

CHAPTER I

INTRODUCTION

1.0 Background

Nepal is one of the least developed countries. Land locked and wedged between India (in the east, south and West) and Tibet, (an autonomous region of the People's Republic of China), in the north; Nepal remained secluded from the outside world until 1951. When people restored democracy and launched the nation on the path towards modernization, Nepal introduced into the outside world.

Nepal is an agricultural country. About eighty percent of the people are dependent on agriculture for their income and employment. Agriculture sector contributes 36 percent of GDP. Agriculture sector was given top priority in the planning documents in the past considering the fact that the sustainable economic development was not possible without the development of agriculture. Long term Agriculture Development Plan(1995-2015) is under implementation aiming to reduce poverty and increase economic growth by means of increasing employment opportunities and agricultural production(Economic Survey,2006\07).

Although much has been accomplished as a result of ten development plans, which have guided economic and social improvement efforts to date, Nepal is still among the least developed nations of the world the economy consists of many loosely linked minor valley economies, predominantly dependent on agriculture rather than one integrated economy. At constant factor cost, the contribution of agriculture to total GDP was 38.8 percent in FY2005\06. In FY 2006\07, such contributing share is expected to be 36 percent.(Economic survey, 2006\07) . There are ample potentialities of this sector to play a vital role in export promotion, industrial development and expanding employment opportunities. Realizing these facts, agriculture sector has been accorded with high priority under the previous plan periods. The

Tenth Plan had aimed at increasing the growth rate of agriculture production to 4.1% in normal case and 2.8% in lower case(Tenth Plan, 2002-2007). This sector plays pioneer role in production, food security, creation of employment and poverty alleviation with broad based and sustainable development. It is therefore, rightly deserves the topmost priority because the economy is still mired in the initial stage of development where the income generation and GDP contribution of industrial sector as well as internal market expansion is not satisfactory. Most of industries in Nepal are agro based. Even non-agriculture sector depends upon the development of agriculture sector.

In Nepal, agriculture production is mostly influenced by monsoon. Agriculture production is bound to decline if there is unfavourable monsoon. Only about 1,126,601 hectares of lands under cultivation have irrigation facilities(Department of Irrigation). In order to bring improvements in the existing agriculture system, expansion of reliable and adequate irrigation facilities, use of appropriate technology, timely delivery of agriculture inputs, easy access of credit, extension of agriculture market and technology in accordance with the country's geo-physical condition have been essential. In 1995, the government of Nepal conceptualised, prepared and adopted a twenty-year Agriculture Perspective Plan (APP) with broad multiple objectives of overall economic transformation through accelerated agriculture growth. This would result in expanded employment opportunities, improved living standards and thereby a rapid reduction in poverty. In order for agriculture to become the engine for driving high economic growth in Nepal, the Agriculture prospective plan identified and prioritised a few key areas for making public investment over the planned period from 1995 to 2015. These were shallow tube-well irrigation in the Terai, agriculture roads, adequate supply of fertilizer and research extension. This requires the huge sum of development expenditure.

The Nepalese economy, at present is passing through the critical phase of low-level equilibrium trap circumscribed by low rate of internal revenue mobilization, huge budgetary deficits, poverty and stagnation. Very low rate

of saving only about 16.0% of the total GDP accompanied with high requirement of investment has been widening the investment-saving gap every year at an alarming pace(Economic Survey, FY 2006/07).The portion of GDS to GDP for FY2006/07 is expected to slide down to 9.4%. Nepalese economy moreover is the manifestation of an acute disguised unemployment and subsistence farming with limited prospects for mechanization, where foreign aid has continued to play a vital role in sustaining the economy.

The attainment of the target rate of growth would require certain minimum imports of expensive capital goods and raw materials. Nevertheless, due to excessive concentration of exports on primary products and consumer goods leads to deficit in foreign exchange. This shortage of foreign exchange to finance the minimum import requirements of current production and investment called foreign exchange gap and trade gap is widening year by year. There is under utilization of domestic resources as human, natural resources, land etc. due to the presence of trade gap and saving gap which leads to the retardation of economic growth. Foreign aid can bridge these two gaps augmenting saving or relieving foreign exchange constraints so as the economy can reach to a point at which growth could become self-sustaining. As internal resource mobilization is very poor, Nepal's dependence upon foreign aid to finance development programs expected to increase over the coming year until the internal financing capability is substantially improved.

Foreign aid is classified into various forms on the basis of its nature, terms and sources. On the basis of nature foreign aid can be classified in three ways as i) capital aid ii) commodity and iii) technical aid. Capital aid is provided in cash for the implementation of projects as well as for assistance for balance of payment and other reform programs. On the other hand, commodity aid is in the form of goods that usually takes the form of transfer of surplus products of the donor to the recipient nations and technical aid included the training, technology-know-how, and transfer of technology from donor to recipient countries. The financial assistance is made either in the form of grant or loan. Grants are generally free launch, which not have

repayment liability. Therefore, grants are appropriate to use in the social services as education, health, drinking water etc, which have very long gestation period. Loans, on the other hand have repayment liability. Since loans have repayment liability it should be wisely utilized in those sector that obtain returns in short run.

The continuity in the aid flows from the capable and developed to the weak and developing countries since the Second World War has stamped a distinct position in the global political and economic relations. However, the foreign aid originates its history dates back to the 17th century when Britain received aid from Holland, which continued even during the 18th century. But major attention after the " Marshall Plan " came into existence in 1947 to reconstruct war devastated European economy which was prepared by American secretary of State George Marshall. It was only after the Second World War period, when a number of countries freed themselves from the colonial token that there was a need of economic assistance. This need was reinforced further by existing cold war situation leading to the evolution of a new international economic interdependence among the nation states. Flow of aid become more rapid due to polarization, which create the competing environment between America and then Soviet Union to gain support from other nations after the beginning of the cold war between USA led capitalist countries and then USSR led socialist countries, foreign aid became an integral part of foreign policy. During the cold war period and up to 1990, the motives of foreign aid are found to be idealism, generosity and international solidarity to political expediency, ideological confrontation and commercial self- interest.

Nepal started receiving foreign aid officially since 1951 with a 'Technical Co-operation Agreement' between Nepal and United States of America under the point four programs with the grant assistance of Rs. 22,000. The strategic location of Nepal between India and China and its non-aligned friendly relations with all countries, including the two superpowers

helped to increase the volume of aid from 'Trickle' to 'Torrent' after 1956. After late 1970's Nepal has been receiving foreign aid mostly from Nepal aid group (Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland, Sweden, Saudi Arabia, United Kingdom, United States of America, and eight multilateral donors as World Bank, Asian Development Bank, International Monetary Fund, European Union, IFAD, OCEC, FD, UNDP).

1.1 Statement of the Problem

Nepalese economy is characterized by dependency in foreign aid, large fiscal and external deficits and significant imbalance between saving and investment ratios, the role of foreign aid, is very important. Almost all the development projects in Nepal are mostly operated directly or indirectly either from the foreign loan or from foreign grant; only a low portion of internal revenue surplus is utilized in development projects. Foreign aid have made some contribution to economic development of Nepal, especially through creation of infrastructures and providing some social services in rural and urban sector as well. Nevertheless, the overall performance however is not found to be that much effective and the pace of development is still creeping like a snail. GNP has not been increases satisfactorily. Agriculture sector lacks pleasing result. The amount of foreign aid is not sufficient for overall development.

Saving-investment gap and resource gap are widening year by year. The fluctuation of aid commitment and disbursement show the poor performance in the foreign aid absorption capacity of Nepal. The problem in their respect basically lies with utilization rather than with mobilization of external assistance. It lacks timely delivery of disbursement. Foreign aid in agriculture sector is relatively low. Productivity and utilization of foreign aid are not satisfactory as compared to increment in foreign aid in agriculture sector. (Economic survey, FY2006/07)

There is lack of real purchasing power reflecting the low productivity in agriculture(Nurkse,1996).The foreign aid has substituted domestic saving, aid resources have not utilized effectively. Aid is very much urban biased and it is serving the urban elites,politicians,bureaucrats,commission agents and contractor(Poudyal,1992).

. As in most of the developing countries, low interest rate and low service charge on foreign loan has been heavy burden to us in terms of finance and implementation when donors impose many unaffordable conditions. Foreign loan in Nepal are mostly built up vicinity oriented. It has not reached adequately to countryside people. In Nepalese context, there is a mismatch between development priorities as determined by Nepal and priorities of donor countries and institutions..

Agriculture, a major sector receiving aid, does not show sound effort after more than four decades of development effort and investment of the scarce resources. The share of foreign aid to the agriculture sector has been increasing with some fluctuation since 1980. However, agriculture production has yet to depend on monsoon as only 30 percent of cultivated lands are irrigated(Department of irrigation). The index of population growth and food production indicates the stagnation performance of the agriculture sector and Nepal has turned into a food deficit country since the early seventies.

The less-than satisfactory performance of external assistance to Nepal during the last four decades is attributed to the insufficient amount of foreign aid thinly spread over relative to the requirements and the adhoc nature and changing priorities of aid on one hand, and the lack of proper planning and commitment of the government, weak institutional and managerial capacity in the country, and inappropriate macroeconomic and sectoral policies on the other(Ghurugharana 1992:12-13).

The production and growth rate of agriculture sector has remained very low. Income generation and employment opportunities could not increase particularly in rural areas likewise, there has not been expected improvement

in per-capita income due to the high growth rate of population. Thus the main challenge of our economy is how to commercialize agriculture sector and how to increase production, income generation employment opportunities and better utilization of foreign aid properly.

The absence of a clear and transparent policy on the mobilization of foreign aid in our country; where foreign aid is being mobilized since the last 40 years is in the crux of this problem.

These are some of the pertinent questions that led me to undertake this research.

1.2 Objectives of the Study

The purpose of this study is to examine the role of foreign aid in the agriculture sector and consequently in Nepalese economy through development process by examining its effect on GDP growth with special reference to keeping in view the above stated problem. This study also investigates the contribution of foreign aid to the agricultural GDP and the nature of foreign aid. The study attempts to following objectives:

1. To find out how far the foreign aid has helped to increase the agriculture production.
2. To compare the effectiveness of foreign aid in the development of agriculture sector prior to liberalization and post liberalization period.
3. Providing conclusion drawn from Nepal's experience with foreign aid so far, based on the data currently available, and providing recommendations on possible ways to increase the utilization of aid.

1.3 Importance of the Study

This study seeks to analyse on contribution of foreign aid in Nepalese economy, especially to agriculture sector. This study will further examine and analyse the importance and effect of foreign aid in Nepalese economy. Hence, this research work will be useful to those who are interested in this field. It

helps to select the type of aid as loan or grant and bilateral or multilateral and ties or untied which will definitely help to improve the macroeconomic variables of the Nepalese economy.

This study may be equally important to the planners, researchers as it may provide guidelines to the planners to decide whether to collect more aid of given attention for its proper utilization. This study clearly shows the role of foreign aid in the process of agriculture and economic development. So if its role is positive then the government should not hesitate to sign for more aid. Instead, if the role is negative, then it is better not to acquire more aid.

1.4 Limitations of the Study

In agriculture sector the investment made by private sector is much more higher than government sector investment. This study covers the government sector investment in the agriculture sector and the share of foreign aid in total agriculture sector and the share of foreign aid in total agriculture expenditure between the period 1975/76 between 2006/2007. Furthermore, while comparing the effectiveness of foreign aid prior to liberalization and post liberalization period, data are taken from 1978 to 1990 and 1990 to 2002. This study does not cover the effects of foreign aid on political, social, sector, which cannot be quantitatively measurable. this study has not included the military type of assistance as well as transfer of private resources because these type of assistance has no sound effect on economic development.

CHAPTER II

METHODOLOGY

2.0 Research Design

The main attempt of this study is to analyse the role, contribution and effectiveness of foreign aid in agriculture sector and consequently in Nepalese economy. This study is analytical as well as descriptive in nature. The collected data are processed according to the need of the chapters, as finding total, averages, percentages, ratios, growth etc. Regression analysis are used to find out the exact effects of foreign aid on the agriculture GDP.

2.1 Sources of Data

The study is primarily based on the secondary data. So the necessary data for the study have been collected mainly from Economic Surveys (FY1980/81, FY1989/90, FY2001/02, FY2006/07) published by Ministry of Finance, Nepal Living Standards Survey (2003/04), FAO Year Book (2002), first plan (1956-61) to ninth plan (1997-2002) published by National Planning Commission, concern institutions and the various publications carried out by Central Bureau of Statistics, Nepal Rastra Bank, Federation of Nepalese Chamber of Commerce and Industry (FNCCI). Likewise different publications, as Budget Speech, Plan Documents have been used for the completion of this study. Besides these, information has been also collected from various articles, journals, magazines and newspapers. The collected data are arranged systematically in tabular form according to the need of the study.

2.2 Tools of the Study

The study attempts to show the relationship between foreign aid and agriculture growth in Nepal . To measure the contribution of foreign aid in agriculture sector regression analysis , marginal productivity of aid, elasticity of aid has been used.

2.3 Regression Analysis

Regression analysis calculates equation that provides value of dependent variables (Agriculture GDP and Total GDP in this study) for given values of independent variables (Flow of foreign aid in agriculture and total flow of foreign aid, in this study). The primary objective of the regression analysis is to show the relationship between foreign aid and agricultural GDP. For instance, after deriving regression equation one can able to find out the effect of foreign aid on Agriculture GDP.

Agriculture GDP (Y_{ag}) is regressed with foreign aid in agriculture (F_{ag}) to examine the value of the dependent variable (Y_{ag}) for any given value of the independent variable (F_{ag}) and vice versa. Similarly regression analysis is carried out between total GDP (Y_{gdp}) and total foreign aid inflow (F_t) which is used to estimate effectiveness of foreign aid and GDP.

Regression equation of Y_{gdp} on F_{aid} can be expressed as:

$$Y_t = a + b F_t$$

Where,

$$Y_t = \text{GDP in time period "t"}$$

$$F_t = \text{foreign aid in time period "t"}$$

a and b are regression parameters.

Similarly,

Regression equation of Y_{ag} on foreign aid (F_{ag}) :

$$Y_{ag} = a + b F_{ag}$$

Where Y_{ag} = Agricultural output

F_{ag} = Foreign aid in agriculture

2.4 Log Linear Model

The log linear model consists of both the dependent and independent variable in logarithm form. This model is used to estimate average elasticity of foreign aid to GDP. It can be expressed as:

$$\ln Y_t = \alpha_0 + \alpha \ln F_t$$

Where,

\ln = Natural log

Y_t = GDP at time period "t"

F_t = Foreign aid at time period "t".

α_1, α_2 = Regression parameters

2.5 Marginal Productivity of Aid

Marginal productivity of aid is the increment of GDP with respect to foreign aid which is defined by,

$$MP = \frac{Y_t - Y_{t-1}}{\Delta F}$$

Where ,

Mp = Marginal productivity of aid

Y_t = GDP at time period "t"

Y_0 = GDP at beginning period

ΔF_t = Change in volume of aid

2.6 Test of Significance

There may occur the standard errors of estimates (SEE) like standard deviation, to measure the reliability of estimated equation as well as coefficient. The larger the standard error of estimate, the greater the scatteredness of given observation from the trend line (Regression line) which means no goodness of fit. On the other hand smaller the value of SEE, the better will be the goodness of fit. So, SEE reflects the goodness of fit i.e, how well and representative the estimated regression line and coefficient are to show the relationship between two variables.

2.7 Test of goodness of Fit (R^2)

R^2 is used to find the explanatory capacity of independent variable. It measures the scattered ness of observation from the regression line. It describes how the dependent variable is explained by independent variable. In other words, R^2 shows how well the change in dependent variable is explained by the independent variables. Closer the observation to the regression line, better the goodness of fit i.e. Y is better explained by explanatory variables. R^2 is the square of the correlation coefficient, which shows the percentage of the total variation of the dependent variable that can be explained by the independent variables of the multiple determinants. But the R^2 does not take into account the loss of degree of freedom from the introduction of additional explanatory variables in the function. The inclusion of additional explanatory variables in the function is expected to raise the value of R^2 . But there is room for adjustment to correct this defect, we adjust R^2 by taking into account the degree of freedom which clearly decrease as new regressors are introduced in the function. R^2 is obtained as:

$$R^2 = \frac{a_1 \sum yx_1 + a_2 \sum yx_2 \dots \dots \dots + a_n \sum yx_n}{\sum y^2}$$

Where,

$$x = X - \overline{X}$$

$$y = Y - \overline{Y}$$

2.8 Test of Significance of the Parameters

T- test

T – test is used to identify the statistical significance of an observed simple regression coefficient. Since this study is based on the hypothesis that foreign aid has positive impact on agriculture GDP, t-statistics is calculated and it's one tail significance is tested which is obtained by

$$t = \frac{ai}{SE(ai)}$$

Where,

ai = Estimated value

SE = Standard error

In t-test the calculated values will be compared with tabulated values at certain level of significance with respect to a given degree of freedom. If the calculated "t" exceeds the table "t" value, estimated coefficient is significantly different from zero.

F-test

F-test is used to examine the overall significance of the model.

Which can be performed as:

$$F = \frac{R^2 / k - 1}{(1 - R^2) / N - k}$$

where;

R^2 = Coefficient of determination

K = Number of explanatory variables

N = number of observations in sample

The calculated F-variance ratio is compared with the tabulated value at a specific level of significance with $(k-1)$ and $(n-k)$ degree of freedom.

If $F_{\text{cal}} < F_{\text{tab}}$, null hypothesis is accepted

If $F_{\text{cal}} > F_{\text{tab}}$, Null hypothesis is rejected.

CHAPTER III

LITERATURE REVIEW

3.0 Introduction

Nepal has been a recipient of foreign assistance since 1952 when it joined the Colombo Plan for Cooperative, Economic, and Social Development in Asia and the Pacific. Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, transportation infrastructure, and power generation. India and the United States each were responsible for more than one-third of all grants. Both countries established aid missions to Nepal and directed aid to special projects. Until the mid-1960s, Nepal depended mostly, if not totally, on foreign grants for all development projects. Most of these grants were on a bilateral basis. Beginning in the 1960s some bilateral assistance was in the form of loans. The loan share of foreign aid increased from under 4 percent between 1965 and 1970 to more than 25 percent by the 1985-88 period (The Library of Congress Country studies 1991; CIA world fact book).

Transfer of resources from advanced countries for the purpose of encouraging uplift in developing countries is not a recent phenomenon. It exists even in the earlier centuries but then these resources flows were mainly associated with the colonial connections of the countries concerned. So the concept of foreign aid originated at the early period of colonization, when the United Kingdom used to provide economic assistance to its colonies. It could also be seen as a continuity of United States Dollar Diplomacy in Asia and Latin America in the years that followed First World War. However, foreign aid generally became important in the international scene immediately after the great destruction of the Second World War. After the Second World War, most of the developed countries began to think about the balanced economic development. They realize that "poverty anywhere is threat to prosperity

everywhere". It is only after Second World War, when United States initiated 'Marshal Plan' in 1947, foreign aid started systematically and, its scope become significant(IIDS).

The paper presented at the Nepal Development Forum 2002 in the Review of developing partnership in Nepal: Review team's main finding and recommendations of the donor's attitudes as, donors have felt that they have responded to the ineffectiveness and lack of direction of GoN by taking more responsibility for designing and implementing programs and projects. As such, some donors have reduced their aid levels and formulated strong conditions in their aid programs, while others have reduced their efforts to work through the central government and instead work more directly with local governments, NGO's and communities or engage their own implementing agencies and consulting companies (Nepal Development Forum, 2002).

Acharya(1988) said that there had many fold increase in the quantum of aid flows to Nepal ; there had been some improvement in the physical and socio- economic indicators of Nepal. Number of hospitals and health posts were increased. Numbers of schools, teachers and students also added up. It holded true in the case of the government supply of drinking water, irrigation, electricity and road access. Nevertheless, all these facilities remain quite beyond the reach of large mass of the people. One could definitely say except for irrigation, all of these infrastructures were almost exclusively urban concentrated, where barely one- fifth of the population live. The estimation of the population living below the line of absolute poverty various forms two-fifth (official) to the three-fifth. Thus, foreign aid in Nepal is said to have widened rather than narrower, rural-urban, hill-terai, and east-west and male-female social economic disparities. Despite so much pouring of foreign aid over half a century, relative standing of Nepal in the global community was successively heading towards the bottom. He further wrote the causes of ineffectiveness of foreign aid in Nepal (Acharya, 1988).

There were many reasons for being ineffectiveness of the foreign aid in Nepal. Lack of commitment from the government, donor's own strategic interest rather than economic development, corruption, political interference in the bureaucracy that caused the frequent change of project manager, ineffective monitoring system were some of the important reason for ineffectives of the foreign aid. There were so many reasons for being administration that it is to be accepted that Nepal has not been able to properly manage the available foreign aid.

Feyzionglu, Swarp and Zhw in their article have analysed the impact of foreign aid on different components of public spending. They found that most of the aid indeed is fungible. Earmarked concessionary loans to the transport and communication sectors are fully spent on the process intended by the donors . They further conclude that the inflow of foreign aid in recipient countries depends on absorptive capacity of a country. The absorptive capacity of foreign aid is still another problem for proper utilization of these funds while the capacity to absorb depends on various factors. So, the project must be efficiently executed for the optimal utilization of aid. Again, the problem has become acute, as the country could not make large exports potential. The ability of country to utilize the aid that it receives also depends on its administrative efficiency and skill manpower. The more skill personnel a country has, the more likely it will be able to utilize the capital inflow in productive projects(Feyzionglu, Swarp and Zhw, 1998).

Cassen and Associates has given down to earth scenario of causes of failure of aid, when aid goes wrong, its failing can be divided into what might be called the more and the less comprehensible. On the other side, some of the more comprehensible failures come from parsing commercial or political ends without much regard for the developmental objectives of aid; others from not learning from past mistakes, since there is insufficient information exchange among agencies of project experience. The result is that mistakes are repeated with detectable frequency. On the recipient side, the

main set of phenomena responsible for aid failure lie in the policy environment within which aid operates. There is one further cause of failure which attributed to the behaviour of both sides, namely the lack of coordination of aid (Cassen and Associates, 1994).

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

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

George C. Marshall had prepared a plan of US \$ 13 billion in 1947 to reconstruct war-torn countries of Western Europe. Later, it was called Marshall Plan and has considered first package of foreign aid in world history. The changing role and desire of nation's equity and good governance, poverty alleviation, equal development partnership, bilateral and multilateral commitments have canalised foreign aid in a regular track. "The success of the Marshall Plan deceived economists, policymakers and enlightened opinion in the West into believing that infusion of capital helped along by the right kind of investment planning might be able to grind out growth and welfare all over the globe (Hirschman, 1981).

Meier one of the well-known economists writes that capital accumulation regards as core forces by which all other aspects of growth as possible. Investment needs more saving or foreign assistance. More saving

will not be possible in developing countries because of low level of income. Thus, foreign aid plays a significant role for the economic development in developing countries. He argues that foreign aid might have some limited use; it should be given to those who help themselves (Meier, 1970).

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

Higgins, in his book emphasizes the importance of foreign aid by saying that it is highly on likely that measure to increase voluntary domestic savings along or even measure for voluntary and compulsory saving together can provided all the financial sources needed for developing or underdeveloped countries. Foreign aid is primarily used in the construction of social overhead capital such as roads, dams and electric projects. So far as the capital requirement of LDCs concerned, it is not so much high as that of the developed and fast growing economies. Their per capita capital is low and cannot be increased overnight (Higgins, 1968).

Despite the several publication and empirical studies in the field of foreign aid, it still exists and there is huge debate among the economists about the role of foreign aid in economic development. There are many books, booklets, journals, magazines and articles written by many Nepalese as well as foreign authors in the context of foreign aid in Nepal. The students of economics have also submitted their dissertations related to foreign aid.

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

Rodan, in his article has argued, the purpose of an international program of aid to underdeveloped countries is to accelerate their economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining basis. He further writes outlining the objectives of foreign aid, "Thus the general aim of aid is to provide in each underdeveloped country a positive incentive for maximum national effort to increase its rate of growth. The increase in income, saving and investment which aid indirectly or directly makes possible will shorten the time it takes to achieve self-sustaining growth (Rodman, 1961).

Working of foreign aid he further explains, "Evidently, the instance of each developing country is a special case. However, the relative effectiveness or ineffectiveness of aid can nevertheless be rationalized to some degree. In some of the east Asian countries, for example aid has worked productively (that is it has a net addition to available productive resources) because among other factors they enjoyed relatively egalitarian structures affording relatively high labours participation; counterpart resources were facilitated by high domestic saving and by early investment in education and technical training measures; high domestic saving and by early investment in education and technical training measures; high priority was given early on to production for

export. In some of the African countries, on the other hand, aid has been rendered relatively ineffective because in some cases it was inappropriate; it was- ill matched by centre part resources, participation rates were low, public sectors were inefficient." thus he concludes the effectiveness of aid, therefore can only be determined in terms of its appropriateness within a particular context or environment(Rodman,1961).

Writers like Burnside and Dollar have investigated a relationship between foreign aid and policies of recipient countries and they have found that there is significance relationship between good policies and effectiveness of foreign aid. An article written by C. Burnside and D. Dollar titled "Good Policies Are Needed to Make Aid Effective" the major issues that they have raised are:

- a) Aid is not a determinant of policies pursued by the recipient country's government. Aid could to 'buy' good policies.
- b) Statistically significant tendency for good policy was rewarded by aid but this effect is swamped by the political variable, leaving no overall correlation between aid and policy.
- c) Aid had a statically significant impact on growth but only when the policies of the recipient government were unusually good.

In determining aid flows, recipient governments' policies are not the most important factors. Factors that are more important are evident in the following trends.

- i) Lower income countries, other tings being equal, receive larger aid flows,
- ii) Countries with small population receive relative to their GDP, disproportionately large aid (Burnside and Dollar, 1997).

This suggests aid inflow depend upon the government of the recipient country rather than their citizens and their need.

Various authors about foreign aid in the context of Nepal have made several theoretical and empirical studies.

Many countries have realized the significance and effectiveness of foreign aid to Nepal. Highlighting the role and foreign aid in Nepalese economy, Poudyal has said that foreign aid appears to have played a laudable role in as much as it inspired successive government in Nepal to demonstrate their commitment to develop. The desire of the people of Nepal for a better living standard is the product of endogenous stimuli and everything else form the objective of development its strategy, policies and projects destined that is influence by foreign aid. He also pointed out the channelling of funds were not significant until the beginning Nepal's first five year development plan in 1956. Since than foreign aid from various sources has been meeting a large proportion of the cost of the Nepal's development programmes(Poudyal, 1992).

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

Aryal outlines the importance of foreign aid not only in the form of economic assistance but also in the form of technical and commodity assistance in the developing countries. Technical advancement has presented so sophisticated machines that without skilled and trained hands the machines cannot operate. Thus, foreign co-operation in the form of technical assistance serves the host country to train the local people and to generate able personable in the near future. "Technology provides the equipment and knowledge that, when utilizes adds to productivity. Nevertheless, while the latest technology may be most productive one, the same may not be adopted in a country due to lower level of infrastructure. Even aid sustenance may be questionable as it presupposes the existence of certain of minimum level of economic activity in the country and buying power of the uses, which the country may not have. In launching a development programme through foreign aid, the country should therefore select technology that can be sustained and adopted by the people for their own development programs through availing the capital and experts human resources to effectively utilize the technology for and overall development of the country(Aryal, 1991).

Dr. Gurung in his paper highlights the importance of foreign aid in Nepalese Economy. Foreign aid has played a significant role in the evolution of Nepalese economy over the last two decades. It has been an immense value in the context of Nepal's obvious limitation to the mobilization of her domestic resources for financing the investment of a magnitude capable of raising the living standard. The importance of foreign aid in Nepalese development is evident from the fact that at present foreign agencies still contribute more than half fertilizers the public sectors investment (Dr. Gurung, 1984).

Sharma argues that so far as these effects (roles of foreign aid) in Nepalese context are concerned, economic effect seems somewhat weaker than political and social effects. Aid, in Nepal's case, has over the past three decades, enhanced the aid culture and supported the political system, without

theoretical foundation. It has never been successful in bringing structural changes that manifest into self-sustained or self-reliant growth with equitable distribution among people representing various section of this feudal but heterogeneous society. This however, does not restrict the possible use of foreign in the not too distant future. It rather holds that its future should be more productive through better targeting and management- measures to raise aid quality. This philosophy behind foreign assistance should. Therefore, be guided by the thesis that humanitarian aid without reaching real people(equity consideration) is no aid and the economic aid (financial, technical) without and increase of resources efficiency (growth and found in the past, should be regarded as only a burden to the Nepalese society keeping it in a debt trap, low equilibrium population trap and hence, inflation augmented lard ship-trap(Sharma, 1988).

Writers like Mihaly, Khadka and Singh have put forward their views on politics in foreign aid. Mihaly in his book argues that Nepal's experience show that economic assistance is a limited tool. It is easy to ask too much of it, many have done so. Yet this stepchild of the cold war offers great opportunities for constructive action. Against the greatest problem of our time, the vast inequalities among people, economic assistance has proved itself a potent weapon. Nevertheless, the uses to which aid is put must be constant with the powers that it possesses on the donor nations must temper their ambitions, foregoing immediate return for very long-term benefit. They must approach the requirement of the recipient nation with realism; basing their programs and the readiness for change the leaders and still more crucial among the peoples of those nations. Only by doing so will the developed donor states make progress in assisting the developing nations of the world to meet the challenges before them (Mihaly, 1965).

Khadka in his book concludes the poor performance of the foreign aid in Nepal. Nepal's dependence on external aid is very high and it has been growing every year as indicated by the government's economic surveys. The

increase from just Rs. 131 million in 1961 to Rs. 6,446 million actual disbursement (Rs. 15830 million was committed) in 1990 is massive. Foreign aid commitment averaged almost Rs. 2 billion per annum during 1975-80, which increased to an average of Rs. 10.15 billion per annum during 1985-90. Foreign aid covered almost every sector of Nepal's economy. Despite such a growing dependence, Nepal's economy did not improve much. Aid did however, contribute to the creation of infrastructure networks in the country, but the overall performance has been rather disappointing (Khadka, 1994).

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

Several literatures have been published in the area of foreign aid and economic development but only few writers have examined the impact of foreign aid in agriculture sector.

Nurkse in his book emphasizes that an underdeveloped country need large amount of foreign assistance to finance creation and expansion of the infrastructure and for the development of basic industries. An increase in agricultural productivity implies some combination of reduced inputs, reduced agricultural prices or increased from receipted. There is lack of real purchasing power reflecting the low productivity in agriculture (Nurkse, 1996).

Sainju said, "While thinking about ways to increase the utilization rate of foreign aid in Nepal, policy makers should realize that merely making

arrangements to bring in more money to the country may not be sufficient. Rather than encouraging self-sustaining growth, debts may force a country to suppress consumption and investment in the long run and to run trade surpluses to fulfil all debt obligations. Such actions may reduce the welfare of the citizens in the long run" (Sainju, 1996).

Foreign aid enhancing the productivity of agricultural land of least developed countries, Jhingan in his book argues with India's experience of foreign aid in a agricultural sector, says " Foreign aid has increased India's ability to cope with short falls in food production and raw materials for consumer goods industry. India has been importing substantial quantities of food grains, oil and raw materials at concessional terms during recurring droughts. Helped by international organizations in the field of agricultural research has led to the development of new agricultural tools and technologies, improved seeds, irrigation, cropping pattern, better farm practices etc. This has resulted in manifold increase in food production. Thus it is on the basis of food imports and increased food production within the country, that the government has been able to build large baffle stocks and stabilize food prices" (Jhingan,1989).

Panta outlines the importance and effectiveness of foreign aid in agriculture sector in Nepal. He writes, "The achievement of the foreign aided agricultural projects has not been particularly satisfactory. Reported statistics indicate ineffectiveness of various efforts that include heavy inputs of foreign aid and technical assistance. People are becoming increasingly skeptical about the effectiveness of external assistance in transferring appropriate technology so vitally required for agriculture development. The donors, in their effort to develop agriculture should endeavour to develop and transfer a technology that would best balance local relative cost, market sizes, local skills and managerial ability, there is frequent mention about the appropriate technology which should maximize the use of unskilled labour and encourage saving on

capital and other scarce goods. But in practice this has not appeared in most of these projects" (Panta, 1986).

In the case of transfer of technology, he further writes, "innovative planning is essential in any attempt to accelerate the pace of agriculture development. This is because what is appropriate in development countries is not likely to be applicable in developing poor countries, and a super-imposed technology is not readily acceptable to farmers. There are many experiences in developing countries, which bear ample testimony to this fact. The cropping system programme, which is currently being tried out with continual adjustments in technology as per the local realities, is one of the examples in Nepal to show the positive impact of foreign aid in the development and transfer of appropriate agriculture technology, at least during the experimental stage."

Aryal in his dissertation concludes that the total amount of foreign aid has been increasing constantly in Nepalese economy. Therefore, the share of foreign aid in total agricultural expenditure has also increased. During the fifth plan period, the amount of foreign aid for agricultural development was Rs. 891.8 million, which increased to Rs. 3646 million in the sixth plan. In percentage terms, it was 85 percent of the total agricultural expenditure in the fifth plan and 55.2 percent of the total agricultural expenditure in the sixth plan (Aryal, 1991).

After analysing the above literature I came to know that economists have criticized the foreign aid on the ground that it is mostly concentrated on the development of modern sector and as a result it has increased the gap between the people living rural and urban area and has further worsened income inequalities. Workers who have been employed in industrial enterprises set up with foreign aid are paid higher wages due to the higher capital intensity and their higher productivity. on the other hand, workers employed in traditional sector have less benefited from foreign aid. As a result of this, it is alleged that foreign aid has further widened urban-rural and

sectoral imbalance. There are only few literature found in impact of foreign aid in particular sector in the context of Nepal.

Chapter IV

STATUS OF AGRICULTURE IN NEPAL

4.0 Importance of Agriculture in Nepalese Economy

Nepal is a landlocked country with a land area of 147181 sq. km. and is characterized by steep slope and elevation varying from 60 m to 8848m above the sea level within a wedged width length of 200 km. This latitudinal variation produces a wide range of physiographic and ecological features. Nepal has five distinct physiographic regions with different climatic conditions. They differ in type of topography, climate, productivity, fauna and flora. High Himalayan region in the northern border has an altitude above 4000m and contains 23% of country's land mass with less than 0.3% cultivable area and has alpine and tundra type of climate. The altitude of the High mountain ranges from 2200m to 4000m having 19 per cent of area and 8 per cent of the cultivable land, and support about 8 per cent of the total population. High mountain region has cold temperature and alpine climate. Middle mountain has an altitude ranging from 800 meter to 2200 meter and contains 29% of the area with 41% of the total land cultivable land (Nepal in Figure, 2000).

It has warmed temperate to cold temperate climate. Siwalik region has about 15% area and 9 percent cultivable area with sub-tropical and warm temperate climate. The southern flat land, which is extension of indo-Gangetic plain, is known as terai and covers about 14 per cent of area with 42 per cent of cultivated land. Annual precipitation varies from 1500 to 2500mm and 60-80 per cent of this is received during June to September. More than 70 per cent of the total monsoon water received goes waste. The major food crops of Nepal are rice, jute, paddy, maize, millet, barely and wheat. Sugarcane, oilseed, tea, tobacco, pulses, ginger and cardamom are some of

the important cash crops of Nepal. These days poultry-farming, bee-keeping and ranching are gradually developing in Nepal.

The agriculture sector is extreme important for overall economic development. If agriculture sector is in good condition, it provides food grains to feed growing population; it provides additional foreign exchange earning for the import capital goods for development through increased agricultural export. It helps increase the demand for industrial products and thus necessitating the expansion of the secondary tertiary sector, increasing rural income to be mobilized by the state and welfare the rural people. So improved condition of agriculture stimulates overall economic development of the country. The important role played by agriculture in the industrialization of a country may be visualized from the fact that well developed agriculture supports and sustains the tempo of industrial growth by so many ways agricultural productivity affects manufacturing of country. The farmer's production grows and has ever-increasing surplus to offer in exchange for manufacture as productivity grows and proportion of the population requires in food production fall, labor became available for manufacturing industries. The raw materials are supplied by agriculture to industrial sector.

Jhingan in his book writes importance about agriculture that the agriculture sector is extreme important for overall economic development. If agriculture sector is in good condition, it provides food grains to feed growing population; it provides additional foreign exchange earning for the import capital goods for development through increased agricultural export. It helps increase the demand for industrial products and thus necessitating the expansion of the secondary tertiary sector, increasing rural income to be mobilized by the state and welfare of the rural people. So improved condition of agriculture stimulates overall economic development of economy(Jhingan,1989).

Jhingan further says, "Large production of food and export crops not only conserve and earn foreign exchange but also lead to expansion of the

others sector of the economy. Foreign exchange earning can be used to built the efficiency of other industries and help the established of new industries by importing scarce raw materials, machines, capital equipment and technical know-how.”

Nurkse argues that an underdeveloped country need large amount of capital to finance creation and expansion of the infrastructure and for the development of basic industries. An increase in agricultural productivity implies some combination of reduced inputs, reduced agricultural prices or increased from receipted. There is lack of real purchasing power reflecting the low productivity in agriculture. All the above points clearly shows that the underdeveloped economy can develop only increasing the agricultural productivity through huge amount of capital investment”. He concluded that large amount of capital should be allocated through foreign resources(Nurkse, 1996).

Karna outlines the importance of agriculture in Nepalese economy that although agriculture sector has an important role in economic development, the development of this sector is not so satisfactory. It is carried on in an old fashion with the obsolete and outdated methods of production. As a result, the yield from land is precariously low and peasants continue to live at a bare subsistence level. Overcrowding and subsequent pressure of population on land has led to sub-division and fragmentation of holdings, decline in the area of land per capita, disguised unemployment and marginal productivity of labour zero. It is attributed to low land-labour ratio, inferior soil, outdated primitive technology, insufficient land use pattern, small amount of capital in use etc. It is obvious that not much can be achieved unless pressure of population on land is reduced and mechanization and commercialisation process are initiated. There is need to transform subsistence agricultural system towards productivity oriented, comparatively advantageous and commercialised agriculture system for sustainable agriculture development by reducing the pressure of increasing population and generating modern

technology with existing resource utilization patterns and developing transport and market mechanism (Karna, 2004).

The agricultural perspective plan (APP) and the tenth plan focused on commercialisation and diversification of the agriculture by cultivation high value crops and creation conducive environment for the participation of private sector and reducing poverty by increasing agricultural production and employment opportunities.

4.0.1 Contribution of Agriculture in Nepalese Economy

Agriculture is the backbone of the Nepalese economy which occupies dominant role in national income, livelihood, employment, industrial development and international trade. To maintain the balance of trade, to provide foreign exchange to import machinery and other essential raw material for industries, agricultural export earnings play an important role. Agriculture is the main supplier of raw materials to agro based industries. The small-scale cottage industries as well as large-scale industries depend on agriculture for raw materials.

The following table shows the contribution of agriculture sector and non-agriculture sector in Nepalese GDP from 1980/81 to 2004/05. The agriculture sector GDP consists of farming, fisheries and forestry. Similarly non-agricultural sector comprises manufacturing, transport and communication, hotels and restaurant, trade and industry, mining and quarrying, fuels, social services and construction. The table shows that agriculture is the single sector which contributes the highest share to the Nepalese GDP.

Table 4.1**Contribution of Agriculture Sector to GDP in Nepal from FY1980/81 to FY2004/05**

Rs. in Million

FY	Total GDP at FC	Agriculture GDP at FC	Agriculture as % of Total GDP	Non agricultural GDP at FC	% of Total GDP
1980/81	27307	15679	57.41	11628	42.58
1981/82	30988	17903	57.77	13085	42.22
1982/83	33761	19282	57.11	14479	42.88
1983/84	39390	22771	57.81	16619	42.19
1984/85	44441	22761	51.21	21680	48.78
1985/86	53215	27136	50.99	26079	49.00
1986/87	61140	30623	50.08	30517	49.91
1987/88	73170	36755	50.23	36415	49.76
1988/89	85831	42572	49.59	43259	50.40
1989/90	99702	50470	50.62	49232	49.37
1990/91	116127	55386	47.69	60741	52.30
1991/92	144933	65156	44.95	79777	55.04
1992/93	165350	70090	42.39	95260	57.61
1993/94	191596	80589	42.06	111007	57.93
1994/95	209974	85569	40.75	124405	59.24
1995/96	239388	96896	40.48	142492	59.52
1996/97	269570	108785	40.35	160785	59.64
1997/98	289798	112495	38.82	177303	61.18
1998/99	329960	132373	40.12	197587	59.88
1999/00	366251	145131	39.62	221120	60.37
2000/01	394052	151059	38.33	242993	61.67
2001/02	406138	160144	39.43	245994	60.57
2002/03	437546	171104	39.10	266442	60.90
2003/04	474919	183117	38.55	291802	61.18
2004/05	508651	194363	38.21	314288	61.79

Source: Economic Surveys(FY 1989/90 , 2004/05).

Above table shows that the contribution of agricultural sector to the national GDP is continual decrease since 1980 to 2005. Where as contribution of non-agriculture sector to the national GDP is continual increase. It is not only due to higher growth rate of other (i.e. non-agricultural) sector to the

national GDP. Subsistence and primitive way of farming, inadequate agricultural credit, inadequate irrigation facility, lack of agricultural marketing, high population pressure on agricultural land, uneven distribution of cultivated land are the root causes of being agriculture contribution to national GDP is declining. The volume of agriculture GDP in 2004/05 is 194363 which is 38.21 per cent of total national GDP.

4.0.2 Employment Generation

Agriculture is the source of livelihood of Nepalese people. Development of industrial sector is lagging behind in Nepalese economy. Industrialization is a long run affair and road to its attainment is not as smooth as expected. Nepal is the country where sphere of industrial development is still in an infant stage and is just struggling to get matured. So, there is no way other than agriculture to be engage for the huge majority of people. Nepal having an agrarian set up where 82.9 per cent of total population are engaged in agriculture. The masses of population are engaged on agriculture sector due to lack of alternative opportunities.

The average population density on cultivated land has been estimated to be 446 people per square kilometre and the per capita cultivated land in the country is approximately 0.2 hectare(Nepal Living Standards Survey, 2003/04). It is mainly due to rapid growth of population unaccompanied by the parallel development of non-agricultural activities like trade and industry.

The following table portrays the employment situation of Nepal during 2003/04 when Nepalese living standard survey has been taken place.

Table 4.2

Percentage Distribution of Major Sector of Employment in Nepal in 2003/04

Sectors of Employment	Percentage
Share of Agriculture	6.8
Share of Self agriculture	64.3
Share of Wage in Non Agriculture Sector	10.2
Share of self in non agriculture	9.3
Share of extended economic work	9.4

Source : Nepal Living Standards Survey, 2003/04

Above table shows that share of wage in agriculture sector is 6.8% while it is 10.2 in non agriculture sector. Self employment in agriculture takes 64.3% of employed persons while that in non-agriculture accounted 9.3% . Remaining 9.4% are in extended economic work sector. Despite the declining contribution in national economy , agriculture remains the most important economic activity and its sustainable growth is a pre requisite for economic development and poverty reduction in Nepal.

4.0.3 Contribution on Export

Agriculture products basically food crops and cash crops like rice, sugarcane, tobacco, oilseeds, jute, tea pulses, species, and dry ginger are the main exporting products of Nepal. Besides this, animal, vegetable oil and fats are also the major exporting commodities of agriculture sector.

Due to heavy import of capital goods Nepal is facing the problem of balance of trade. To provide foreign exchange to import machinery and other essential raw materials for industry, export of agricultural product plays an important role. Total volume of export is heavily influence with the decrease

in agriculture production which will definitely have adverse effect in the overall economy. The share of agriculture production in the total exports of Nepal is only 39.1 % in fiscal year 2004/2005(Economic Survey, 2004/05).

Table 4.3

Contribution of agriculture on Export from FY2001/02 to FY2004/05

Rs in Million

Description	2001/02	2002/03	2003/04	2004/05
<i>EXPORT</i>	<i>46944.8</i>	<i>49930.6</i>	<i>53910.7</i>	<i>58705.7</i>
Food &Live Animals	5094.2	6100.9	6276.9	6993.5
Tobacco Beverage	145.7	138.7	55.2	31.6
Crude Materials&Inedibles	624.5	800.1	714.3	881.6
Mineral Fuels &Lubricants	1.6	5.5	14.5	4.2
Animal&Vegetable oil fats	7421.4	4278.7	3375.7	5070.3
Chemicals&Drugs	3308.3	3279.0	3865.9	3677.6
Classified by Materials	17394.9	17794.7	23601.7	28590.6
Machinery&Transport equipment	364.9	208.2	619.5	207.6
Miscellaneous Manufactured Articles	12589.3	17281.5	15380.1	13239.6
Not Classified	0.0	43.3	6.9	9.1

Source: Economic Survey, (FY 2005/06)

The export of agriculture products basically Food Crops Live Animals are increasing. Where as the export of Tobacco Beverage are decreasing. The export of Animals Vegetable oil fats were also decreasing up to FY2003/04 but in FY2004/05,the export has been increased. Export to India rose notably, and the export to other countries has also improved so that the total growth rate of export remained encouraging. There is sound contribution of agriculture in export

4.1 Problems of Agriculture Development in Nepal

Nepal's economic growth rate remained below 5.0 percent in the last six years because of the country's precarious economic circumstances. In FY2005/06, Nepal's GDP growth rate stood at a meagre 3.3 percent of which the agricultural sector's growth was 1.1 percent and the non-agricultural sector's higher, at 4.6 percent. The growth rate further decelerated in FY2006/07 to 2.5 percent, with the agricultural sector's marginal growth of 0.7 percent against the non agricultural sector's 2.5 percent. The extremely unfavourable weather, among other things, caused this high decline in agricultural production, especially that of paddy. The impact could clearly be seen on the overall agricultural production index which increased by a mere 0.4 percent in 2006/07 against the increase of 1.1 percent in the preceding year. Despite cumulative efforts made at national and international level, performance of agricultural sector in Nepal has been lack luster and baffling. Inadequate investment, primitive technology used in agriculture, diffusion of availability of production materials, chemical fertilizer, equipments, pesticides, improved seeds in the markets due to the weak sectoral policies related to agricultural have mainly been responsible for the failure of significant increase in agricultural production and productivity. One major challenge is the situation where foreign investment-friendly environment has not been created. It has also been a challenge to encourage farmers towards commercial farming of high yielding cash crops, livestock and poultry, horticulture and vegetable farming, leading to self sufficiency in food and cash crops (Economic Survey, 2006/07).

4.1.1 Technology Used in Agriculture

The need of agricultural modernization for its development was recognized long ago. However the implementation of agricultural

development programmes did not go efficiently to achieve the desired results. The reasons for such poor performance in the agriculture is multidimensional and requires review of the historical development, background of agricultural system and programme, agricultural institution, human resources development and resource allocations for research and extension programmes. Despite the substantial chunk of internal and external resources spent in this sector for a long time, agriculture could not raise up from primitive technology with low productivity. Mechanization of agriculture in Nepal is still lag behind. Nepal living standard survey(2004) shows that 59 percent of the agriculture household use the most common agricultural instrument i.e. plough; less than one per cent of the agricultural household owned tractor. Similarly less than one per cent of the farmers owned a thresher, 3 per cent of the farmers owned pumping set. Only about 16 per cent of the farmers had been containers for grain storage.

4.1.2 Irrigation Facility

Irrigation is the lifeblood of agriculture. But the performance of irrigation sector is very disappointing. The objective of irrigation is to bring additional land under cultivation, increase cropping intensity and increase productivity. But objective has not been fulfilled as it is expected. In FY2004/05, systematically developed irrigation facilities had been availed to 10513 hectare of arable land by the development projects implemented under Agricultural Development Bank) Due to lack of adequate facilities of irrigation in the country, the agricultural production and productivity is very low. Despite the increase in the area under irrigation with the involvement of substantial investment, it has not contributed to the increase in productivity(Economic Survey).

Agriculture sector Review (1990) done by World Bank(WB) observed the same situation . Agriculture Sector Review (1990) has indicated that only 25 per cent of the irrigated area under the public managed system gets water

throughout the year. Only 1.766 million hectares of land is estimated as potential for irrigation out of the total arable land of 2.642 million hectares. To the date, only 461041 hectares of land is estimated under irrigation throughout the year, which is the 20 percent of the total irrigable land. Government and Agriculture Development Bank are engaged in irrigation development. Nepal heavily depends on the monsoon for the agriculture in the absence of adequate irrigation facilities, despite being rich in water resources. Food production and its productivity have been declining partly because of the floods on account of the heavy rains and partly due to drought which leaves fertile lands barren. To address this problem, extending irrigation facility by means of deep shallow tube-wells and surface canals has become an important challenge . As the pace of providing irrigation to additional land has been too slow, a major part of cultivated land still remains out of access to irrigation facility.

4.1.3 Use of Fertilizer and Improved Seeds

Chemical fertilizers, improved seeds and saplings, insecticides and pesticides and improved animal breed are the major agriculture inputs to be used for obtaining maximum yield in agriculture sector. But, Only a small portion of farmers use improved seeds in Nepal. On average, about one-fifth of households growing winter vegetables used improved seeds followed by households growing onions(18%), winter potato growers (16%), summer vegetables growers(12%), wheat grower (16%), main paddy grower(15%) and summer maize growers(4%). In the west region, the highest proportion of the onion growers use improved seeds followed by winter vegetable growers(Nepal Living Standard Survey, 2003/04).

The supply of chemical fertilizers, improved seeds and saplings and animal breed has not been effective in terms of both quantity and quality. Keeping this situation in view, National fertilizer policy 2002 was made public in FY 2002/03. Nepal Government decided to split Agriculture Inputs

Corporation (AIC) and establish agriculture inputs company limited AICL) National seed company limited works related to agriculture inputs without subsidy, a market-based competition basis with the private sector.

The following table shows the per hectare use of fertilizers in Nepal, Bangladesh, India, China, New Zealand, Netherlands, UK, and Japan.

Table 4.4

Country wise Use of Chemical Fertilizer in FY 2001

Countries	Fertilizers used (kg/hectares)
Bangladesh	101
China	282
India	71
Japan	305
Malaysia	628
Nepal	26
Netherland	452
New Zealand	593
UK	338

Source: FAO Year Book, 2002

The use of chemical fertilizers in Nepal is only 26 kg. per hectares as compared to 628 kg/hectares in Malaysia, 593kg/hectares in New Zealand, 452 kg/hectares in Netherlands, 338 kg/hectares in UK, 305 kg/hectares in Japan, 282 kg/hectares in china and 101 kg/hectares in Bangladesh. Though, Nepal Agriculture Sectoral Performance Review, 2002 shows fertilizer use in the Terai is 58 kg/ha but formal statistics refer to 26 kg/ha use of fertilizer. In the past, less use of fertilizer in the agricultural crop was believed to be effected significantly from supply side constraint because the fertilizer was heavily subsidized and import was determined by the subsidy budget allocated by the government rather than from the demand side.

Complaints about non-availability of fertilizer in time and enough quantity are frequent. Fertilizer sector management study survey of the farmers suggested that increase in fertilizer price up to 25 per cent would have little impact on fertilizer use. Despite the involvement of private sector in supply of agricultural inputs such as chemical fertilizers and improved seeds and plants, they are not easily available at a reasonable price in remote areas. When the fertilizer prices were increased on several occasions in past, there was not a single evidence of the farmers response with the reduction in the consumption of fertilizers. These evidences reveal that price is not the issue in case of fertilizers; instead, their availability is the real issue. Inability to adequately supply improved fertilizers, seeds and pesticides/germicide in all locations in time and inability to provide agricultural credit and technical services easily have remained as big problems of the agriculture(Economic Survey,2006/07).

4.2 Foreign Aid and Agriculture Development During Plan Period

The importance of economic planning is surging up in the modern world, particularly in the developing countries. It is believed that it will help speed up the pace of economic development. Economic planning is so important today that it has become the need of the hour. Stress on economic security and human welfare has made economic planning indispensable. Prof. L. Robins has amply described planning as the “Grand panacea of our age”. According to Dickinson, a planning is the making of major economic decisions about what and how is to be produced; how, when and where it is to be produced; to whom it is to be allowed by the conscious decision of a determinate authority, on the basis of comprehensive survey of the economic system as a whole.” Planning, therefore, is to aim at utilizing more satisfactorily human and material resources available in the country to raise the standard of living and to reduce inequalities of income wealth and opportunities and thereby develop the country faster.

Development planning became popular among the underdeveloped countries in the early post-war period, which they were still being viewed with some suspicion as an instrument of socialism in the donor countries. Although planning and development plans are now almost universally recognized as essential in promoting growth and the efficient allocation of resources, there is considerable debate regarding the value of certain types of plans and great scepticism regarding the value of many of the plans that have been formulated.

In the context of Nepal, even under the autocratic rule of the Ranas planning was considered essential for the development of the country. It was much talked of some sporadic attempts were made even in those days to set an economic plan afoot. Juddha Shamsheer Jung Bahadur Rana, the Rana prime minister of Nepal announced a 20-year plan in 1939. However, it was never implemented. Ten years afterwards, Mohan Shamsheer Jung Bahadur Rana, the last Rana prime minister of Nepal took another step with regard to the planning. Nepal was net exporter till 1970s. On October 31, 1995 he set up a National planning Committee to prepare a 15 year plan with the objective of improving agriculture situation attaining self-sufficiency in food, developing small scale industries, encouraging export, trade and improving the cheap means of transport and communications. However, the draft plan was never brought out for public opinion, nor was the committee kept undisclosed.

Nepal started its developmental activities in a planned manner only after 1956 and ever since the process of planning and development is continuing. Tenth five-year plan period is in operation now. Realizing the importance of agriculture sector to the national economy, mostly from third five-year plan has given top priority to this sector. In spite of high priorities given to the agriculture development, this sector has not kept up with the desired speed.

Foreign aid has predominant role in the total development expenditure of Nepal in various plans. The large magnitude of foreign aid to Nepal shows that Nepal's various plans absorbed more than NRs. 205541.9 million worth aid over the period from 1956 to 2002. The total expenditure of first development plan is covered by foreign aid worth of NRs. 382.9 million. The following table shows foreign aid as a percentage of development expenditure.

Table 4.5

Foreign aid and Development Expenditure in Various Plans

(Rs. in Million)

Development Plans	Development Expenditure	Foreign aid	Foreign aid as % of Development Expenditure
1 st Plan(1956-61)	330.0	330.0	100.0
2 nd Plan (1962-65)	614.7	478.5	77.5
3 rd Plan(1965-70)	1639.1	919.8	56.1
4 th Plan(1970-75)	3356.9	1509.1	45.0
5 th Plan(1975-80)	8870.6	4264.1	48.1
6 th Plan(1980-85)	2175.0	13260.0	61.0
7 th Plan(1985-90)	48345.4	23978.5	49.6
8 th Plan(1992-97)	111919.8	49203.0	44.0
9 th Plan(1997-2002)	2151454.4	111546.0	51.8
Total	2328758.8	205541.9	49.9

Source: first plan(1956-61), Second Plan(1962-65), Third plan(1965-70), Fourth plan(1970-75), fifth plan(1975-80), Sixth Plan(1980-85), Seventh Plan(1985-90), Eighth Plan(1992-97)and Ninth Plan(1997-2002)

4.2.1 The First Five-Year Plan (1956-61)

The first five-year plan envisaged simultaneous advance on many fronts such as agriculture, transport and communications, industry and commerce, village development survey and research, social services and

modernization of administrative machinery. It aimed at increasing production, employment, standard of living, and the welfare of the people.

The total outlay of plan was Rs. 330 million but during the plan period not more than Rs. 214.5 million which is 65% of total outlay could be spent. This shows that on the average Rs. 42.9 million was spent annually within the period of five years. During the plan period, the entire amount of development expenditure was covered by foreign aid which is amounted to Rs. 382.9 million. More than 79% of the foreign aid utilized for the development programmes under the plan was received from the United States and India. Prominent among other donor countries were the Peoples Republic of China, The Soviet Union, Great Britain, Australia, Switzerland, New Zealand and Canada. The United Nations and its agencies as well as the Ford Foundation also offered their assistance for the development programmes undertaken during the plan period.

Table 4.6

Plan Outlay and Actual Expenditure of First Five Year Plan

(Rs. In Million)

Areas	Plan outlay	% of Total outlay	Actual Expenditure	Col. 3 as % of col. 1
	1	2	3	4
Village Development	42.0	12.9	26.68	63.5
Agriculture and forestry	32.0	9.7	6.95	21.7
Irrigation and drinking water	20.0	6.0	13.12	65.6
Total	94.0	28.6	46.75	49.5

Source: *Economic Bulletin for Asia and Pacific*, Vol. xxv, No. 213 September/October, page 68

Top priority was given to the development of the means of transport and communications. Agriculture and forestry, irrigation, and power, social

services and industry and mining ranked second, third and so on in the assignment of priority in the plan.

Production and distribution of better seeds, introduction of scientific tools and implements, introduction of better livestock and wide expansion of agriculture extension services were included in the short-term measures of development. In the long-term policy of agricultural development were included the removal of uneconomic holdings, expansion of irrigation facilities, development of administration machinery, and increase in the productivity of workers and enhancement of soil fertility.

During the Plan period the land reform act 1956 to guarantee reasonable rent and tenure security was passed. Agricultural extension services were expanded over larger areas of land. Four livestock improvement centres, seven fisheries development centres, and 378 cooperative societies were set up , in addition to one agricultural school. The plan aimed at completing seven projects capable of irrigating about 4500 acres of land and constructing additional projects which would being nearly 275,000 acres of land under irrigation facilities were extended only to 62,200 acres of land.

The first five year plan had many shortcomings and flaws and its implementation was far from satisfactory. but nevertheless, it is gratifying to note that it was the first bold, determined attempt to put the country on the path of development through the instrumentality of economic plans.

4.2 .2 The Second Three-Year Plan (1962-1965)

It was a preparatory type of plan, which stressed the necessity of establishing social and economic infrastructures in order to speed up the economic development of the country. The long term objective of creating an egalitarian society was put into sharp focus under the plan. The plan was meant for creating an atmosphere, which would be salubrious to the smooth execution of more comprehensive plan in the future. It is said in the plan that

“ the present plan is designed to make available basic data on the economy, to modify the existing organization structure and to lay down the infrastructure as will be required for sustained economic growth and in this manner to lay down a basis for more effective and comprehensive planning of the future.”

Table 4.7

Plan Outlay and Actual Expenditure of Second Three Year Plan

(Rs. In Million)

Sectors	Plan target	Actual expenditure	Col. 2 as % of col. 1
Land Reform Survey	79.20	51.82	65.40
Irrigation	40.00	50.25	125.60
Agriculture	28.20	22.46	79.60
Total	147.40	124.53	270.60

Source: The Third Plan(1965-70), National Planning Commission, GoN

The total outlay of the plan is Rs. 614.7 million in which Rs. 478.5 million is financed by foreign aid. A provision of Rs. 70 million is earmarked for the private sector, Rs.50 million being made available for industry and Rs. 20 million for agriculture sector and Rs.600 million has been earmarked for the public sector in the plan. However, a sum of Rs. 638.33 million that is 95.28% of the total outlay was spent during the plan period. This amount includes Rs. 2.28 million advances as loans from different organizations to the private sector for development activities. on an average Rs. 212.78 million was spent annually over a 3 year period of the plan. 65% of development expenditure was covered by foreign aid during the plan period

The total amount allocated for agriculture sector was Rs. 147.4 million which is 24.5 percent of the total outlay during the second plan period. However the actual expenditure on agriculture reduced to Rs. 124.53 million which came to be 84.5% of the total outlay of agriculture sector. During the

plan period 12 irrigation projects were started out of which three projects were completed within the plan period and about 7092 acres of land were brought under irrigation. The distribution of improved seeds and implementation of chemical fertilizers have a positive impact on agriculture development.

4.2.3 The Third Five-Year Plan (1965-70)

The third plan was formulated with wider objectives of increasing national income by 19%, per capita income by 9% and food grains production by 15%. It also aimed at a rapid development of the basic infrastructure and a speedy growth of industry, both in public and private sectors. Making land reform programmes more effective, social and economic infrastructure, to promote industrial development, to enlarge the volume of foreign trade and to cut down social inequalities are some of the other objectives highlighted in third plan. The plan outlay and its actual expenditure for agriculture development in govt sector is shown in the table 4.3

Table 4.8

Plan Outlay and Actual Expenditure of Third Five Year Plan

(Rs. In Million)

Headings	Plan Outlay for agriculture	Agriculture outlay as % of total plan outlay	Actual expenditure	Col3 as % of col 1
*Agriculture and Rural development	377.50	15.00	397.73	105.30

Source: Fourth plan(1970 – 1975), National Planning Commission, GoN

*Agriculture includes resettlement, land reform, food and irrigation

In order to achieve the plan's objectives, the government estimated planned outlay of 2500 million on which 1740 million was earmarked for the public sector, Rs. 520 million for the private sector and remaining Rs. 240 million for the Panchayat sector. It was expected that during the plan period, government would be in a position to generate a budgetary surplus of Rs. 550 million for the plan and additional Rs. 50 million from the internal loans. It was further estimated that Rs. 1250 million would be available from the foreign assistance, Rs. 1050 million as grant and Rs. 200 million as loan. The remaining gap of Rs. 100 million was expected to meet either from internal resources or from foreign aid. Hence, it is estimated in the plan that the 50% of the plan expenditure would be met by foreign aid during the plan period.

The plan had assigned the topmost priority to agriculture development. It is clearly expressed in the plan that without revolution in agriculture, rapid economic growth cannot be attained in the country. During the plan period the production of food grains increased by 10.53% as against the target of raising food production by 15.1%. Except for oil seeds, all other cash crops could increase by the percentage less than what was targeted in the plan. Achievement in the field of reclaiming land and resettling people were more than the targets. Cadastral surveys were done in 16 districts as against the target of 12 districts and land administration offices were set up in 13 districts.

The table shows that except for millets production of all the food grain and cash crops failed to match the plan targets.

Table 4.9**Target and Achievement of Agriculture Production in Third Plan****(In '000 Metric Ton)**

Agriculture Crops	Production Level in 1964-65	Production Target 1969-70	Percentage change	Actual production	Target achievement	% increased over the level of 1964-65
Food grain	3270	3776	15.5	3426	-9.27	4.77
Paddy	2201	2368	7.58	2241	-5.36	1.82
Wheat	126	425	237.30	265	-37.65	110.31
maize	854	918	7.49	795	-13.39	-6.91
Millet	63	65	3.17	125	92.31	98.41
Cash crops	225	389	72.89	332	-14.65	47.56
Sugarcane	126	252	100	216	-14.28	71.43
Tobacco	9	23	155.56	7	-69.56	-22.22
jute	39	54	38.46	52	-3.70	33.33

Source: Fourth Plan(1965-70), National Planning Commission, GoN

4.2.4 The Fourth Five-Year Plan (1970-75)

The fourth plan had broader objectives than the previous three plans. Its underlying objectives were to speed up the process of development and to create conditions suitable for shaping the socio-economic structure of the country along the lines of the Panchayat system. Fourth plan has stressed the completion of the existing projects initiated in the earlier plans. It also aims to increase production, to inspire public confidence in development efforts, to build social and economic infrastructure, to strike a balance between the enhancement of per capita income by immediate increases in production and building of necessary base for long term development, to diversify Nepal's international trade, to ensure economic stability, to make maximum use of

manpower resources for the expansion of employment opportunities, and to take necessary measures for the creation of a society free from exploitation.

Table 4.10

Total Allocation of Expenditure in Fourth Plan

(Rs in millions)

Area Of Expenditure	Public Sector	Panchayat Sector	Private Sector	Total
Transport And Communication	1050.00	52.00	150.00	1252.00
Agriculture, Irrigation, Forestry And Land Reform	662.80 56.56*	39.00 3.33*	470 40.11*	1171.80 100
Trade And Industry, Electricity And Mining	470.00		250.00	720.00
Panchyat, Education, Health	352.50	29.00		381.50
Statistics	1470.00			14.70
Total	2550.00	120.00	870.00	3540.00

Source: Fourth Plan, (1970 – 1975), National Planning Commission, GoN

The total outlay on the fourth plan was fixed as Rs.3540 million out of which 2550 million in public sector, Rs. 120 million in Panchyat sector and Rs. 870 million in the private sector. So far as the public sector outlay was concerned, it was estimated that Rs. 1089 million which is 42% of total outlay will be made available from domestic resources in the forms of revenue surplus, internal loans and deficit financing and the Rs. 1490 million will be meet out by foreign aid. Thus the fourth plan also couldn't ignore the important role of foreign aid. Actual disbursement of foreign aid in fourth plan was Rs. 1509.1 million.

In the fourth plan, the second priority was given to agriculture sector. within the 5 years of plan period, food grains increased by 9.59% and cash

crops by 10.22% as against the target of increasing food grains and cash crops by 16% and 40.3% respectively. The increase of production of both in food grains and cash crops seems to be very much influenced by the increase of the average of land brought under cultivation. Nevertheless, in the case of irrigation only less than 30% of targets were achieved during the plan period. The following table shows the target and achievement of agriculture production during the fourth plan.

Table 4.11

Target and Achievement of Agriculture Production in Fourth Plan

(In '000 Metric Ton)

Agriculture Crops	Production Level In 1969-70	Production Target 1974-75	Percentage Change	Actual Production In 1974-75	Target Achievement %	Actual % change
Food Grain	3426	4279	24.89	3750	-12.36	9.45
Paddy	2241	2599	15.97	2452	-5.65	9.41
Wheat	265	980	269.81	331	-66.22	24.90
Maize	795	580	-27.04	827	42.58	4.02
Millet	125	120	-4	140	16.66	12
Cash Crops	332	440	32.53	363	-17.5	9.33
Sugarcane	216	300	38.88	251	-16.33	16.20
Tobacco	7	10	42.85	5	-50	-28.57
Jute	52	65	25	41	-36.9	-21.1
Oil Seed	57	65	14.03	66	1.53	15.78

Source: Fifth Plan (1970 – 1975), National Planning Commission, GoN

Compared to 1969/70 production level, however, both food grains and cash crops increased by about 10 percent in 1974/75. The increase was largely contributed by the expansion in cultivated area rather than by the increase in yield rate.

4.2.5 The Fifth Five-Year Plan (1975-80)

The main objectives of fifth plan is to increase the agriculture production on the one hand and on the other regional development is the another objectives of fifth plan. With a long experience of 24 years of planning implementation, this plan changed its emphasis from infrastructure development to agriculture sector. The basic objectives of fifth plan are to increase mass-oriented production, to bring maximum utilization of human resources and to decrease the regional disparity. Fifth plan gave highest emphasis to quick yielding and labour intensive projects particularly in the agriculture sector. Second priority in the resource allocation was accorded to social services and transport and communication was given third priority.

The plan was expected to spent Rs.6170 million and Rs. 7545 under minimum and maximum programme respectively. The plan envisaged to finance 55% of the financial outlay from the internal resources and 45% was set to meet out from foreign aid .From the external sources 1504.1 to 1685.00 million was to be received in the form of grant and Rs. 1272 to Rs. 1710 million as loan. Out of the total financial outlays of Rs. 6170 and 7545 under minimum and maximum programme respectively, the actual expenditure incurred on the fifth plan was more than actually projected that is 8870.6 million out of which 4240.8 was contributed by foreign donors which is 47% of the total outlay.

Table 4.12**Total Allocation of Expenditure in Fifth Plan under Minimum Programme****(Rs. In Million)**

Sectors	Government Sector	Panchayat Sector	Private Sector	Total
Agriculture, Irrigation, Land Reform And Forest	1839.70	279.30	1048.00	3167.00
Industry, Commerce And Power	1380.70		409.00	1799.90
Transport And Communications	1432.80	465.50	628.80	2527.10
Education, Health Drinking Water	1516.80	186.20		170.30
Total	6170.00	931.00	2096.00	9197.00

Source: Fifth Plan (1975 – 1980), National Planning Commission, GoN

Table No. 4.13**Total Allocation of Expenditure in Fifth Plan under Maximum Program****(Rs. In Million)**

Sectors	Government Sector	Panchayat Sector	Private Sector	Total
Agriculture, Irrigation, Land Reform And Forest	2278.70	536.10	1336.00	3970.8
Industry, Commerce And Power	1506.00	-	534.40	2040.40
Transport And Communications	1990.30	593.50	801.60	3385.40
Education, Health Drinking Water	1770.00	237.40	-	2007.40
Total	7545.00	1187.00	2672.00	11404.00

Source: Fifth Plan (1975 – 1980), National Planning Commission, GoN

Out of these total outlay under maximum program Rs. 3167 million which is of 34.4% was set aside to spent for the development of agriculture, land reform, forest, soil conservation Rs. 3970.80 million (i.e. 34.8% of total

outlay) for maximum program in agriculture development. The fifth plan aimed to raise the domestic product by 5% in the plan period. It aimed to increase the agriculture output by 19.2% in the plan period. In the agriculture sector itself, food grains production was targeted to raise up by 16.7% per year whereas the cash crop was estimated to increase by 68.1% per year. Actually food grains production dropped 13.3% and cash crop dropped to 8.5% in the FY 1979/80. It is because of the dependency on weather, limited irrigation facilities and lack of modernization and mechanization in agriculture sector. The target and achievement of agriculture production in fifth plan is shown in table.

Table 4.14

Target and Achievement of Agriculture Production in Fifth Plan

(In '000 Metric Ton)

Agriculture Crops	Production Level In 1974-75	Production Target 1979-80	Percentage Change	Actual Production-on in 1979-80	Target Achievement %	Actual % change
Food Grain	3750	4555	21.46	3173	-30.34	-15.38
Paddy	2452	2800	14.19	2060	-26.42	-15.98
Wheat	331	609	83.98	554	-9.03	67.37
Maize	827	1003	21.28	440	-56.13	-46.79
Millet	140	143	2.14	119	-16.78	-15
Cash Crops	363	950	161.70	521	-45.15	43.52
Sugarcane	251	739	194.42	385	-47.90	53.38
Tobacco	5	18	260	6	-66.66	20
Jute	41	89	117.07	68	-23.59	65.85
Oil Seed	66	104	57.57	62	-40.38	-6.06

Source: Sixth Plan (1980 – 1985), National Planning Commission, GoN

The fifth plan had given different priorities for the development of agriculture sector. This plan has given the emphasis on the development of livestock in the northern part of the country, horticulture in the central part of the country, and food grains and cash crops production in the southern plains of the country. So the fifth plan had given the top most priority to the regional development of agriculture sector.

4.2.6 Sixth Five-Year Plan (1980-1985)

After completion of five periodic successive plans, sixth plan came into existence with the component of public sector, Panchayat sector and private sector. Greater emphasis has been laid on revamping agriculture sector to improve the lot of the poor. The basic objectives of sixth plan are to increase production at a faster rate, to increase productive employment opportunities and to meet the minimum needs of the people. These three objectives uninitiated above are complementary to one another. To achieve these objectives, the entire financial, physical and human resources at the disposal of the nation deployed to the limit within the sixth plan period. The following table shows the expenditure of sixth plan period in agricultural sector.

Table 4.15

Total Allocation of Expenditure in Sixth Plan Period

Head of Expenditure	(Rs. In Millions)				
	Public Sector	Panchyat Sector	Private Sector	Total	Percent
Agriculture, Irrigation, Forest	62250	490	3820	10570	31.1
Industry, Transport, Electricity	5280	30	3500	8810	26.0
Communication	4230	540	1100	5870	17.3

Social service	4720	740	3230	8690	25.6
Total	20490	1800	11650	33940	100

Source: Sixth Plan (1980 – 1985), National Planning Commission, GoN

The sixth plan earmarked Rs. 20490 million for the public sector out of which 31.1% had been spent on agriculture, irrigation and forest, 26.0% on industry, transport, electricity, 17.3% on communication and 25.6% on social services. The actual growth rate of gross Domestic produce in sixth plan period was 4.4%, which exceeded the target of the sixth plan. Actual foreign aid disbursement in sixth plan was Rs. 13260 million.

In the plan, agriculture had been given top priority, industrial policy has given emphasis on import substitution, export promotion, and completion of various hydropower plans to facilitate industrial growth. During the plan period, it was planned to increase production at an annual rate of 4.3 percent. The production in the agriculture sector and non-agriculture sector was targeted to 3.2 and 5.6 per cent per year respectively. Nevertheless, actual growth rate in the agriculture sector was 4.7 and that in the non-agriculture sector was 4 percent. The actual growth rate of gross Domestic produce in sixth plan period was 4.4%, which exceeded the target of the sixth plan. The following table shows the Target and achievement of agriculture production during the Sixth plan.

Table 4.16**Target and Achievement of Agricultural Production in Sixth Plan****(In '000 Metric Ton)**

Agriculture Crops	Production Level in 1978-80	Production-on Target 1984-85	Percentage Change	Actual Production in 1984-85	Target Achievement %	Actual % change
Food Grain	3173	4320	36.14	4173	-3.40	31.51
Paddy	2060	2740	33.00	2709	-1.13	31.50
Wheat	554	579	4.51	520	-10.19	-6.13
Maize	440	850	93.18	820	-3.52	86.36
Millet	119	151	26.89	124	-17.88	4.20
Cash Crops	521	843	61.80	535	-36.53	2.68
Sugarcane	385	644	67.27	409	-36.49	6.23
Tobacco	6	10	66.66	7	-30	16.66
Jute	68	85	25	37	-56.47	-45.58
Oil Seed	62	104	67.74	85	-18.26	37.09

Source: Seventh Plan (1985-90), National Planning Commission, GoN

The target of food grain production was set at 4320 million M.T. But achievement did not exceed 4173 million M.T. during the plan period. Cash crops, sugarcane, tobacco, jute and oil seeds were far below than their targets.

4.2.7 Seventh Five-Year Plan (1985-90)

Transforming concept of developing basic physical and social infrastructure to fulfilling the minimum basic needs of people is one of the features of seventh plan. The concept of decentralization has emerged since the starting of seventh plan period but the effect and implementation has been acute since 1990. The basic objectives of seventh plan were, to increase production at a higher rate, to increase opportunity for productive employment and to fulfil the minimum basic needs of the people. The seventh

plan aimed at raising the GDP by 4.5% at which agriculture sector at 3.5% and non-agriculture sector at 5.7%.

The total projected outlay of seventh plan was Rs. 29000 million out of which Rs. 8520 million was expected from the internal sources and Rs. 20480 million from foreign aid. Out of the total development expenditure, agriculture, irrigation, and forest sector was allocated 30.6, which leads to the growth rate of agriculture sector to 5.7% and that of major agriculture crops 6.8% both higher than the targeted rates.

Due to ineffectiveness of programmes like soil quality improvement, inspection and testing of the quality of improved seeds, the lack of proper control of fertile soil erosion and inadequate supply of chemical fertilizer, significant improvement in agriculture couldn't observed. The following table shows the targets and achievement of agriculture production in seventh plan.

Table 4.17

Target and Achievement of Agriculture Production in Seventh Plan

(In '000 Metric Ton)

Agriculture Crops	Production Level In 1984-85	Production Target 1989-90	Percentage Change	Actual Production In 1989-90	Target Achievement %	Actual % change
Food Grain	4173	5376	28.82	5393	0.316	29.23
Paddy	2709	3400	25.50	3389	-0.32	25.10
Wheat	520	900	73.07	850	-5.55	63.46
Maize	820	919	12.07	1200	30.57	46.34
Millet	124	160	29.03	224	40	80.64
Cash Crops	535	253	-52.71	11.1	-95.61	-97.92
Sugarcane	409	95	-76.77	979	930.52	139.36
Tobacco	7	8	14.28	7	-12.5	0
Jute	34	55	61.76	15	-72.72	-55.88
Oil Seed	85	95	11.76	100	5.26	17.64

Source: Eighth Plan (1992-97), National Planning Commission, GoN

4.2.8 Eighth Five-Year Plan (1992-97)

The two years 1990-1992 remained plan holiday. In the period 1990 to 1992, the GDP went up by 4.3% with the growth of 1.6% in agriculture sector and 8.4% in non-agriculture sector. The share of foreign aid in this period was 61% of the total development expenditure.

Prior to people's movement in 1990, seven periodic plans were implemented. During the period, although some economic and social infrastructures were created, development of the agriculture sector, which is the main source of livelihood of the population, remained unsatisfactory. So the government took step to transform the controlled economy of the past thirty years into open, liberal, transparent and market oriented economy from 1990. In order to expand the participation of private sector in the economic activities, new policy measures consistent with a liberal economic system in monetary, fiscal, industrial and commercial sectors were introduced. Agriculture intensification and diversification has given the top priority for the attainment of the main objectives of eighth plan to attain sustainable economic growth, alleviating poverty, and reducing regional disparity.

The main objectives of eighth plan were, to achieve sustainable economic growth, poverty alleviation and reduction of regional disparities. In order to achieve the objectives, the total outlay projected in eighth plan was Rs. 113,479 million. Out of which foreign aid was expected to cover 65.5% of development expenditure consisting of 17.4% of grant aid and 48.1% of loan aid and deficit financing was expected to be 7%.

Agriculture development deserved high priority as this sector alone can increase the income of the common people and thereby expand internal market for industrial sector. Rs. 29,139 million was set to agriculture sector which was 25.7% of the total development expenditure of Rs. 113,479 million. But the actual expenditure on agriculture sector in eighth plan was Rs. 22,913

million which was only 78.49% of the total target. During the eighth plan period, only 3% of growth in agriculture production was achieved as against the set target of eighth plan to increase agriculture production by 3.7% in the plan period. During the same period of time, it was targeted to provide irrigation facility to additional 293895 hectares of land but only 72.2% progress was made.

Eighth Plan aimed to increase annual growth of food crops by 5.4%, pulses by 8.4%, cash crops by 9.1% horticulture crops by 5.4%, livestock development by 3.8% and fisheries by 12% in order to meet the objectives. The following table shows the targets and achievement of agriculture production in Eighth plan.

Table 4.18

Target and Achievement of Agriculture Production in Eighth Plan

(In '000 Metric Ton)

Agriculture Crops	Production Level in 1984-85	Production Target 1989-90	Percentage Change	Actual Production In 1989-90	Target Achievement %	Actual % change
Food Grain	5464	7457	36.47	6395	-14.24	17.03
Paddy	32223	4452	-86.18	3699	-16.91	-88.52
Wheat	1205	1476	22.48	1312	-11.11	8.87
Maize	779	1258	61.48	1056	-16.05	35.55
Millet	229	236	3.05	289	22.45	26.20
Barley	28	32	14.28	39	21.87	39.28
Cash Crops	2137	1256	-41.226	2721	116.64	27.32
Oil Seed	88	174	97.72	119	-31.60	35.22
sugarcane	1291	1500	16.189	1622	8.13	25.63
Tobacco	6	9	50	5	-44.44	-16.66
Jute	19	25	31.57	14	-44	-26.31
Potato	733	1033	40.92	961	-6.96	31.10

Source: Ninth Plan (1992– 1997) National Planning Commission, GoN

4.2.9 The Ninth Five-Year Plan (1997-2002)

The previous eight development plans did nothing to reduce poverty other than developing the basic infrastructure. The open and liberal market economy designed by eighth plan also could not do more than higher growth rate in non-agricultural sector. As a result, 42% of people were under poverty line, 4.9% remained unemployed, and 47% of work force underemployed. To overcome these challenges the ninth plan aim to follow twenty years long-range development concept along with agricultural perspective plan. The main and the only one objectives of the ninth plan is to alleviate poverty. The strategy taken for poverty alleviation was achieving high economic growth rate and implementing sectoral and other special programmes. The implementation of the APP was the major means to alleviate widespread poverty in rural areas. The Plan had the target to drop the proportion of population living under absolute poverty to 32% at the end of the plan period and had 20-year objective to reduce the absolute poverty to 10%. However, mid-term evaluation of Ninth plan estimated that the percentage of population living under poverty line has fallen down to 38% only.

The annual growth rate during the plan was limited to 3.6% as against to targeted 6% annual growth. The low productivity in agriculture sector due to adverse monsoon thereby pulled down to 3.3% agriculture growth as against the target 4% growth on agriculture .The contribution of agriculture sector in GDP was 40.4% in 1996/97, the base year of ninth plan, which was lowered down to 39.3% in the final year of the plan in 2001/02. The targets of agriculture production and achievement by major crops during the Ninth Plan period are presented in Table

Table 4.19**Target and Achievement of Agriculture Production in Ninth Plan****(In '000 Metric Ton)**

Agriculture Crops	Production Level In 1984-85	Production Target 1989-90	Percentage Change	Actual Production In 1989-90	Target Achievement %	Actual % change
Food Grain	6395	8242	28.88194	7247	-12.0723	13.32291
Paddy	3699	5000	35.17167	4165	-16.7	12.598
Wheat	1312	1600	21.95122	1511	-5.5625	15.16768
Maize	1056	1300	23.10606	1258	-3.23077	19.12879
Millet	289	300	3.806228	283	-5.66667	-2.07612
Barley	39	42	7.692308	30	-28.5714	-23.0769
Cash Crops	2711	3579.5	32.03615	3875	8.255343	42.93619
Oil Seed	119	155	30.2521	135	-12.9032	13.44538
sugarcane	1622	2100	29.46979	2248	7.047619	38.59433
Tobacco	5	6.5	30	3	-53.8462	-40
Jute	4	18	350	16	-11.1111	300
Potato	961	1300	35.27575	1473	13.30769	53.27784

Source: Tenth Plan (2002-2007), National Planning Commission, GoN.

The development outlay during the plan period targeted at Rs. 18958 cores, which is 56.2% of the total outlay. The target expenditure on economic and miscellaneous was 29.4,36.3,33.4 and 0.9 percent of the development expenditure respectively . The actual figure turned out to be 22.7, 35.7, 39.9 and 1.7 percent respectively.

4.2.10 Tenth Five-Year Plan(2002 - 2007)

As the tenth plan is itself is the strategic document for alleviating poverty, its only objective is poverty alleviation. It has incorporated the directives and suggestions provided by national development council, the development aspirations of the people reflected during the deliberations and interactions carried out at different levels and has considered the impediments encountered in the implementation of past plans.

The main objective at the tenth plan is to alleviate poverty by mobilizing optimally the means and resources on the mutual participation of government , local agencies, non-government sectors, private sector and civil societies to extend economic opportunities and open new ones enlarging employment opportunities and widen the access to means and economic achievements for women, dalits peoples of remote areas and poor and backward groups through programmes like empowerment, human development, security and targeted projects thereby improve the status of overall economic, human and social indicator.

To overcome the objective of tenth plan the strategies will be taken in tenth plan can be grouped into following four categories.

- i) High, sustainable and broader economic growth
- ii) Social sectors and rural infrastructure development
- iii) Targeted programmes
- iv) Good governance

Keeping the progress status of ninth plan in view, the target is fixed to bring down the percentage of people living under poverty line to 30% by the end of the tenth plan. The expected growth rate is estimated at 6.2% but if there is no improvement in present status of security perspective and the

investment environment does not show encouragement, the growth rate will be limited to 4.3% in the lower case.

The macro strategy of the tenth plan shall be the creation of fundamental basis to promote economic opportunities through high, sustainable and broader economic growth and a fair system of distribution of opportunities thus created to achieve the fixed target of poverty alleviation by controlling population growth rate and emphasizing on good governance.

As the agriculture has wide implication in poverty alleviation the higher percentage (24%) of development expenditure has been embarked to this sector which is higher than the actual of Ninth plan by 5 percent. Tenth plan has adopted strategies such as broader utilization and publicity of available agricultural technology, accessibility of agricultural inputs and loan for increasing agricultural production, commercialisation and diversification of agriculture , operation of agriculture service program in partnership and co-operative service, effectiveness of plan monitoring and evaluation, sustainability of agriculture de through the development of agro-technology, agro-biodiversity, and ecological protection, promotion and application , contribution of agricultural marketing promotion and infrastructure development through the application of the service to private and co-operative sector and promotion of co-operative and contract farming.

CHAPTER V

OVERVIEW OF FOREIGN AID AND IT'S SCENARIO IN AGRICULTURE

5.0 Overall Scenario of Foreign Aid in Nepal

Nepal has been a recipient of foreign assistance since 1952 when it joined the Colombo Plan for Cooperative, Economic, and Social Development in Asia and the Pacific. Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, infrastructure, and power generation. Until the mid-1960s, Nepal depended mostly, if not totally, on foreign grants for all its development projects. Most of these grants were on a bilateral basis. Beginning in the 1960s, some bilateral assistance was in the form of loans. The loan share of foreign aid increased from under 4 percent between 1965 and 1970 to more than 25 percent by the 1985-88 period. By the end of the 1980s, the great majority of foreign aid was in the form of multilateral assistance programs. The major sources of borrowing or grants for these programs were the International Development Association of the World Bank and the Asian Development Bank. Most of these loans could be characterized as soft loans. Sources of foreign aid were numerous. Eleven UN agencies, seven multilateral agencies and eight private agencies had participated in aid programs. By 1991, Nepal was receiving external assistance in the form of project aid, commodity aid, technical assistance and program aid (Mihaly: Foreign aid and Politics in Nepal). Most of the development projects are depend upon foreign aid. The annual program and budget are also launched depending upon foreign aid.

In the process of development as a global village, it is inevitable that the brotherhood nations assist each other in best ways they can. Furthermore,

as their internal resources are insufficient to perform all around development activities, the developing nations badly depend on their well-off partners. So, foreign aid for these least developing countries like Nepal is not only the requirements but also the compulsion. It is not possible only through the internal sources to invest on basic infrastructure for their balanced development. Hence foreign aid plays a crucial role to achieve desire rate of economic growth, social and cultural development, to eradicate poverty and even to mobilize the internal resources. Foreign aid becomes compulsion for the economic development of Nepal due to the following reasons

5.0 (a) Saving Investment Gap

Economic growth of a country primarily depends upon the investment that is possible only through saving which generates by optimal allocation of internal resources. The gap between level of investment and saving is so wide that is not possible for Nepal to achieve desire rate of growth if it is entirely dependent on its own saving. In this context foreign aid seems to be almost an indispensable condition for development and it is expected to fill the two gaps: saving investment gap and foreign exchange gap. When these two gaps improve, economic growth is sure to occur which could then be self sustained.

Table 5.1**Gap between Saving and Investment from FY 1981/82 to FY 2003/04****(Rs. In Million)**

FY	Saving	Investment	Gap	FY	Saving	Investment	Gap
1981/82	3088	5314	-2226	1993/94	29220	25074	-13560
1982/83	2887	6628	-3741	1994/95	32465	31619	-15412
1983/84	3886	7351	-3465	1995/96	34426	39653	-16481
1984/85	6239	10184	-3945	1996/97	39162	44644	-15424
1985/86	5887	10599	-4712	1997/98	41438	55231	-22766
1986/87	7321	12898	-5577	1998/99	46563	68017	-33591
1987/88	7604	15237	-7633	1999/00	57577	71084	-31922
1988/89	10150	19415	-9265	2000/01	61030	74728	-33290
1989/90	81430	19076	62354	2001/02	49807	70061	-23498
1990/91	11514	25074	-13560	2002/03	55783.84	92272	-34695
1991/92	16207	31619	-15412	2003/04	62701.04	98313	-37283
1992/93	23172	39653	-16481				

Source: Economic Survey, (FY 1980/81, FY1989/90, FY2001/02, FY2006/07)

Domestic saving patterns since 1981/82, can be seen that saving have consistently lagged behind investments. Table 4.1 shows that the saving - investment gap recorded the lowest during the fiscal year 1989/90 and recorded the peak during 2003/04 to 37283 million. Observing the above table, it shows that investment is rising dramatically except some declines in few fiscal years. The saving is also rising continuously except some erratic trend but comparatively investment growth rate is higher than the saving growth rate leading to excess investment expenditure over domestic saving in every year. Such huge gaps in domestic saving and investment in the economy certainly demands external assistance. This shows the dependency of our economy in the foreign aid either in the form of grant or in the form of loan.

The proportion of Gross Domestic Saving (GDS) to GDP remained 7.9 percent in FY2005/06, which increased to 9.4 percent in the succeeding year.

Similarly, the proportion of Gross National Saving(GNS) to GDP increased from 28.2 percent in FY 2005/06 to 28.6 percent in the following year. Though the proportion of total investment to GDP slightly declined from 26.0 percent in FY2005/06 to 25.3 percent in the following year, the surplus of GNS over total investment in proportion to GDP increased from 2.2 percent last year to 3.3 percent this year, reflecting an improvement in the resource balance(Economic Survey,2006/07).

5.0 (b) Resource Gap in Nepalese Economy

The resource gap is defined as total budgetary expenditure less the resource mobilized internally. When a country is spending more on investment and government expenditure than it's earning from the resources released through private saving and taxation, there will be a resource gap within the economy. The resource gap creates the problem of the balance of payments and foreign exchange gap. Nepal has been experiencing a deficit budget system and this has supported the growing resource gap. According to Gunanidhi Sharma (1998) Nepal faces the problem of resource gap which is increasing over time. It is mainly due to:

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

Deficit financing does not provide viable long-term solution because of its destabilizing effect on the economy. Therefore greater stress must be placed on the mobilization of domestic resources for financing the development efforts of Nepal. The table(Appendix 1) shows the growing financial resources crisis in Nepal from FY 1981/82 to 2003/04.The table shows the trend of resource gap in Nepalese economy which is widening year by year. Such trend of widening resource gap is fulfilled by the foreign aid which is considered as an important instrument in the economic development.

5.0.1 Total Aid Inflow

Nepal first experience of foreign aid heralded by the Point Four Program agreement signed on 23 January 1951. The American Government's assistance of Rs 22,000.00 provided under president Harry Truman's Point Four Programme was soon followed by formal economic assistance from India in October in the same year. Thrust into prominence by its strategic position in the Himalayas fastness separating India and China, Nepal has attracted unusual attention from aid donors. The following table shows the total aid inflow in different years.

Table 5.2
Total Aid Inflow in Nepal from FY1950/51 to FY 2005/06

Rs in Million

Year	Grant	Loan	Total Foreign Aid Inflow	Percentage of Grant	Percentage of Loan
1950/51	1.01		1.01	100	0
1951/52	1.01		1.01	100	0
1952/53			0		
1953/54			0		
1954/55	0.01		0.01	100	0
1955/56	1		1	100	0
1956/57	1		1	100	0
1957/58	86.42		86.42	100	0
1958/59	111.69		111.69	100	0
1960/61	227.5		227.5	100	0
1961/62	128.84		128.84	100	0
1962/63	128.36		128.36	100	0
1963/64	125	13.44	138.44	90.29	9.70
1964/65	141.05	5.86	146.91	96.01	3.98
1965/66	175.3	3.3	178.6	98.15	1.85
1966/67	142.23	3.7	145.93	97.46	2.54
1967/68	162.23	3.7	165.93	97.77	2.23
1968/69	185.9		185.9	100	0
1969/70	243.74	7.55	251.29	96.99	3.00
1970/71	270.69	32.46	303.15	89.29	10.71
1971/72	242.04	38.89	280.93	86.16	13.84
1972/73	180.26	47.38	227.64	79.19	20.81
1973/74	222.62	87.87	310.49	71.69	28.30
1974/75	282.79	103.97	386.76	73.12	26.88
1975/76	359.72	145.94	505.66	71.14	28.86
1976/77	392.66	146.32	538.98	72.85	27.15
1977/78	466.6	381.8	848.4	54.99	45.00
1979/80	805.6	534.9	1340.5	60.1	39.90
1980/81	868.9	693.3	1562.2	55.62	44.38
1981/82	993.3	729.9	1723.2	57.64	42.36
1982/83	1090.1	985.8	2075.9	52.51	47.49
1983/84	876.6	1670.9	2547.5	34.41	65.59
1984/85	923.4	1753	2676.4	34.50	65.49
1985/86	1120.6	2370.9	3491.5	32.09	67.90

1986/87	1078.3	2236.1	3314.4	32.53	67.47
1987/88	1984.2	3094.3	5078.5	39.07	60.93
1988/89	1478.2	4188.7	5666.9	26.08	73.92
1989/90	1798.8	4628.3	6427.1	27.98	72.01
1990/91	1630	4360	5990	27.21	72.79
1991/92	1531	6269.4	7800.4	19.63	80.37
1992/93	3273.9	5961.7	9235.6	35.45	64.55
1993/94	2393.6	9163.6	11557.2	20.71	79.29
1994/95	3937.1	7312.3	11249.4	34.99	65.00
1995/96	4825.1	9463.9	14289	33.77	66.23
1996/97	5988.3	9043.6	15031.9	39.84	60.16
1997/98	5402.6	11054.5	16457.1	32.83	67.17
1998/99	4336.6	11852.4	16189	26.79	73.21
1999/00	5711.7	11812.2	17523.9	32.59	67.41
2000/01	6753.4	12044	18797.4	35.93	64.07
2001/02	6686.2	7698.6	14384.8	46.48	53.52
2002/03	11339.1	4546.4	15885.5	71.38	28.62
2003/04	11283.4	7629	18912.4	59.66	40.34
2004/05	14391.02	9266.1	23657.3	60.83	39.16
2005/06	13287.5	8214.3	22041	64.86	35.14

*Source: Budget in Nepal since 1951/52 to 1984/85, GoN
Economic Survey, (FY 1980/81, FY 1989/90, FY 2001/02, FY 2006/07)*

The above table shows the grants and loans received in different fiscal years from 1974/75 to 2005/06. During the pre-plan, first and plan holiday year (i.e from FY 1950/51 to 1962/63) all assistance was entirely in the form of grants. It is only after the advent of the second plan, the loan component started to inflow in the country. Nepal started to receive loans from 60's initiated by United States of America and West Germany, to strengthen the Nepal Industrial Development Corporation (NIDC), which was set up to nourish private industries. This means that the country did not have any loan obligation to the international community in the early decades of its development process. But ever since, increasing amount of loan, both in absolute amount and in its share in total aid, has been permanent phenomenon in Nepal.

Foreign aid to Nepal commenced in 1950/51 with NRs. 1.01 million worth. After the seventies foreign aid influx to Nepal was more in each decades and the total aid to Nepal in five decades reached at NRs. 186334.9 million, of which there was the grant element of NRs. 63680.5 million and NRs. 122636.3 million.

5.0.2 Sources of Foreign Aid

Prior to 1955, due to the several reasons, including the die exposure, donors to Nepal were very few. India and USA occupied the first and second rank respectively and remained predominant in aid scenario. Membership in Colombo plan (1952), Non-Aligned movement (1955) and United Nation (1955) widened the number of donor countries and agencies. Nepal began to receive aid from quite a few other sources, both bilateral and multilateral since the early sixties.

The bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of USA, GTZ of Germany, FINIDA of Finland, SDC of Switzerland, DANIDA of Denmark , JICA of Japan, governments of UK, INDIA, Peoples' Republic of China, Belgium etc. Multilateral donors include the international agencies like world Bank (WB) Asian Development Bank (ADB), International Monetary Fund (IMF) and the UN agencies like UNDP, FAO, WHO, UNESCO, UNFPA, UNHCR, UNV etc. There exist one more sources of foreign aid namely International non-government organization as CARE, UMN, OXFAM, HELVETAS, and International Nepal Fellowship. The following table shows the foreign aid from bilateral and multilateral sources.

Table 5.3
Foreign Aid from Bilateral and Multilateral Sources from FY1975/76 to FY2005/06

Rs. In Million					
FY	Bilateral aid	Multilateral aid	Total aid	% of Bilateral aid in total	% of Multilateral aid in total
1975/76	330.7	174.9	505.6	65.40	34.59
1976/77	370.9	186	556.9	66.60	33.39
1977/78	456.7	391.7	848.4	53.83	46.17
1978/79	538.8	450.6	989.4	54.46	45.54
1979/80	846.4	494.1	1340.5	63.14	36.86
1980/81	858.1	704.1	1562.2	54.93	45.07

1981/82	909.5	813.7	1723.2	52.7	47.22
1982/83	947.2	1128.7	2075.9	45.63	54.37
1983/84	983.2	1564.3	2547.5	38.59	61.41
1984/85	1156.3	1520.1	2676.4	43.20	56.79
1985/86	1481.1	2010.4	3491.5	42.42	57.58
1986/87	1078.4	2236.1	3314.5	32.54	67.46
1987/88	2251.6	2826.9	5078.5	44.33	55.66
1988/89	1707.7	3959.2	5666.9	30.13	69.87
1989/90	2544.9	3882.2	6427.1	39.59	60.40
1990/91	2939.9	3050.1	5990	49.08	50.92
1991/92	3597.3	4203.1	7800.4	46.12	53.88
1992/93	3638.5	5597.1	9235.6	39.39	60.60
1993/94	2627.1	8930.1	11557.2	22.73	77.27
1994/95	3988.7	7260.7	11249.4	35.46	64.54
1995/96	3533.3	10755.7	14289	24.73	75.27
1996/97	6012.7	9019.2	15031.9	39.99	60.00
1997/98	6297.7	10159.4	16457.1	38.27	61.73
1998/99	4167.6	12021.4	16189	25.74	74.26
1999/00	4929.1	12594.8	17523.9	28.13	71.87
2000/01	2771.2	16026.2	18797.4	14.74	85.26
2001/02	4675.3	9709.5	14384.8	32.50	67.49
2002/03	10044.4	5841.1	15885.5	63.23	36.77
2003/04	9013.2	9899.2	18912.4	47.66	52.34
2004/05	9230.8	14426.5	23657.3	39.01	60.99
2005/06	7658.4	14383.4	22041.8	34.74	65.26

Source: Economic Survey, (FY 1980/81, FY1989/90, FY2001/02, FY2006/07)

The above table shows that the bilateral and multilateral sources of aid and their respective proportion in the total aid inflow in Nepal. The percentage of bilateral aid to the total aid is constantly decreasing with some fluctuations. But, on the other hand, the proportion of multilateral aid is constantly increasing to the total aid inflow. In FY 1975/76, the total aid inflow to Nepal was Rs. 505.6 million in which the bilateral sources was Rs. 330.7 million which is 67.7% of the total aid and the multilateral sources was Rs 174.9 million which is 34.6% of the total aid inflow. Bilateral sources were dominant in the total aid inflow until 1981/82 since then; the multilateral donors generally the international banks and IMF came with bigger aid package of aid to exceed the bilateral aid. The exceeding trend of multilateral aid to bilateral aid is going upward. In the FY 2000/01 the total aid remain Rs. 18797.4 million in which bilateral aid is Rs.2771.2 million and multilateral

aid is Rs 16026.2 million. But in FY 2005/06 total aid amount to Rs.277807.2million in which bilateral aid is Rs. 101586.7 million and multilateral aid Rs. 176220.5million. Bilateral aid increased to 37 times and multilateral aid increased to 63 times in FY 2004/05 considering FY 1975/76 as a base year.

5.0.3 Commitment and Disbursement

The constant shortfall in disbursement against commitment in one of the feature of foreign aid in Nepal. Aid commitment shows the expression of the donors to provide financial support of specified purpose to the recipient country. Whereas, aid disbursement is the actual transfer of financial resources from donor to recipient country.

Aid commitments and disbursement have never matched perfectly in case of Nepal. It is only the FY 1990/91 on which disbursement overflowed commitments. Except 1990/91, disbursement never fulfilled cent percent commitments. It may be due to delay in timely implementation of the foreign aided projects. i.e. they have low absorption capacity of foreign aid . The main reason behind the shortfalls in disbursement is the time lag because aid for the many project are committed to one year and the committed aid is being disbursed in the subsequent year. The capacity problem for the Nepali government to disburse the committed aid is ever since it began to receive foreign aid. The absorptive capacity of foreign aid is found to be during the period of 1976 to 2003. What this implies is that Nepal should ask for more assistance about % more than is required in order to complete the project run by foreign aid.

Table 5.4
Status of Foreign Aid Commitment and Disbursement from FY1975/76
to FY2005/06

Rs. In Million					
Fiscal Year	Total Commitment	Annual % Change	Total Disbursement	Annual % Change	Disbursement as % of Commitment
1975/76	1415.7	-	505.6	-	35.71
1976/77	1911.2	35.00	556.9	10.15	29.14
1977/78	1956.2	2.35	848.4	52.34	43.37
1978/79	2417.3	23.57	989.4	16.62	40.93
1979/80	1911.6	20.92	1340.5	35.49	70.12
1980/81	4012.6	109.91	1562.2	16.54	38.93
1981/82	2886.1	-28.07	1723.2	10.31	59.71
1982/83	2959.2	2.53	2075.9	20.47	70.15
1983/84	3099.6	4.74	2547.5	22.72	82.19
1984/85	5991.4	93.29	2676.4	5.06	44.67
1985/86	9504.2	58.63	3491.5	30.46	36.74
1986/87	8727.5	-8.17	3314.5	-5.06	37.98
1987/88	6449.6	-26.10	5078.5	53.22	78.74
1988/89	10403	61.29	5666.9	11.59	54.47
1989/90	15830	52.17	6427.1	13.41	40.60
1990/91	5665.4	-64.21	5990	-6.80	105.73
1991/92	21084.1	272.15	7800.4	30.22	36.99
1992/93	20526.7	-2.64	9235.6	18.39	44.99
1993/94	13172.2	-35.83	11557.2	25.13	87.74
1994/95	12876.9	-2.24	11249.4	-2.66	87.36
1995/96	16537.3	28.42	14289	27.02	86.40
1996/97	39643	139.71	15031.9	5.19	37.92
1997/98	32022.1	-19.22	16457.1	9.48	51.39
1998/99	18352.5	-42.69	16189	-1.63	88.21
1999/00	20448	11.42	17523.9	8.2	85.69
2000/01	31287	53.01	18797.4	7.26	60.08
2001/02	33227.7	6.20	14384.8	-23.48	43.29
2002/03	43202.7	30.02	15885.5	10.43	36.77
2003/04	23738	-45.05	18912.4	19.05	79.67
2004/05	38152.3	60.7	23657.3	25.08	62.00
2005/06	20924.2	-82.3	22041.8	-7.32	105.34

Source: Economic Survey, (FY 1980/81, FY1989/90, FY2001/02, FY2006/07)

The above table shows that the total commitment of aid, total disbursement of foreign aid and disbursement as a percentage of commitment. In FY 1975/76 the total commitment was Rs. 1415.7 million. Only Rs. 505.6 million was disbursed which is 35.7% of committed amount. In the FY 2005/06 Rs. 22041.8 million was disbursed including bilateral and multilateral grant and loan, which is -7.32 percent of total foreign aid commitment. Only during ten fiscal years after 1975/76, more than 80% of aid commitments were disbursed.

The fluctuation of aid commitment and disbursement shows the poor performance in the foreign aid absorption capacity of Nepal. Thus the problem in their respect basically lies with utilization rather than with mobilization of external assistance. Committed amount are not disbursing due to the weak institution arrangement for project implementation, highly centralized decision making process, rigidity in terms of financial rules and regulation, delays in hiring stuffs including consultant, weak negotiating power, political instability. Nepal's inefficient estimation of aid requirement.

5.0.4 Sectoral Allocation of Foreign Aid

The flow of foreign aid depends upon the priority of the receiving country if the aid is to attach with strings. Nevertheless, the strategic interests of the donor countries sometimes play the dominant role for sectoral composition of foreign aid. 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. In addition, virtually most of these projects were implemented through the financial and technical assistance from donor agencies. However, in the case of neighbouring countries such as India and China, certain road projects having strategic importance were proposed by them and accepted by Nepal. Other donors which have no strategic interests in Nepal, however political, inconspicuously provided aid for institution building and agriculture sector.

Changing sectoral composition of aid disbursement has been a distinctive feature of foreign aid to Nepal. The above table clearly shows a noticeable shift from transport (over 60% in 1974/75 to just 25% in 1997/08) to power (2% in 1974/75 to 25% in 1997/98). Such trend reached its peak during 1979/80 and 1980/81 because of Kulekhani hydroelectric project for which EEC, IDA, Japan, OPEC fund, and UNDP flowed in large amounts. So, far as agriculture is concerned, slowly moving up to 39% in 1984/85(as

then government gave more priority to improve agriculture sector), the share of aid received by agriculture sector began to fall and reached to 21% in 1992/93. Suddenly rising to 44% in 1993/94, its share came down to just 10.97% in 2004/05.

The sector wise annual aid disbursement indicates that the percentage share of agriculture in the seventies was very little compared to transport and communication and even social services sector for some years. Only when the food shortage occurred had the then government of Nepal shifted its development priority from infrastructure to agriculture (around 17% of the disbursed aid in the late seventies to 89% by the early eighties). As the development strategy was shifted from heavy projects to agriculture sector because of the slogan of food self sufficiency, the share of transport and communication was taken over by the agriculture sector. However, the increase in the share of agriculture sector was not impressive. The volume of aid in agriculture sector went up from Rs. 125.1 million (which is 24% of total aid) in 1976 to 599.2 million (which is 29% of total) in 1993. The massive increase was in the agriculture and irrigation. The share of agriculture has increased further in the subsequent years because of the possible imbalance between population growth and food production and also due to the sectoral imbalance between infrastructure and agricultural sectors.

Table 5.5**Sectoral Allocation of Foreign Aid in Nepal from FY1975/76 to FY 2005/06****Rs. in Million**

Fiscal Year	Total Aid Disbursement	Agriculture, Irrigation and Forestry	Transport power and Communication	Industry and Commerce	Social Service	Others
1975/76	505.6	125.1(24.7)	230.7(45.6)	62.3(12.3)	86.0(17.0)	1.5(0.3)
1976/77	556.9	98.7(17.7)	290.4(52.1)	91.8(16.5)	73.8(13.3)	2.2(0.4)
1977/78	848.4	148(17.4)	499.5(58.9)	68.9(8.1)	130.4(15.4)	1.6(0.2)
1978/79	989.4	227.4(23.0)	559.8(56.6)	30.6(3.1)	168.5(17.0)	3.1(0.3)
1979/80	1340.5	220.6(16.5)	908.8(67.8)	76.6(5.7)	124(9.3)	10.5(0.8)
1980/81	1562.2	322.6(20.7)	1000.0(64.0)	69.7(4.5)	146.4(9.4)	23.5(1.5)
1981/82	1723.2	454.3(26.4)	775.6(45.0)	143.9(8.4)	335.9(19.5)	13.5(0.8)
1982/83	2075.9	599.2(28.9)	648.3(31.3)	221.2(10.2)	612.4(29.5)	4.2(0.2)
1983/84	2547.5	745.6(29.7)	859.1(33.7)	494.9(19.4)	432.4(17.0)	3.5(0.1)
1984/85	2676.4	1053.1(39.3)	969.7(36.2)	191.8(7.2)	435.3(16.3)	26.6(1.0)
1985/86	3491.5	1298.8(37.2)	1321.2(37.8)	275.7(7.9)	586.4(16.8)	9.5(0.3)
1986/87	3314.5	1037.6(31.3)	1473.7(44.54)	183.4(5.5)	585.4(17.7)	34.3(1.0)
1987/88	5078.5	1226.3(24.1)	2784.6(54.8)	445.7(8.8)	522.3(10.3)	99.6(2.0)
1988/89	5666.9	1466.8(25.9)	3120.1(55.0)	191.2(3.4)	845(14.9)	43.9(0.8)
1989/90	6427.1	1489.7(23.2)	2679.1(41.7)	656.9(10.2)	1555.8(24.2)	45.9(0.7)
1990/91	5990	1253.2(21.0)	2575.6(43.0)	1390.9(23.2)	667.9(11.1)	102.4(1.7)
1991/92	7800.4	1945.4(24.9)	2485.1(31.85)	2174.3(27.9)	1191.6(15.3)	4(0.05)
1992/93	9235.6	1927.4(20.86)	2939.6(42.7)	696.9(7.5)	2667.6(28.9)	4.1(0.04)
1993/94	11557.2	5519.1(47.75)	4169.4 (36.07)	389.9(3.4)	1468.6(28.9)	4.1(0.04)
1994/95	11249.4	3462.4(30.8)	4574.9(40.7)	480.3(4.3)	2680.1(23.8)	51.7(0.4)
1995/96	14289	3399.6(23.8)	8052.7(56.4)	15.9(0.1)	2636.2(18.4)	184.6(1.3)
1996/97	15031.9	2827.5(18.8)	4504.5(56.58)	23.4(0.15)	36665(24.4)	11.5(0.07)
1997/98	16457.1	2852.1(17.3)	8989.6(54.6)	198.1(1.2)	4417.3(26.8)	-
1998/99	16189	3383.9(20.9)	7892.2(48.7)	404.7(2.5)	4446.4(27.5)	61.8(0.4)
1999/00	17523.9	3209.8(18.3)	8159.3(46.6)	298.5(1.7)	5794(33.0)	62.3(0.4)
2000/01	18797.4	3774.8(20.1)	9235.1(49.1)	19.9(0.1)	5253.7(30.6)	8.1(0.04)
2001/02	14384.8	3285.8(22.84)	5905.7(41.05)	368.7(2.56)	4685.8(33.53)	138.8(0.88)
2002/03	15885.5	2177.9(13.70)	7774.1(48.08)	401.2(2.52)	5321(34.82)	211.3(0.92)
2003/04	18912.4	2429.6(12.85)	7570.8(40.03)	146.8(0.78)	8730.1(46.16)	35.1(0.19)
2004/05	23657.3	2595.7	9860.0	123.9	10746.8	330.9
2005/06	22101.9	2396.3	7142.5	105.3	11162.2	1295.6

Source: Economic Survey,(FY 1980/81,FY1989/90,FY2001/02,FY2006/07)

The table 5.5 shows the year -to-year fluctuation in sectoral distribution of foreign aid in different sectors. In FY1975/76 , out of total disbursed aid Rs. 505.6 million, agriculture ,irrigation and forestry received Rs. 24.7% of total, likewise transport, communication and power received the largest chunk of 45.6% , industry and commerce 12.3%, social service 17.0% and others 0.3% . Agriculture sector recorded the lowest i.e.16.5% of total aid in FY 1979/80 and highest i.e. 47.75% in FY 93/94. The transport, power and communication sectors have always been receiving large amount of foreign aid relative to the other sectors. Disbursement composition of this sector reached to minimum 31.3% in FY 1982/83 and maximum to 67.8% in FY 1979/80 on which agriculture sector was lowest. In industry and commerce, the share of aid is relatively small than other sectors on the average, about 5.5% of the total aid has been disbursed in this sector. The social sector has been given more priority in the recent years. In FY 1979/80, only 9.3% of total aid was disbursed but in FY 2005/06 it reached to 40.18% of the total aid. Agriculture received 20.49% of the total aid.

5.0.5 Review of Foreign Aid Policy

In the history of the Nepalese foreign aid, Government of Nepal has introduced the Foreign aid Policy for the proper utilization and mobilization of foreign aid in line with recipient driven objectives. GoN recognizes that foreign aid policy has to be guided by a long term vision, but should also incorporate the short-term imperatives of the country. For the longer term, this would imply that foreign aid would be effectively integrated into the overall resource mobilization framework of Nepal, to help finance and support Nepal's development endeavours, particularly to achieve poverty reduction goals. This is also important in the short term; as discussed below, there are other considerations as well which should guide the composition of aid.

Realizing the need to bring “the Government back into the driver’s seat” and ensure that it becomes proactive in the planning, management and coordination of foreign aid, it was recently decided to develop a policy on foreign aid. The “Foreign aid Policy” was formulated in 2002 and aims at analysing “The processes, problems and prospects of the foreign aid so as to maximize its impact and effectiveness”. The Policy identifies a number of common donor concerns, which is used to explain the prevailing state of donor practices as:

- i) Lack of ownership of GoN of development projects and programs
- ii) Lack of leadership, direction and prioritisation by GoN
- iii) Top-down planning with very limited stakeholder involvement
- iv) A poorly functioning and under-paid civil service with inadequate accountability structures and lack of transparency affecting like monitoring and supervision of projects and programmes

The broad objectives of aid policy, which are to be achieved through the adoption of policies and strategies outlined below, include among others ,the following:

- 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 higher rates of economic growth while ensuring distributional equity.

This would require improved linkages with civil society organizations and the private sector, and also establishing complementarities between aid and other economic policies and utilizing foreign aid more effectively to address.

Foreign aid policy has shown the problems as well as the utilization process of aid coming to Nepal. This policy prescribed that the foreign aid should be utilized with transparency, uniformity, accountability and predictability as important factors in the process. This policy had committed to improve disbursement of committed amount of foreign aid as well as procurement mechanisms, project evaluation, impact study supervision and monitoring.

5.1 Foreign Aid Inflow to the Agriculture Sector

Like other south east Asian countries, agriculture by almost every measure, is the pre-dominant industry in Nepal. It is the backbone of the Nepalese economy occupying a place of pride in the field of national income, livelihood, employment, industrial development and international trade.. Due to these facts Nepal has given top priority for the development of agriculture sector since 1980. But highest assistance had disbursed to the transport, power and communication. Nepal's aid procurement policy is guided by the five year plans priorities and there is no hard and fast rule as such which restricts many areas for aid procurement. The objectives of donor countries and aid receiving country that is Nepal usually conflicts to each other, more precisely, the objectives of the donors and their priorities differ from those of Nepal because each donor has its own objectives and priorities.

The following table shows the ratio of total inflow of foreign aid to total GDP and ratio between agriculture aid to agriculture GDP.

Table 5.6
Ratio of Agriculture Aid to Agriculture GDP from FY 1978/79 to FY
2005/06

Rs. In Million

Fiscal Year	Foreign Aid	Total GDP	Foreign aid as a % of GDP	Agriculture Aid	Agriculture GDP	Agriculture aid as a % of GDP
1978/79	989.4	22215	4.45	227.4	12895	1.76
1979/80	1340.5	23351	5.74	220.6	14678	1.50
1980/81	1562.2	27307	5.72	322.6	15679	2.06
1981/82	1723.2	30988	5.56	454.3	17903	2.54
1982/83	2075.9	33761	6.15	599.2	19282	3.11
1983/84	2547.5	39390	6.47	757.6	22771	3.33
1984/85	2676.4	44441	6.02	1053.1	22761	4.63
1985/86	3491.5	53215	6.56	1298.8	27136	4.79
1986/87	3314.4	61140	5.42	1037.6	30623	3.39
1987/88	5078.5	73170	6.94	1226.3	36755	3.34
1988/89	5666.9	85831	6.60	1466.8	42572	3.44
1989/90	6427.1	99702	6.44	1489.7	50470	2.95
1990/91	5990	116127	5.16	1253.2	55386	2.26
1991/92	7800.4	144933	5.38	1945.4	65156	2.99
1992/93	9235.6	165350	5.59	1927.4	70090	2.75
1993/94	11557.2	191596	6.03	5519.1	80589	6.85
1994/95	11249.4	209974	5.36	3462.4	85569	4.04
1995/96	14289	239388	5.97	3399.6	96896	3.51
1996/97	15031.9	269570	5.58	2827.5	108785	2.59
1997/98	16457.1	289798	5.68	2852.1	112495	2.53
1998/99	16189	329960	4.91	3383.9	132373	2.56
1999/00	17523.9	366251	4.78	3209.8	145131	2.21
2000/01	18797.4	394052	4.77	3774.8	151059	2.49
2001/02	14384.8	406138	3.54	3285.8	160144	2.05
2002/03	15885.5	437546	3.63	2177.9	171104	1.27
2003/04	18912.4	474919	3.98	674.9	183117	0.36
2004/05	23657.3	508651	4.65	752	194363	0.38
2005/06	22101.9	646471	3.4	825.8	213376	0.38

Source: Economic Survey, (FY 1980/81, FY1989/90, FY2001/02, FY2006/07)

The above table portrays that the ratio of total foreign aid inflow to GDP is higher than the agriculture aid to agriculture GDP ratio. Ratio of agriculture aid to agriculture GDP in FY 1975/76 was recorded to whereas it

reached to only 0.38 % in the FY 2005/06. Though Agriculture sector is given high priority and contribution to national GDP of this sector is about 36.8%, foreign aid in agriculture sector is relatively low.

5.1.1 Sectoral Composition Of Agriculture Aid

The flow of foreign aid depends upon the priority of the receiving country if aid is to attach with string. The sectoral priority attached by the Nepalese government reflects in the trend of foreign aid in irrigation . Irrigation being the lifeblood of agriculture, Nepalese government has given the topmost priority . Out of total aid received in agricultural sector, irrigation received huge chunk of aid followed by agriculture and forest. The following table shows the sectoral composition of agricultural aid.

Table 5.7

Sectoral Composition of Agriculture Aid from FY1978/79 to FY 2005/06

(Rs. In Million)

FY	Agriculture Aid	Agriculture - ure	% in Agriculture- re	Irrigation	% in irrigation	Forest	%in forest	Others	% in Others
1978/79	227.4	83.3	36.63	121.9	53.61	9.40	4.13	12.80	5.63
1979/80	220.6	54.6	24.75	133	60.29	31.40	14.23	1.60	0.73
1980/81	322.6	139.9	43.37	148.7	46.09	31.80	9.86	2.20	0.68
1981/82	454.3	181.7	40.00	200.7	44.18	70.60	15.54	1.30	0.29
1982/83	599.2	235.3	39.27	267.9	44.71	93.10	15.54	2.90	0.48
1983/84	757.6	315.3	41.62	337.5	44.55	100.50	13.27	4.30	0.57
1984/85	1053.1	465.4	44.19	449.2	42.66	135.80	12.90	2.70	0.26
1985/86	1298.8	626.2	48.21	577.2	44.44	93.80	7.22	1.60	0.12
1986/87	1037.6	348.2	33.56	514.7	49.60	167.10	16.10	7.60	0.73
1987/88	1226.3	553.3	45.12	476.3	38.84	196.50	16.02	0.20	0.02
1988/89	1466.8	529.5	36.10	791.9	53.99	145.10	9.89	0.30	0.02
1989/90	1489.7	536.2	35.99	772.4	51.85	180.60	12.12	0.50	0.03
1990/91	1253.2	609.6	48.64	435.3	34.74	207.80	16.58	0.50	0.04
1991/92	1945.4	396.8	20.40	1158.9	59.57	389.70	20.03	0.00	0.00
1992/93	1927.4	724.9	37.61	1027.1	53.29	171.20	8.88	4.20	0.22
1993/94	5519.1	2064.9	37.41	1713.7	31.05	1329.80	24.09	410.70	7.44
1994/95	3462.4	1302.4	37.62	1883.1	54.39	180.90	5.22	96.00	2.77
1995/96	3399.6	1097.3	32.28	2102.5	61.85	80.80	2.38	119.00	3.50
1996/97	2827.5	436.1	15.42	2048.4	72.45	219.20	7.75	123.80	4.38
1997/98	2852.1	924.9	32.43	1681.9	58.97	192.50	6.75	52.80	1.85
1998/99	3383.9	909.4	26.87	2195.5	64.88	189.20	5.59	89.80	2.65
1999/00	3209.8	867.3	27.02	2073.1	64.59	210.00	6.54	59.40	1.85
2000/01	3774.8	806.3	21.36	2783.9	73.75	123.10	3.26	61.50	1.63
2001/02	3285.8	896.7	27.29	2079.4	63.28	227.00	6.91	82.70	2.52
2002/03	2177.9	574.5	26.38	1241.5	57.00	321.40	14.76	40.50	1.86
2003/04	2429.6	674.9	27.78	1402.2	57.71	316.60	13.03	35.90	1.48
2004/05	2595.7	752	28.97	1385.6	53.38	458.1	17.64	0	0
2005/06	2396.3	825.8	34.46	1370.8	57.20	159.7	6.66	40	1.66

Source: Economic Survey, (FY 1980/81, FY1989/90, FY2001/02, FY2006/07)

The above table shows the foreign aid disbursed in agriculture, irrigation, forest and others. There is erratic trend in the allocation of agricultural aid in irrigation, agriculture, forest and other sectors. In 1978/79, out of total foreign aid disbursed in agriculture sector, 36.63% disbursed in agriculture, 53.61% in irrigation, 4.31% in forest and 5.63% in others. However, the trend had changed in 1993/94 when irrigation received only 31.05%, share of agriculture reached to 37.41% and forest accounted 24.09% and 7044% in others. In FY 2005/06, total disbursement of agriculture aid is 56594.5, out of which irrigation received 31374.3 which is 57.20% of total aid, agriculture received 34.46% and forest got 6.66%.

CHAPTER VI

ANALYSIS

6.0 Empirical Finding

In this section analysis of foreign aid and its impact on agriculture GDP and total GDP is presented. For the purpose of the analysis four different regression equations were defined and the analysis was done with the help of SPSS programme. It was assumed that foreign aid increases both total GDP, and agricultural GDP but the ratio of increase will be different. It was also felt that the response of foreign aid on agricultural sector before and after democratization in 1990 should have different impact.

6.1 Effects of Foreign Aid on GDP

The regression is carried out with 28 years of data from 1978/79 to 2005/06. Theoretically GDP depends on several factors including foreign aid. Foreign aid obtained in this year is consumed in this year or several proceeding years. For the purpose of the study it was assumed that foreign aid obtained last year has positive impact on this year's GDP. Hence for the purpose of regression analysis GDP is regressed with foreign aid of last year. Due to the variability in the process the amount of foreign aid or gross domestic product goes on increasing if the values for these variables are taken into nominal terms or in current prices. To reduce the variability the data of aforesaid period was converted into constant prices where the base year was 1994/95. The indexing was done by utilizing the values provided in the Economic Survey of 2005/06. Statistically the model is described by the following equation.

$$Y_t = a + bF_{t-1} + C$$

Where, Y_t = Total GDP(Dependent Variable)

F_{t-1} = Foreign Aid of previous year (independent variable)

a = Intercept

b = Coefficient

C = Error Term

$$Y_t = 22588.512 + 0.952F_{t-1} + C$$

(2.024, 15.524)

$$R^2 = 0.90, \text{ Adj. } R^2 = 0.89, \quad F = 240.994$$

In the above equation 22588.512 is the intercept and 0.952 is the coefficient which means foreign aid of the previous year increases the GDP of the current year by the tune of Rs0.952. The fitted equation is a good fit with $R^2 = 0.90$ which indicates that 90% of variation in GDP are explained by independent variable foreign aid (F_t). The F test value is also significant at the level of 1 percent.

To remove the variability and to increase the accuracy of the model the data was converted into logarithmic form and following log linear equation was fitted with the data.

$$\ln Y_t = a + b \ln F_{t-1} + C$$

Where, $\ln Y_t$ = Log GDP (Dependent Variable)

$\ln F_{t-1}$ = Foreign Aid of previous year (independent variable)

a = Intercept

b = Coefficient

C = Error Term

$$\ln Y_t = 2.190 + 0.966 \ln F_{t-1} + C$$

(4.324, 18.716)

$$R^2 = 0.93, \text{ Adj. } R^2 = 0.92, \text{ F} = 350.284$$

The equation is highly significant as indicated by its high t- values (4.324 and 18.716). The equation itself is a good fit with $R^2 = 0.93$ implying 93% of total variation in GDP is explained by foreign aid. The equation shows that an increase in foreign aid has a positive effect on Gross Domestic Product and Domestic Investment in the previous year. An increase of one million in the flow of aid increases output by 0.966 million. So output is less than aid so proper foreign aid can not be utilized.

To determine the lag time period of foreign aid to GDP, we can show it by the following equation.

$$\text{Ln } Y_t = a + b_1 \text{Ln } F_t + b \text{Ln } F_{t-1} + C$$

$$\text{Ln } Y_t = 1.728 + 0.381 \text{Ln } F_{t-1} + C$$

$$(3.089, 1.092, 1.696)$$

$$R^2 = 0.94, \text{ Adj. } R^2 = 0.93, \text{ F} = 189.738$$

The equation is highly significant as indicated by its high t- values are (3.089, 1.092, and 1.696). The equation itself is a good fit with $R^2 = 0.94$ and adjustment $R^2 = 0.93$ implying 94% of total variation in GDP is explained by foreign aid. The equation shows that an increase in foreign aid has a positive effect on Gross Domestic Product and Domestic Investment. Whenever Domestic Investment increases foreign aid also increases and which leads gross domestic product increases.

To determine the total agriculture aid to agriculture GDP, we can show it by the following equation.

$$Y_{ag_t} = a + bF_{ag_{t-1}} + C$$

Where, Y_{ag_t} = Total Agriculture GDP(Dependent Variable)

$F_{ag,t-1}$ = Agriculture Aid of previous year(independent variable)

a = Intercept

b = Coefficient

C = Error Term

$$Y_t = 23745.789 + 0.742F_{t-1} + C$$

(2.480, 5.538)

$$R^2 = 0.55, \text{ Adj. } R^2 = 0.53, \quad F = 30.673$$

In the above equation 23745.789 is the intercept and 0.742 is the coefficient which means foreign aid of the previous year increases the agriculture GDP of the current year by the tune of Rs0.742. The fitted equation is a good fit with $R^2 = 0.55$ which indicates that 55% of variation in GDP are explained by independent variable agriculture aid (F_{agt}). The F test value is also significant at the level of 1 percent.

To determine the log total agriculture aid to agriculture GDP, we can show it by the following equation.

$$\text{Ln } Y_{ag,t} = a + b \text{ Ln } F_{ag,t-1} + C$$

Where, $\text{Ln } Y_{ag,t}$ = Log Agriculture GDP(Dependent Variable)

$\text{Ln } F_{ag,t-1}$ = Log Agriculture Aid of previous year(independent variable)

a = Intercept

b = Coefficient

C = Error Term

$$\text{Ln } Y_{agt} = 4.148 + 0.889 \text{Ln } F_{ag,t-1} + C$$

(5.996, 9.730)

$$R^2 = 0.79, \text{ Adj. } R^2 = 0.78, \quad F = 94.678$$

The equation is highly significant as indicated by its high t- values are (5.996, 9.730). The equation itself is a good fit with $R^2 = 0.79$ and adjustment $R^2 = 0.78$ implying 79% of total variation in agriculture GDP is explained by agriculture aid. The equation shows that an increase in agriculture aid has a positive effect on Gross Domestic Product and Domestic Investment. Whenever Domestic Investment increases agriculture aid also increases and which leads gross domestic product increases.

To determine the lag time period of total agriculture aid to agriculture GDP, we can show it by the following equation.

$$\text{Ln Yag}_t = a + b_1 \text{Ln Fag}_t + b_2 \text{Ln Fag}_{t-1} + C$$

$$\text{Ln Yag}_t = 3.816 + 0.250 \text{Ln Fag}_t + 0.655 \text{Ln Fag}_{t-1} + C$$

$$(4.908, 0.944, 2.471)$$

$$R^2 = 0.79, \text{Adj. } R^2 = 0.78, F = 47.578$$

The above regression equation shows the impact of agriculture aid on agriculture GDP is positive and more significant. The equation itself significant $R^2 = 0.79$, $\text{Adj. } R^2 = 0.78$, $F = 47.578$, only 79% of variation in agriculture GDP could be explained by independent variable agriculture aid. t-values also slightly significant which are 4.908, 0.944 and 2.471..

6.2 Effects of Foreign Aid on Agriculture

Regression analysis of the total agriculture aid to the agriculture GDP before and after democratization 1990 in the economy has been made to compare the effectiveness. The tentative forms are specified as follows:

Effect of foreign aid on agriculture prior to 1990:

$$\text{Yag}_t = a + b \text{Fag}_{t-1} + C$$

Where, Y_{ag_t} = Agriculture GDP(Dependent Variable)

$F_{ag_{t-1}}$ = Agriculture Foreign Aid of previous year(Independent Variable)

a = Intercept

b = Coefficient

C = Error Term

$$Y_{ag_t} = -1662.607 + 0.808 F_{ag_{t-1}} + C$$

(1.230, 4.112)

$$R^2 = 0.65, \text{ Adj. } R^2 = 0.61, F = 16.910$$

In the above equation 1662.607 is the intercept and 0.808 is the coefficient which means foreign aid of the previous year increases the GDP of the current year by the tune of Rs0.808. The equation itself significant $R^2 = 0.65$, $\text{Adj. } R^2 = 0.61$, $F = 16.910$, only 65% of variation in agriculture GDP could be explained by independent variable foreign aid. t-values also less significant which is 1.230, 4.112.

Elasticity of foreign aid in Agriculture Prior to 1990 as:

$$\ln Y_{ag_t} = a + b \ln F_{ag_{t-1}} + C$$

Where, $\ln Y_{ag_t}$ = Agriculture GDP(Dependent Variable)

$\ln F_{ag_{t-1}}$ = Agriculture Foreign Aid of previous year(Independent Variable)

a = Intercept

b = Coefficient

C = Error Term

$$\ln Y_{ag_t} = -96922.7 + 0.709 \ln F_{ag_{t-1}} + C$$

$$(2.398, 3.017)$$

$$R^2 = 0.50, \text{ Adj. } R^2 = 0.44, F = 9.104$$

It is still a less fit and statistically significant to 50% of total variation in dependent variable is explained by independent variable. The above equation shows that an increase in foreign aid has a positive effect on agriculture output. An increase of one million in the flow of aid in agriculture increases output by 0.706 million.

Similarly to determine the lag time period of agriculture aid to agriculture GDP, we can show it by the following equation.

$$\ln Y_{ag_t} = a + b_1 \ln f_{ag_t} + b_2 \ln f_{ag_{t-1}} + C$$

Where, $\ln Y_{ag_t}$ = Agriculture GDP(Dependent Variable)

$\ln F_{ag_{t-1}}$ and $\ln F_{ag_t}$ = Agriculture Foreign Aid of previous year(Independent Variable)

a = Intercept

b = Coefficient

C = Error Term

$$\ln Y_{ag_t} = -87026.2 + 1.093 \ln f_{ag_t} + 0.397 \ln f_{ag_{t-1}} + C$$

$$(1.788, 1.142, -0.415)$$

$$R^2 = 0.51, \text{ Adj. } R^2 = 0.39 \quad F = 4.219$$

The equation shows the positive relationship between agriculture output and foreign aid. The equation is good fit as 51% of total variation in agriculture output is explained by foreign aid. It is statistically significant at

1% level of significance. The co-efficient of aid is quite large as comparison to prior 1990. This shows that flow of foreign aid has significantly large positive effect on agriculture output before the restoration of democracy.

But the case is different after the liberalization of economy. Agriculture output is regressed with foreign aid as in previous case. The regression is carried out with 15 years of data from 1990/91 to 2005/06. The fitted regression line is:

$$Y_{ag_t} = a + b F_{ag_{t-1}} + C$$

Where, Y_{ag_t} = Agriculture GDP(Dependent Variable)

$F_{ag_{t-1}}$ = Agriculture Foreign Aid of previous year(Independent Variable)

a = Intercept

b = Coefficient

C = Error Term

$$Y_{ag_t} = 102830.3 + 0.913 F_{ag_{t-1}} + C$$

(9.350)

$$R^2 = 0.31, \text{ Adj. } R^2 = 0.29 \quad F = 4.211$$

The above regression equation shows the impact of foreign aid on agriculture GDP is positive and statistically significant. The equation itself significant $R^2 = 0.31$, $\text{Adj. } R^2 = 0.29$, $F = 4.211$, only 31% of variation in agriculture GDP could be explained by independent variable foreign aid. t-values also less significant which is 9.350.

Elasticity of foreign aid in Agriculture Post to 1990 as:

Log linear equation is derived to show the elasticity of foreign aid on agriculture after the liberalization of Nepalese economy which is

$$\ln Y_{ag_t} = a + b \ln F_{ag_{t-1}} + C$$

$$\ln Y_{ag_t} = 11.402 + 0.031 \ln F_{ag_{t-1}} + C$$

(13.914, 0.113)

$$R^2 = 0.01, \text{ Adj. } R^2 = 0.07 \quad F = 0.013$$

The equation is highly significant as indicated by its high t- values are (13.914 and 0.113).The equation itself is a good fit with $R^2= 0.10$ and adjustment $R^2 = 0.07$ implying 10% of total variation in GDP is explained by foreign aid. The equation shows that an increase in foreign aid has a less significant on Gross Domestic Product and Domestic Investment. Whenever Domestic Investment increases foreign aid also increases and which leads gross domestic product increases but lack of proper utilization of the foreign aid gross domestic product leads small increment of the national output.

The coefficient of aid is higher than in the case of equation obtained in earlier case implying productivity of foreign aid is higher after restoration of democracy than before. An increase of one million in the flow of aid increases agriculture output by 0.44 million which is much higher than the case of prior to 1990. The equation is almost good fit as indicated by high value of R^2 . Total variation in agriculture output is explained by foreign aid.

6.3 Summary of Regression Model

Equation	Dependent Variable	Independent Variable	Constant	Coefficient of foreign aid	t- Value	F- Value	R ²	Adj. R ²
$Y_t = a + b F_{t-1} + C$	Total GDP	Total foreign aid	22588.512	0.952	2.024, 15.524	240.994	0.90	0.89
$\ln Y_t = a + b \ln F_{t-1} + C$	Total GDP	Total foreign aid	2.190	0.966	4.324, 18.716	350.284	0.93	0.92
$\ln Y_t = a + b_1 \ln F_t + b_2 \ln F_{t-1} + C$	Total GDP	Total foreign aid	1.728	0.381, 0.592	3.089, 1.092	189.738	0.94	0.93
$Y_{agt} = a + b F_{agt-1} + C$	Total Agriculture GDP	Total Agriculture Aid	23745.789	0.742	2.480, 5.538	30.673	0.55	0.53
$\ln Y_{agt} = a + b \ln F_{agt-1} + C$	Total Agriculture GDP	Total Agriculture Aid	4.148	0.889	5.996, 9.730	94.678	0.79	0.78
$\ln Y_{agt} = a + b_1 \ln F_{agt} + b_2 \ln F_{agt-1} + C$	Total Agriculture GDP	Total Agriculture Aid	3.816	0.250, 0.655	4.908, 0.944, 2.471	47.578	0.79	0.78
$Y_{agt} = a + b F_{agt-1} + C$ (before 1990)	Agriculture GDP	Agriculture Aid	-1662.607	0.808	1.230, 4.112	16.910	0.65	0.61
$\ln Y_{agt} = a + b \ln F_{agt-1} + C$	Agriculture GDP	Agriculture Aid	-96922.7	0.709	2.398, 3017	9.104	0.50	0.44
$\ln Y_{agt} = a + b_1 \ln F_{agt} + b_2 \ln F_{agt-1} + C$	Agriculture GDP	Agriculture Aid	-87026.2	1.093, 0.397	1.788, 1.142, -0.415	4.219	0.51	0.39
$Y_{agt} = a + b F_{agt-1} + C$ (After 1990)	Agriculture GDP	Agriculture Aid	102830.3	0.913	9.350	4.211	0.31	0.29
$\ln Y_{agt} = a + b \ln F_{agt-1} + C$	Agriculture GDP	Agriculture Aid	11.402	0.031	13.914, 0.113	0.013	0.10	0.07

The regression result shows the low productivity of foreign aid in agriculture sector before the liberalization in comparison to the period of post liberalization. The comparison is made before and after the restoration of democracy (1978/79-1989/1990 and 1990/91- 2005/06) and found that elasticity of aid is higher in post 1990 than prior 1990. which implies that productivity and utilization of foreign aid is better after the liberalization than prior to liberalization.

The above result indicated that the change in Foreign Aid at current time period (t) has a significant impact on the change in Gross Domestic Product. The one year lagged foreign aid (t-1) do have positive impact on the change in gross domestic product but the impact is less when compared to the foreign aid at the current time period . 0.90, 0.93,0.94,0.55,0.79, 0.65, 0.50,0.51and 0.31 percent increase in gross domestic product is brought about by a 100 percent increase in foreign aid at time 't' lagged foreign aid are taken as an explanatory variables. It is found that the coefficient of foreign aid at 't' is more significant that that at 't-1'. This implies that foreign aid at time't' has a strong impact on the gross domestic product.

R^2 in the third, fourth, second equations has more explanatory power than the first equation which implies that the current foreign aid along with previous foreign aid create more strong inflationary situation. The first equation, however, suggests that the current foreign aid is alone highly responsible for increasing the inflationary pressure. The highly significant F-values show a better association between the variables in equations.

CHAPTER VII

SUMMARY, CONCLUSIONS AND RECOMMENDATION

7.0 Summary

Nepal is a small landlocked agrarian country. About 80% of its people being engaged in agriculture and 60% are employed. The share of agriculture in GDP is estimated to be 36%. Geographical diversity is one of the major characteristic of Nepal, which has afforded a diverse and immense potential in the agricultural sector. But it is to be noted that agriculture so far practiced in Nepal remains primarily subsistence oriented. 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. . An average annual economic growth rate of agriculture sector was estimated to be 3.3 percent as against the target of 4% during the period of the Ninth plan. The average growth rate of 4.1% per annum is the target of the tenth plan.

The main reasons behind the low economic growth rate in agriculture sector are less than expected investment in agriculture sector, lack of adequate policy drive to lessen undue interventions from public sector, lack of prioritisation and thinly spreading of resources lack of commercialisation, less attention in appropriate infrastructure and lack of credit. But Nepal being capital deficient country and low saving ratio, to address the problem existing in agriculture sector, domestic resource mobilization is not sufficient enough and it needs foreign aid for its development and consequently development of overall economy. As Nepal's per capita income is one of the lowest in the world, even if resources effectively mobilized and directed to productive investments, required level of development may not be substantially

achieved. An additional foreign capital can be most beneficial when the combined utilization of domestic and external financial resources result in a high rate of investment.

Nepal's first experience of foreign aid heralded by the point four-program agreement signed on Jan. 23, 1951 amounted Rs. 22,000. Upto 1970 foreign aid flow to Nepal confined to diminutive size. During the period 1950-70, bilateral grant played a predominant role in the structure of foreign aid in Nepal. It was only since 1961/62 foreign loans started to enter the country. It has been found that the overwhelming proportion of loans comes from the multilateral agencies, and from IDA and ADB. Foreign aid to Nepal increased substantially in each succeeding decades. During 1980s and 1990s, top priorities were accorded to agriculture, irrigation and forest and transport, power and communications sectors, which helped increase influx of foreign aid to these sectors. Nepal's various periodical development plans absorbed the larger volume of foreign aid. During the first plan (1956-61), Nepal's development expenditure were fully funded by foreign aid. In subsequent plan periods from the second to the Ninth Plan (1962-2002), the extent of foreign aid was as high as 52% of development expenditure in Nepal.

Foreign aid can play an important role in the agriculture development of Nepal. The ratio of total foreign aid inflow to GDP is higher than the agriculture aid to agriculture GDP ratio. Ratio of agriculture aid to agriculture GDP in FY 1975/76 was recorded to whereas it reached to only 0.38 % in the FY 2005/06. Though Agriculture sector is given high priority and contribution to national GDP of this sector is about 36%, foreign aid in agriculture sector is relatively low.

In 1978/79, out of total foreign aid disbursed in agriculture sector, 36.63% disbursed in agriculture, 53.61% in irrigation, 4.31% in forest and 5.63% in others. However, the trend had changed in 1993/94 when irrigation received only 31.05%, share of agriculture reached to 37.41% and forest accounted 24.09% and 7044% in others. In FY 2005/06, total disbursement of

agriculture aid is 56594.5, out of which irrigation received 31374.3 which is 57.20% of total aid, agriculture received 34.46% and forest got 6.66%.

Empirical findings reveal that the role of foreign aid to raise agricultural productivity is immense. The regression is carried out with 28 years of data from 1978/79 to 2005/06. Theoretically GDP depends on several factors including foreign aid. Foreign aid obtained in this year is consumed in this year or several proceeding years. For the purpose of the study it was assumed that foreign aid obtained last year has positive impact on this year's GDP. Hence for the purpose of regression analysis GDP is regressed with foreign aid of last year. Due to the variability in the process the amount of foreign aid or gross domestic product goes on increasing if the values for these variables are taken into nominal terms or in current prices. To reduce the variability the data of aforesaid period was converted into constant prices where the base year was 1994/95. The indexing was done by utilizing the values provided in the Economic Survey of 2005/06. The regression model shows that there is significance positive relationship between foreign aid and agricultural output. The comparison is made before and after the restoration of democracy (1978/79-1989/1990 and 1990/91- 2005/06) and found that elasticity of aid is higher in post 1990 than prior 1990. Which implies that productivity and utilization of foreign aid is better after the liberalization than prior to liberalization. Average growth rate of principle food crops and cash crops is higher in case of post 1990 period than prior 1990. For the purpose of the study, the data of total GDP, agricultural GDP, total foreign aid, agricultural aid were taken. For the analysis regression equation in linear, log and lag form were fitted with the data.

7.1 Conclusions

Nepal's first experience of foreign aid was heralded by the point four program in 1951 with the amount of Rs 22,000 provided under president Harry Truman's Point Four Program. Following this, China and USSR

appeared in aid scenario in 1956 and 1958. There has been many fold increase in the quantum of aid flows to Nepal from 1951/52 to 2003/04 which is amounted to 235498.95. The development expenditure in each periodic plans was heavily financed by foreign aid as high as between 44 percent and 77 percent. During the period, 1951/52 to 2005/06, there has been some improvement in physical and socio-economic indicators of Nepal. Foreign aid has covered almost every field of Nepalese economy like agriculture, public health, education, transportation, communication, electrification, industrialization, public administration, poverty alleviation, emergency relief as well as family planning and various allied training programs and export services for socio economic development in Nepal.

Among the various beneficiaries sectors of foreign aid, agriculture sector is one of them. After the restoration of democracy in Nepal, the total commitment of aid for the agriculture sector has increased by more than two times than that prior to the restoration of democracy. Average aid disbursement (during 1990/91 to 2005/2006) to the total aid commitment in the agriculture sector was 70.3 percent while it was 47.7 percent before the liberalization in the economy in 1990 a(during 1977/78 to 1889/1990. After the liberalization of the Nepalese economy in 1990, donors are gradually pushing Nepal to replace grants by concessional loans and concessional loans by commercial loans.

Average annual production and productivity of agriculture sector is increasing with the increment of investment in this sector however it is not satisfactory. Agriculture is carried on in an old fashion with the obsolete and outdated methods of production as a result, the yield from land is precariously low and peasants continue to live at a bare subsistence level. The irrigation facility to additional land has been too slow, that a major part of cultivated land still remains out of access to irrigation facility. Transformation of agriculture system towards productivity oriented, comparatively advantageous and commercialized agricultural system of sustainable agriculture

development by generating modern technology with internal and external resource utilization patterns and developing transport and market mechanism has not been achieved.

Agriculture sector being the backbone of the national economy, it should have been better if it was self dependent rather than depend on foreign aid . it is because the development of our economy mainly depends upon the development of the agriculture sector. To develop our economy, agriculture sector should be considered as the leading sector. At present it depends upon foreign aid and hence the development of this sector is uncertain due to the disbursement of aid is uncertain. However, we can't deny the importance of foreign aid in the context of poor mobilization of internal resources of Nepal. The major finding of this study is there is significant positive relationship between foreign aid and agricultural GDP. The comparison is made before and after the restoration of democracy (1978/79-1989/1990 and 1990/91-2005/06) and found that elasticity of aid is higher in post 1990 than prior 1990. which implies that productivity and utilization of foreign aid is better after the liberalization than prior to liberalization.

7.2 Recommendations

Nepal needs help: there's no doubt. But this help should be carefully screened and we need to show out courage to say 'no' for such kind of assistance which is not in the interest of our country. Nepal needs to redefine its policy of accepting aid even only to serve the interests of a handful of national elites and to satisfy the wants of foreigners. As large amount of aid used in the past could not give satisfactory results, the roles and responsibilities of the organizations involved in decision-making of foreign aid mobilization also needs to be redefined and reinvented. If Ministry of Finance appears unable to perform this function effectively and efficiently, we have to evaluate other alternatives to shift this or any other responsibilities of this ministry to other ministries and organizations. We also need to be

aware of the fact that to succeed to take loan is not the real success of the nation; real success lies in the usage of loan to earn relatively larger amount than the amount of loan itself. That is why, our country demands the reinvention of the foreign aid policy not only in books and documents but in practice. Uncontrolled use of loan may help to carry the nation towards the path of 'failure state' as some of the donor representatives working in our country demonstrate occasionally their hobby to reach us even those subjects that they themselves do not know. Accepting loan for unnecessary and unproductive purposes is not only the misuse of resources but also the unpatriotic work to push the country in bad future.

Based on the findings of the study, various recommendations have been put forward which are mention below.

- a. Investments in irrigation should be increased to expand agricultural production and the overall growth rate of economy. To meet these investments, the country does not have adequate internal resources. Therefore foreign aid is inevitable for Nepal. She also requires external assistance to bridge saving- investment gap and foreign exchange gap, and to speed up the tempo of agriculture development and thereby agro-based industries and industrialization. It is therefore not advisable for Nepal to cut off aid flows completely.
- b. Although Nepal needs foreign assistance at a greater scale, the tendency to receive aid at random must be restrained.
- c. Nepal should fix the priority sectors for foreign aid. On the basis of priority, donor should be approached to proved foreign aid. The priority fixed by the foreign aid policy should be strictly followed.
- d. Local capacity building should be given topmost priority by giving preference to domestic rather than foreign consultants and contractors, and by strengthening local training institutions.

- e. The government should also increase absorption capacity of foreign aid by preparing skilled labour force through proper training, transfer of technology know-how, constant monitoring of the agriculture projects operated by foreign aid which leads to bridging the gap between aid commitment and disbursement.
- f. Attempts should be made to convert past loans (those received before the restoration of democracy) into grants by explaining the donors that most of these loans have not yielded the expected outcome due to various constraints and weaknesses.
- g. A separate aid- administering body must be formed. As foreign aid influences almost all sectors of the economy and its size compared to national income is large, it would be better for Nepal to form a separate foreign aid commission. If such commission is formed, then every aspect of foreign aid will be efficiently handled, starting from making agreements with the donors to checking whether desired objectives of aid are met.
- h. There should be constant monitoring of the agricultural projects which are financed by foreign aid in order to remove the bottlenecks in the timely transfer of funds that reduce the existing gap between aid commitment and disbursement.
- i. National interest should be Paramount while mobilizing foreign aid.
- j. Emphasis should be laid on the mobilization of bilateral and multilateral assistance.
- k. In foreign aid, grant element needs to be enhanced and its use needs to be prioritized. Overall, rational utilization of foreign aid should be a matter of constant review.
- l. Country has witnessed several political upheals and our development efforts have received major setback. The internal political conflicts,

economic structure, corruption etc. have adversely affect our development process, volume of foreign aid, donor's perceptions, and effective utilization of foreign aid. so various reform programmes like structural reform, economic reform , administrative reform, etc. should be initiate for better utilization of foreign aid.

- m. As the level of foreign cooperation and assistance is important for Nepal, it is becoming equally important for Nepal to pay attention to the quality and composition of foreign aid.

Annex 1

Total GDP, Agricultural GDP, Total Foreign Aid and Aid to Agriculture in different Fiscal Years at constant prices (Base Year 1994/95).

Rs. In Million

Fiscal Year	Total GDP	Total Foreign Aid	Foreign aid as a % of GDP	Agriculture GDP	Agriculture Aid	Agriculture aid as a % of GDP
1978/79	19048	989.4	5.9	11480	227.4	1.98
1979/80	18606	1340.5	7.20	10933	220.6	2.01
1980/81	20158	1562.2	7.74	12066	322.6	2.67
1981/82	20926	1723.2	8.23	12492	454.3	3.63
1982/83	20642	2075.9	10.05	12175	599.2	4.92
1983/84	22172	2547.5	11.48	13240	757.6	5.72
1984/85	23050	2676.4	11.62	13717	1053.1	7.67
1985/86	30617	3491.5	11.40	16539	1298.8	7.85
1986/87	51081	3314.4	6.48	26562	1037.6	3.90
1987/88	69216	5078.5	7.33	34608	1226.3	3.54
1988/89	101214	5666.9	5.59	49595	1466.8	2.95
1989/90	132785	6427.1	4.84	66392	1489.7	2.24
1990/91	174908	5990	3.42	81320	1253.2	1.54
1991/92	183371	7800.4	4.25	80392	1945.4	2.41
1992/93	188780	9235.6	4.89	79631	1927.4	2.42
1993/94	204397	11557.2	5.65	86356	5519.1	6.39
1994/95	209976	11249.4	5.35	85569	3462.4	4.04
1995/96	221930	14289	6.43	88830	3399.6	3.82
1996/97	233040	15031.9	6.44	92706	2827.5	3.04
1997/98	240816	16457.1	6.83	93496	2852.1	3.05
1998/99	251758	16189	6.43	96151	3383.9	3.51
1999/00	267096	17523.9	6.56	100856	3209.8	3.18
2000/01	280106	18797.4	6.71	106380	3774.8	3.55
2001/02	280106	14384.8	5.13	108752	3285.8	3.02
2002/03	279169	15885.5	5.69	111471	2177.9	1.95
2003/04	287689	18912.4	6.57	115774	1774.9	1.53
2004/05	298023	23657.3	7.93	119212	1987.6	1.67
2005/06	312500	22101.9	7.07	121227	2345.6	1.93

Source: Various Economic Surveys

Annex II

Analysis table of Agriculture Aid to Agriculture GDP from FY 1978/79 to FY 2005/06 in Constant Price

Rs. In Million

FY	Total GDP	Total Foreign Aid	Lag Foreign Aid	Agriculture Aid	Agriculture GDP	Log lag Foreign Aid	Log Total GDP	Lag Agriculture Aid	Log lag Agriculture Aid	Log Agriculture GDP
1978/79	19048	989.4		227.4	11480	-	9.85			5.43
1979/80	18606	1340.5	989.4	220.6	10933	6.90	9.83	227.4	5.43	5.40
1980/81	20158	1562.2	1340.5	322.6	12066	7.20	9.91	220.6	5.40	5.78
1981/82	20926	1723.2	1562.2	454.3	12492	7.35	9.95	322.6	5.78	6.12
1982/83	20642	2075.9	1723.2	599.2	12175	7.45	9.94	454.3	6.12	6.40
1983/84	22172	2547.5	2075.9	757.6	13240	7.64	10.01	599.2	6.40	6.63
1984/85	23050	2676.4	2547.5	1053.1	13717	7.84	10.05	757.6	6.63	6.96
1985/86	30617	3491.5	2676.4	1298.8	16539	7.89	10.33	1053.1	6.96	7.17
1986/87	51081	3314.4	3491.5	1037.6	26562	8.16	10.84	1298.8	7.17	6.94
1987/88	69216	5078.5	3314.4	1226.3	34608	8.11	11.14	1037.6	6.94	7.11
1988/89	101214	5666.9	5078.5	1466.8	49595	8.53	11.52	1226.3	7.11	7.29
1989/90	132785	6427.1	5666.9	1489.7	66392	8.64	11.80	1466.8	7.29	7.31
1990/91	174908	5990.0	6427.1	1253	81320	8.72	12.07	1489.7	7.27	11.31
1991/92	83371	7800.4	5990.00	1945	80392	8.70	2.12	253.20	7.13	11.2
1992/93	88780	9235.6	7800.40	1927	9631	8.96	12.15	1945.40	7.57	11.2
1993/94	204397	11557.2	9235.60	5519	86356	9.13	12.23	1927.40	7.56	11.3
1994/95	209976	11249.4	11557.20	3462	85569	9.36	12.25	5519.10	8.62	11.3
1995/96	221930	14289.0	11249.40	3400	88830	9.33	12.31	3462.40	8.15	11.3
1996/97	233040	15031.9	14289.00	2828	92706	9.57	12.36	3399.60	8.13	11.4
1997/98	240816	16457.1	15031.90	2852	93496	9.62	12.39	2827.50	7.95	11.4
1998/99	251758	16189.0	16457.10	3384	96151	9.71	12.44	2852.10	7.96	11.4
1999/00	267096	17523.9	16189.00	3210	100856	9.69	12.50	3383.90	8.13	11.5
2000/01	280106	18797.4	17523.90	3775	106380	9.77	12.54	3209.80	8.07	11.5
2001/02	280106	14384.8	18797.40	3286	108752	9.84	12.54	3774.80	8.24	11.6
2002/03	279169	15885.5	14384.80	2178	111471	9.57	12.54	3285.80	8.10	11.6
2003/04	287689	18912.4	15885.50	1775	115774	9.67	12.57	2177.90	7.69	11.6
2004/05	298023	23657.3	18912.40	1988	119212	9.85	12.60	1774.90	7.48	11.6
2005/06	312500	22101.9	23657.30	2346	121227	10.07	12.65	1987.60	7.59	11.7

Source: SPSS

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