the public faith in political institutions. The main goals of the Democracy and Governance Assistance in Nepal are:

- ✓ Strengthened Administration of justice: improving administration of justice in courts, and in public defense organizations.
- ✓ More Transparent, Accountable and Effective Governance: strengthening the integrity of government planning and implementation, improving anti-corruption system and legal frameworks for good governance reform.
- ✓ Electoral and political process strengthening.

Some of the program activities under this topic are:

- ✓ Assisted the national Election Commission to carry out election reform and prepare for elections.
- ✓ Supported civil society efforts to monitor and report on political and electoral reform progress.
- ✓ Provided training to community resource groups to advance democratic governance practices.
- ✓ Supported UN and National Human Rights Organizations to promote respect for human rights.

c) Health and Family Planning:

In spite of the over ten years of insurgency, Nepal has achieved some great strides in key health areas. According to ministry of health, the child mortality rate and maternal mortality rate have been reducing. The people of Nepal have been facing a concentrated HIV epidemic. The HIV prevalence rate is believed to be about 0.5% in the general population with pocket of higher prevalence among groups that have high risk behaviors such as injecting drug users and female sex workers. Although data are scarce, it is felt that the conflict had also exacerbated migration to India from many rural western, mid and far western districts with the result that higher numbers of migrants and their families have been exposed to HIV through migrants visiting sex workers when they are away from home.

USAID activities aim to reduce fertility and child mortality, and protect the lives of Nepalese families. US assistance have been supporting the voluntary family planning through training; reproductive health education/literacy; and strengthening GON policies, systems. This agency trains health workers focuses on state-of -the art community services, and provides appropriate equipment and commodities. US assistance supports essential programs that deliver high-quality HIV, family planning and maternal and child services to disadvantaged populations.

Family Health International (FHI) is a non-profit organization under the USAID program which was formed in 1971 with a mission to improve lives worldwide through research, education, and services in family health. It works with governmental and non-governmental organizations, research institutions, community groups, and private sector by applying flexible programmatic public health approaches and building local capacity to address the most pressing health needs of individuals and communities. FHI has been working in Nepal with the motives of; a) preventing the spread of HIV/AIDS and sexually transmitted infections and care for those affected by them. b) improving the people's access to quality reproductive health services, especially safe, effective, and affordable family planning methods, and c) improving the health of women and children, especially those who live in resource-constrained settings. FHI is supporting an ambitious and pioneering Community and Home Based Palliative Care (CHBC) program in Nepal. Begun as pilot programs at several sites in 2005, palliative care was incorporated into FHI-supported integrated health services sites in 2006. From then, its services are rapidly expanding. FHI has offering technical assistance in HIV/AIDS prevention and care in different areas such as; behavior change interventions, condom promotion and community based social marketing, sexually transmitted infection management, voluntary counseling and testing, care and support of people living with HIV/AIDS and their families etc.

The Implementing AIDS Prevention and Care (IMPACT) project was a global USAID program implemented by FHI and five other partners from 1997 to 2007 had mainly focused on controlling HIV/AIDS. It had provided comprehensive prevention, care, and treatment services to the numbers of people affected by HIV. During the project period, IMPACT expanded its focus on female sex workers and their clients concentrated along highways, injection drug users, men who have sex with men, and migrant workers in high migration communities in Nepal. ASHA project is another project under the FHI funded by USAID and works in partnership with the National Center for AIDS and STD

Control (NCASC), ministry of Health and Population. ASHA means hope in Nepali and contributes to the Government of Nepal's National HIV/AIDS Strategy and Action Plan.

d) Economic Growth:

US assistance strives to increase incomes and employment in rural areas. USAID is supporting a multi-faceted "Education for Income Generation" program, combining literacy and life skills, vocational education, agricultural training, and targeted scholarships for disadvantaged and conflict-ridden youths in mid-western Nepal. Currently, the economic growth programs of USAID/Nepal supplies efforts on: Education, Agriculture sector program, rural infrastructure, and hydropower.

Program activities under agriculture sector include small-scale farm and forest enterprise development, technical assistance in production and marketing of high value forest and farm crops, conducting research and studies on policy impediments to agriculture growth and trade, and support for private public partnerships to access new technologies and new market.

Under the education sector, US Department of State has been sponsoring the Fulbright Program for the study in United States also with scholarship. It is the largest US international exchange program offering opportunities for students, scholars, and professionals to undertake international graduate study, advanced research, university teaching and teaching in elementary and secondary schools worldwide. The first Fulbright scholarship was awarded to Nepalese in the 1950s. The Fulbright program supports graduate study and post-doctoral research in the Us for Nepalese junior and senior scholars. Annually about ten Nepalese are getting the Fulbright Scholarship to the US. It awards with the grants of a maximum of two years duration to Nepalese students in any field except medicine, engineering, and agriculture to pursue Master degrees in the United States. Each year the Nepal Fulbright Commission awards four to six scholarships to Nepalese students through a nationwide competition. Annually the Nepal Fulbright

Commission makes two or three Post Doctoral grants to Nepali academics who wish to conduct research at US universities usually for six months. The Fulbright Commission organizes and conducts the first stage of selection for East-West Center awards also. East-West Center awards include graduate degree scholarships and funding for short-term programs such as seminars and workshops.

USAID is encouraging socially and environmentally sustainable hydropower development in Nepal by creating enabling conditions for policy reform, transparency, good governance, and private sector investment. Through a bilateral agreement with the Government of Nepal for a five year (2001-2006) hydropower program, USAID had provided technical assistance and training to: set up a streamlined legal and regulatory framework and simpler licensing procedures, strengthen institutional capacity to address environmental and social impacts, and implement a new policy that promotes investment in both domestic and export markets.

e) Humanitarian Assistance:

US humanitarian assistance has been supporting the conflict-ridden communities and tries to mitigate the effects of natural disasters on rural households. Under this topic, the program activities of USAID/Nepal are;

- ✓ Provided food assistance to drought-affected populations and Bhutanese refugees.
- ✓ Provided reintegration and humanitarian assistance to displaced populations.
- ✓ Provided communities to develop natural disaster preparedness and response capabilities.

f) Transition Initiatives:

Nepal had suffered from a decade-long armed insurgency which has profound economic, social, and psychological effects throughout the country. Until recently, the country suffered from continuing political instability. With the recent positive political momentum towards peace and democracy, the US Agency

for International Development's Office of Transition Initiatives (OTI) has established a two-year fifteen million dollar program through which for the first time in ten years, opportunities will exist to positively reinforce the peace process, will build a stronger democracy and will bring more stability in development process. In close coordination with existing USAID programs, OTI's initiatives will seek to positively support the political consolidation of Nepal's government.

The OTI program goal is to support a peaceful democratic transition in Nepal. Its objectives are to: increase access to information and diversify public debate on issues critical to political transition, and increase effectiveness of key political transition institutions. OTI is currently planning on training radio journalists whose enhanced reporting skills will help bring local and national voices to a single platform. Additionally OTI is supporting partners that are targeting youths with public services announcements providing details of the peace agreement.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

Despite of its richness in natural beauties, Nepal is bereft of economic prosperity. Underdeveloped infrastructures, lack of good governance, political instability, lack of proper technical education etc are the major hurdles in its economic development. It suffers from a serious resource gap problem. Foreign aid can play an important role to fulfill the development plan outlay and to narrow the resource gap problem in Nepal. Nepal has been a recipient of foreign assistance since 1951 after the overthrow of Rana regime. All development plans of Nepal have heavily relied on foreign aid since Nepal embarked on a planned development. The first development plan was fully financed by foreign aid.

Foreign aid is widely accepted in developing countries for various sectors. In the developing countries like Nepal, the adequate mobilization of internal resources is not possible with out foreign aid in order to accelerate the rate of economic development and growth, due to the deficiency of capital. If foreign aid is utilized properly, it can play a pivotal role in the overall development efforts of the country. But every developing country can not be able to utilize increasing external aid effectively. In Nepal, economists and policy makers have realized the problem of foreign aid indigestion during the past few years.

Since 1972/73 to 2006/2007, amount of total foreign aid received by Nepal is Rs. 305008.7 million, out of which Rs. 134777.3 million (44.19 percent) consists of grant aid while Rs.170231.4 million (55.81 percent) consists of total loan aid. In the initial period of aid to Nepal, most of the aid was in the form of grants but over the years, the share of grant assistance has declined. In the FY 1972/73, the share of grant assistance was 79.8 percent and loan assistance was only 20.82 percent. But in the FY 1996/97, the share of grant assistance was only 39.83 percent and loan assistance was 60.17 percent. Similarly the share of grant

assistance in the FY 2000/01 was 35.91 percent and loan assistance was 64.09 percent. This resulted in the increased burden on the economy of the payment of foreign debt and their interest.

It is visible that the foreign aid has not been utilized to its full extent according to the amount of foreign aid commitment. In the FY 1996/97, only 37.9 percent and in FY 2001/02, 43.3 percent of total aid commitment was disbursed. It shows the poor absorptive capacity of the economy and delay in the implementation of projects. But in the recent years, more than 60 percent of the committed aid has disbursed. In the past, foreign aid to Nepal had mostly emphasized on transport, power and communication but in the recent years, it has given highest priority in social service sector.

America has provided US \$916.7 million during the fifty-seven years of aid to Nepal from 1951. After the restoration of multiparty democracy in Nepal(1990), US provided more than US \$ 20 million in each year, altogether US \$492 million till 2007 which is more than 53 percent of total US aid to Nepal. Since the beginning of the American assistance to Nepal, it has covered almost all sectors of our economy like agriculture, health and education, rural development, democracy and governance, transportation and communication etc. Among them, health and family planning sector has got higher priority, and agriculture sector has got second priority.

In the 1950s decades, American assistance had played significant role in agriculture development, rural development, health and education, and transportation and communication sectors. In the 1960s decade, it emphasized on Institution building also. Decentralization of developmental activities was focused during 1980s through the American assistance. Similarly, in the 1990s decade, economic liberalization and women's empowerment had got equal priorities as other sectors. After the year 2000, America has focused its assistance in peace and security, and economic growth also.

The foreign assistance has helped to improve the Nepalese economy in many instances. The number of hospitals and health posts has increased. Quality as well as quantity of schools, teachers and students has added up. Drinking water, irrigation, electricity and road access have also got improvement in their supply. But we have to remember that most of the foreign aided projects were concentrated on urban areas only. The people of rural areas are beyond the reach of the service of these foreign aided projects except irrigation.

As foreign aided projects bring in advanced technology and sophisticated products catering to the needs of urban population, the economic dualism is found to increase further. In another word, the foreign aid, directly or indirectly has been increasing the gap between the haves and have not, rural and urban. The foreign aided projects provide high salary to the working people than the government. This system has increased the corruption as well as haphazard urbanization. Also the saving-investment gap has not been reduced and more than 31 percent of people have to live below the poverty line. Hence, foreign aid including US aid also in Nepal seems to be less effective on centralizing the needs of majority of the people. It has been unable to focus the specific problems of equity and justice, and also to ensure priority in the process of aid utilization. The aid underutilization has been the serious problem in Nepal. The more responsible factor for the underutilization of foreign aid is political instability because immediately after the change of government, the working people as well as the working system of foreign aided projects also changes. Due to these reasons, Nepal is facing a difficult situation, the country can neither promote the economy with out aid, nor has it been able to avoid the risk of entering into the debt trap.

6.2 Recommendations:

Even though Nepal is one of the poor countries of the world, certain initiatives can play vital role in making it financially flowering. But to our dismay, our every policy has to be streamline with the donor's policy. Because of the lack of independent economic policy in Nepal, the development process has still been

stagnant almost. Foreign aid is no more exception in Nepal as every large projects demand high amount of financial resources that is not managed by Nepal. So from the very beginning of our planned development, we heavily depend on foreign aid. Now the quantum of foreign debt has reached its ceiling and there is no way out.

Although foreign aid did assist in other development efforts markedly, it did not substantially contribute to the economic development of Nepal. Hitherto, the importance of foreign aid can not be denied because the domestic resources mobilization of Nepal is still very low to fulfill the investment requirement. Many bottlenecks are found in utilizing the foreign aid but can be solved in the near future. For this, new visions and ways of aid utilization should be brought into light from both donor and recipient countries.

Based on the above observations and conclusion, the following recommendations have been put forward.

-) It will be very difficult to utilize the foreign aid unless there is a substantial improvement in our absorptive capacity. Hence there should be quick solution of present obstacles like delay in the approval of tender, weakness in administrative management and coordination etc.
-) Foreign aid should be accepted in accordance with the development need and the development priority of the country instead of accepting anything that is available from the external source.
-) The government should prepare priority list of viable projects and backward sectors according to the development need. Entire freedom in the selection of the projects should not be provided to donors. The project should be selected by the Government of Nepal according to the priority list.
-) Foreign aid should be used in transparent manner with proper accounting system of recording the movement of foreign aid.
-) Nepalese technicians as well as laborers should be used in order to reduce the large amount of expenditure on foreign human resource.

-) Long-term loan should be taken at low interest rate (soft loan) with long maturity period.
-) Common consensus should be established at national level in developmental agenda within the political parties.
-) Priority should be given to grants rather than loans and be used to productive sectors.
-) Selected projects should be implemented with full commitment so that it can generate sufficient resources to pay back the aid.
-) Project management efficiency should be improved and enhanced.
-) Some countries provide aid with some conditions. This is why, the conditions should be properly studied and only those projects which are favorable for the country should be chosen. Bargaining capacity should be increased to make foreign aid more favorable.
-) Long-run planning of development and construction should be formed and according to this, the utilization of aid should be continued and expanded.
-) The United States should provide aid to Nepal for humanity and improvement of backward sectors of Nepal. It should be politically neutral, not for military ambitions and business interests.
-) Under the US assistance, major projects are in urban areas i.e. only minor projects are in remote areas. So these projects should also be expanded in rural and remote areas.
-) Nepal must develop internal market and promote export opportunities by promoting agro-based industries and enterprises with the participation of cooperative and private sector using the American aid effectively.

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-----**THANK YOU!**-----