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C H A P T E R : X

FOREIGN AID AND RURAL DEVELOPMENT

In the Nepalese content, foreign aid is development and development is to a large extent foreign aid. Foreign aid has to be viewed not only from the volume of cash flow within the country but as a total package that comes with the cash flow : the Western concepts, assumptions, values, beliefs, advisory services, technical experience, expertise, manpower training and so on. As such foreign aid through development has been offered, presented and implemented inevitably borrowed ideas, approaches, strategies and programmes. The unselective approach and policy of the national government dominance to a stage of non-colonialism where the country becomes dependent, even to the extent of being organised in clearing its own streets and door steps.

Since the beginning of the 1950's the development goals have focused at different times on "agricultural development" "industrial development", the "balance growth" approach to development, "regional development", and more recently the approach has moved from "growth oriented" development to "equity oriented" development and finally to integrated rural development. A recent parallel factor in is "women is development. All these approaches to development have been adopted by the National

government and nurtured by domoes in Nepal without fully examining the canditions and forces with in the existing socio-economic structure of the society (1)

There are a number of apparent relationship between foreign aid and the poor in Nepal. The first major rural development project was launched with the support of foreign aid. The most obvious example here is the village development programme launched in the mid 1950's through the assistance of India and U.S.A. Prior to this, the record on officially sponsored programmes for the rural paor is far too murky and may be best left to the historians to clear. Secondly, Nepal's intractable poverty has been used as a major theme in recent efforts on external aid mobilisation, even if poverty is only a tranestry for other goals and objectives.

Before proceeding with the details, it is necessary to highlight one major limitation. Data related to foreign aid beneficiaries in Nepal is extremely scarce, for the poor even more so. Consequently heavy reliance has been placed on different types of qualitative inputs. Another important methodological points is that it is extremely difficult to identify a straight forward relationship between foreign aid and the par simply because of the large number of interacting domestic variables. In other words, every type of foreign aided programmes is subject to many different types of domestic influences and unless

these "distortions" can be cleaned. It may be very difficult to identify a clear cut link between the two.

In a macro-economic context, the conventional arguments for external assistance have focussed on three issues. External assistance helps to overcome the limitations on investments imposed by a domestic savings constraint. Through the availability of the increased level of investment resources it was assumed that developing countries would be able to achieve higher rates of economic growth with external assistance than would have been possible without external aid. Another argument used to highlight advantages of external assistance was that it overcomes import bottlenecks arising out of hard currency shortages. With limited export earnings, most developing countries have faced major problems of financing development imports. Under such a situation, external assistance can help. The third major area of advantage has been in the field of technology transfer, overcoming skilled manpower shortages and even the shortages of specific commodities. (2)

In Nepalese case, the contribution of external assistances towards financing the different development plans has been very significant. Though a sum of 700 million and

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250 million was made available respectively by India and the United States before launching the first plan - foreign aid has flown in a smooth way only service the first plan. The nature and volume of foreign aid in different plans is as following :-

The first plan (1956 - 61)

The first plan which was implemented in 1956 with the purpose to stimulate production, employment, standard of living and general well being through out the country called for an outlay of Rs.330/- million to be utilised on different heads respectively as :

- (i) transport and communication (33.8%)
- (ii) agriculture, forests, irrigation, land reforms (32.4%)
- (iii) industry, commerce and power (16.7%)
- (iv) social services (7.1%)
- (v) Miscellaneous (1%)

The following financial outlay was proposed in the first plan

Table proposed source of financial outlay in the first plan:

Source	Amount (in million Rs.)	Percentage
Internal	145	44%
Foreign aid	185	56%
India)	100	
USA)	25	
China)	60	
Total	330	100%

Source : First Five year Plan (1956-61) Published by HMG
Kathmandu (Nepal)

This table shows that 56% of the total outlay was estimated to be financed by foreign aid. However, due to lack of mobilisation of internal sources, Nepal's dependence on foreign aid increased even more in the course of implementation of the plan and it reached to 382.9 million of foreign aid and the total financial outlay of 330 million.

The Second (three year) Plan (1962-65)

Due to lack of administrative efficiency and development potentialities : the first plan failed to give a fillup to economic growth. Therefore the main objective of the second plan (three year plan) was to create an atmosphere required for the formulation and implementation of a more comprehensive plan in the future. Like the premars plan, this plan also aimed to expand production as well as necessary infrastructive for all sound development of the country. It gave priority for developing different sectors at transport, communication power, industries, social services and agriculture etc.

Though in this plan the Nepalese Government tried to reduce the dependency on foreign aid and to mobilise the internal resource, the major portion of financial resource

the major portion of financial resource required for the development programme was expeted from foreign donors. The projected sense of finance for the plan were as shown below in table :-

TABLE ESTIMATED SOURCE OF FINANCE FOR SECOND PLAN

SOURCE	AMOUNT IN MILLION Rs.	PERCENTAGE
Foreignaid	412.30	68.72
Internal sources	187.70	31.28
Total	600.00	100.00

Source : The three year plan (1962-65) published by HMG Nepal

As the above table shows about 70% of development expenditure was incurred by foreign aid and the total outlay on different sectors was utilised in the following manner. Transport and communication (23.9%), Agriculture irrigation and land reform (13.6%) Miscellaneous (13.2%) Industry, Commerce and power (32.2%) social services (18.1%). It is significant to note here that though decreasing tendency was seen in the ration (from 112.39%) in the first plan to 70% in the second plan, the total contribution was not less praise-worthy. The decline in the ratio might due to the mobilisation of internal resources.

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The Third Plan (1965-70)

The Third plan was launched in July 1965. With its total outlay of Rs.1740 millions, this plan was divided into three sectors- Public, Private and Panchayat. This plan laid stress on the exploration of internal resources to the extent of 50% of the national outlay, with the result that it reduced contribution of foreign aid to 53% only.

In the third plan, India contributed 57% followed by USA at 23% and China at 17% and remaining 3% was contributed by other institutional donors. Indian aid was utilised primarily for construction of roads and building hydro power projects. The U.S. aid was directed towards building roads and assisting National Industrial development corporation China helped in constructing the Kathmandu - Kodari Road, Kathmandu ring road and the Sunkosi Hydle Power Station.

The Fourth Plan (1970 - 75)

This plan had an estimated outlay of Rs.2570 million out of which Rs.1061 million was to be meet out by internal resources and remaining 1509 million was to be financed by foreign donors. Thus, this plan also could not ignore and dominate role played by foreign powers in economic development of Nepal, although the ratio of foreign aid decreased from 112.39% in the first plan to 58% in the fourth plan. A regards the contribution of individual

donors in the fourth plan, India contributed the greatest amount (45%) the U.S. (20%) China (16%) and others (19%) only.

The Fifth Plan (1975-80)

The basic objectives of the fifty plan were significantly different from the previous four plans. While the previous plans laid emphasis on development of infrastructure, the 5th plan awarded top most priority to the development of agriculture sector. Second priority in the resources allocation was given to social services and transport and communication was accorded third priority. The total outlay of the plan was kept 8870 million out of which 4240.08 million were to be met by foreign aid. (3)

TABLE FOREIGN ASSISTANCE IN THE DEVELOPMENT PLANS (rs. in million)

PLAN	FINANCIAL OUTLAY	FOREIGN AID	PERCENTAGE OF FOREIGN AID
First Plan	330	382.9	112.39
Second Plan	600	412.3	68.72
Third Plan	1740	319.8	52.86
Fourth Plan	2570	1509.0	58.72
Fifth Plan	8870	4240.08	47.81

Source : Shri Ram Poudyal, Impact of foreign aid on Nepal development, Monograph, CEDA, Kathmandu.

Thus so far Nepal has completed six development plans. These plans have all heavily relied on foreign aid to meet the resources gap. The magnitude of dependence, however, gradually decreased in the fifth plan 8% but shot up again to 60% in the 6th plan. On the average over the last 15 years, foreign aid appears to have met about 50% of the annual budget. In terms of aggregate amount during the last 15 years (1965-80) the country received foreign aid totalling Rs.6669.6 million, reflecting an average annual inflow of Rs.446.6 million. But despite this inflow of foreign assistance, the country has never been able to meet the targetted rate of growth in the course of planned development. The growth performance of the economy has been very slow, staggering by lower than in any part of the world.

TABLE FOREIGN AID IN FINANCING/DEVELOPMENT BUDGET (Rs. in million)

<u>YEAR</u>	<u>Foreign Aid</u>	<u>Development Budget</u>	<u>% foreign aid in development budget</u>
1965-66	178.6	280.2	63.6
1966-67	145.9	263.2	54.4
1967-68	158.1	281.1	56.3
1968-69	185.9	377.6	49.2
1969-70	251.3	464.7	54.1
1971-72	303.3	465.0	65.2
1972-73	227.6	608.6	37.4
1973-74	310.5	751.5	41.4
1974-75	386.7	967.2	40.0

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1975-76	505.6	1238.9	40.8
1976-77	556.9	1498.3	37.2
1977-78	848.4	1808.0	46.9
1978-79	989.4	1979.8	50.0
1979-80	1340.5	2308.6	58.1
	6669.6	13862.5	48.11

Sources : Budget speeches and Economic survey of various years(4)

Foreign aid has played an important role in the formulation and execution of different plans in Nepal. This also evident from other indicators from following table. For instance for external assistance as a percentage of GDP has risen fairly consistently during the last decade. It has practically doubled from 2.28% in 1972-73 to 5.69% in 1980-81.

Table given below also shows a number of other indications. Even though the external assistance and revenue also show fairly wide fluctuations, the increasing role of external assistance becomes fairly evident. After an all time low of 38.36% in 1974-75 it has reached an all time high of 89.74% in 1982-83. External assistance vis-a-vis development expenditure has also been increasing but with fluctuation. The shares are lower than those observed for revenue. The general impression derived from all three indicators is that external assistance is playing an important role in investment made by the plans. What

TABLE : SHARE OF FOREIGN AID IN GDP : REVENUE AND EXPENDITURE

Year	Foreign assistance in GDP	Foreign assistance in Revenue	Foreign assistance Total expenditure	Foreign assistance development expenditure	Aid development expenditure	Loan development expenditure
1970-71	3.39	66.08	39.39	65.19	58.21	-
1971-72	2.71	50.76	31.58	49.75	42.87	6.89
1972-73	2.28	36.46	23.16	37.40	29.62	7.73
1973-74	2.42	40.51	25.32	41.32	29.62	11.70
1974-75	2.33	38.36	25.25	39.98	29.24	10.74
1975-76	2.91	45.32	26.42	40.81	29.03	11.78
1976-77	3.22	42.10	23.90	37.17	26.20	10.97
1977-78	4.30	53.62	31.71	46.92	25.81	20.14
1978-79	4.45	54.61	32.76	50.00	30.29	19.71
1979-80	5.75	71.30	38.63	58.06	34.89	23.17
1980-81	5.69	64.57	38.17	57.20	31.82	25.38
1981-82	5.64	64.31	32.14	46.23	26.65	19.58
1982-83	-	89.74	39.49	52.14	23.11	29.03

Source : Economic survey - Ministry of finance

is not clear is the precise level of investments made each year a problem arising out of the very poor state of national accounting in Nepal.

Some other authors have attempted to relate external assistance with the level of investments. Legal showed in 1978 that external saving and investments assistance had not made a favourable impact on output, domestic savings and investments. A more recent paper by Rigal also draws a similar conclusion that external assistance's role in boosting the levels of investment has not been favourable. Both the authors agree that their estimations are subject to a number of limitations regarding the nature of the data.

Inspite of increasing levels of external assistance the economy has not shown very encouraging signs. Development expenditure levels have certainly gone up. But the effect on important productive sectors like agriculture and industry have not been evident. This lack of effect on output inspite of increasing levels of development expenditure could only suggest very high capital output ratio and projects with long gestation periods.

An examinations of the sectoral break down of external assistance may help to make up the picture clearer. But before that, the impact on foreign exchange availability, technology transfer and availability of skilled man power is to be checked. The role of external assistance on the overall

foreign exchange situation has been extremely favourable. Nepal's export earnings have not been able to meet more than seven (7) months imports. Deficit on balance of trade was continued to increase at an alarming rate. Had it not been for external assistance, the balance of payments would have not been as favourable as it had been until recently.

As regards the question of technology and availability of skilled man power through foreign aid the suggestions can only be speculative, given the lack of any type of analysis so far in this respect. It had been pointed out earlier that the absence of any change in output of major sectors could be due to high capital output ratios and long gestation periods of externally assisted projects. Both of these components can be related to the questions of the appropriateness of some of the externally assisted project technologies in Nepal. It is about time that some of these questions received the attention of the Govt. Regarding the availability of skilled man power, the situation is more likely to be a case of severe under utilisation of skilled that have been made available - giving the impression that Nepal has been flooded by foreign advisors. Unfortunately nothing more can be added to illuminate further these two areas of the present. (5).

The area where in Nepal has received most of its foreign aid is in the field of transportation and communication. Perhaps this sector is the only area where most of the donors have involved themselves. India, China, U.S.A., USSR and U.K. have undertaken road construction projects and there are some other interested in joining the list. In the early fifties Nepal had a total of 375 Km. of roads and there was no motorable road outside the Kathmandu valley, at present the country has nearly 5000 Km. of roads inter linking Nepal with India and China and connecting various regions of the country.

The transportation system has a positive impact on the socio-economic life of the kingdom since it has attempted to unlock the dynamic forces of development by facilitating transportation of inputs and outputs, mobility of people and eliminating of traditional socio-culture values detrimental to progress. Harka Gurang, the former Deputy Chairman of National Planning Commission also holds the view that the vicious circle of no-economic activity no road no economic activity can be broken by a simultaneous action of road construction and comprehensive planning of regional economic activities. Hence the construction of roads has been accorded priority in the first five year plan.

However, the development of transport net work has some negative impact also. Blaikie in his study reveals that the

provisions of road in the western Nepal have failed to breakout the low and stagnant levels of production but rather contributed to the decline of small scale indigeneous crafts blacksmiths, tailoring and shoe making by facilitating the inflow of cheap manufactured goods from India. This has put lower caste strata in severe economic hardship eventually forceing them to either seasonal or pre migrations.

Those who have gained more from the roads are bugeaucrats, land owners and merchants. To the government the highways have strengthened the internal security network. To the land lords and priviledged groups, highways have facilitated movement for reinforcing their position of power and education of their children. The merchant class have found a opportunity to start hotels and catering business along the stoppage panels of the roads. The majority of the rural farmers have been deprived of their traditional crafts and some sort of class conflict is being created between haves and have nots.

Thus despite the expansion in roads, the productive base of the areas opened by transport remains stagnant. This is a very unhealthy trend because in the absence of growth, the increasing inflow of foreign aid in this sector may prove fatal to the economy. (6)

Industrial development is considered as king in for the economic development of any country. Inspite of establishing

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some outstanding industrial projects with foreign assistance at Balaju Hetauda Patan which have facilitated new patterns in the industrial composition and the modern technology in the manufacturing activities, the overall achievement in this sector is more or less negligible. Consequently, its contribution to gross domestic product is only 5%, and only 1% of the total labour force is employed in this sector. In fact, despite, declaration of new industrial policy recently, the practices and policies of the government has not been encouraging to industrial development. The existing industries are not operating in full capacity due to various constraint. Most of the industries are at present operating at 60 to 70% of the rated capacity. Production of sugar, Cigarette, match, processed leather and role, cement, plywood and iron and steel products, declined by 24.4, 7.4, 15.4, 2.7, 7.1, 18.8 and 36.6 percent respectively during recently as compared to the previous year. Hopes had be placed in tourism and given promices but in the last few year no significant progress has been made.

The contribution of foreign donors in the domain of power development is very significant. Almost all the hydle power projects are fully assisted or partially coordinated by foreign donors. Some of the outstanding projects undertaken in this field are Trisuli Hydle Project, Sunkosi Power Project and Kulekhandi Hydle projects which have been entirely financed by external donors. At present the IInd phase of Designat Hydle Project

(14,000 Kms) and the second phase of Kulekhani (32,000 Kms) with the foreign assistance are under progress.

In the trade sector, Nepal's position is very alarming. Nepal's foreign trade deficit is increasing every year which perpetuates country's dependence on foreign aid. According to an official source, in the last fiscal year ending July, the total trade turnover with foreign countries including India was to the tune of Rs.6,237 million. While Nepal's imports amounted to Rs.6106 million its export is said to be sharply declining inspite of kingdom's efforts to diversify it.

As regards the overall sectoral distribution of foreign aid the largest share of external assistance 38.49% was incurred on developing transport and communication system in Nepal. Both India and China have contributed most of their aid in this sector. Next to transport and communication, Industry and power sector was given priority which accounted for nearly 25% Agriculture and irrigation sector was also not loose, sight off and it accounted for nearly 20% of foreign aid. The following table shows the sectoral distribution of foreign aid during the period 1956 - 80-

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TABLE : SECTORAL DISTRIBUTION OF FOREIGN AID (1956 - 80) (7)

Source	Foreign aid percentage
Transport and communication	38.49
Industry and power	24.42
Agricultural and irreigation	19.34
Social services	14.60
Others	3.15
Total	100.00

The following table reveals the sectoral disbursement of external assistance by major sectors. For the seven years for which data was available, the composition shows a number of interesting changes.

(a) The share of agriculture has more or less remained constant between 9 to 13%. It dropped to 4% in 1979-80 for some period reasons but has picked up again. In the last few years it has tended to increase slightly.

(b) The share of irrigation has continued to increase but not very significantly.

TABLE : DISBURSEMENT OF FOREIGN AID BY MAJOR SECTORS (Rs. in million)

Sector	1976-77	1977-78	1978-79	1979-80	1980-81	81-82	82-83*
Agriculture	50.7 (9.10)	76.2 (8.98)	83.3 (8.98) 8.42	54.6 (8.98) 4.07	139.9 (8.96)	181.7 (10.54)	464.6 (12.8)
Irrigation	36.2 (6.49)	46.2 (5.44)	121.9 (12.32)	133.0 (9.32)	148.7 (9.52)	200.7 (11.65)	433.2 (11.94)
Forest	10.0 (1.79)	24.6 (2.90)	9.4 (0.95)	31.4 (2.34)	31.8 (2.03)	70.6 (4.09)	108.5 (2.99)
Transport	254.8 (46.74)	286.2 (33.73)	338.4 (34.20)	480.1 (35.81)	412.0 (26.38)	415.1 (24.09)	558.9 (15.40)
Power	25.4 (4.55)	207.8 (24.49)	208.5 (21.07)	406.4 (30.32)	560.3 (35.87)	316.2 (18.35)	774.5 (21.35)
Communication	10.2 (1.83)	5.5 (0.65)	12.9 (1.30)	22.3 (1.66)	27.7 (1.77)	44.3 (12.57)	36.7 (1.01)
Industry & Commerce	91.8 (16.48)	68.9 (8.12)	30.6 (3.09)	76.6 (5.71)	69.7 (4.46)	143.9 (8.35)	431.6 (11.89)
Education	12.7 (2.20)	25.7 (3.02)	22.0 (2.28)	22.2 (1.65)	31.5 (2.02)	76.8 (4.45)	250.4 (6.90)
Health	24.1 (4.32)	34.8 (4.10)	46.9 (4.74)	29.6 (2.21)	47.6 (3.04)	74.9 (4.35)	158.4 (4.37)
Drinking water	22.5 (4.04)	19.5 (2.24)	35.2 (3.56)	38.5 (2.87)	31.4 (2.01)	49.1 (2.85)	92.8 (2.56)
Others	18.7 (3.37)	53.5 (6.31)	80.4 (8.12)	45.8 (3.42)	61.6 (3.94)	149.9 (8.70)	318.4 (8.78)
Total	557.1	848.4	989.5	1340.5	1561.9	1723.2	3628

Source : Economic Survey. Ministry of Finance.

* Estimates Figures in bracket indicate percentage.

- (c) Transport has been losing its share fairly rapidly for the entire seven years. If it had received 46% in 1976-77 today it has 15 - 40%
- (d) The power sector has gained substantially, but the gains have been quite erratic.
- (e) Industry and commerce were losing, but have managed to regain more recently.
- (f) Education has gained slightly.
- (g) Health has maintained an almost constant share.
- (h) Drinking water has experienced gains and losses.

It has been pointed out in the 5th five year plan document that a change in investment strategy from investments in infrastructure to the directly productive sectors was required if the economy was to have any growth in output. In addition, this would be possible if the investments were made in those activities in the directly productive sectors. The 6th plan has also advocated a similar line. Therefore, the above type of sectoral distribution which type of approach in a question. While there has been some change in a year to year basis, the composite figures do not suggest any such shift. Foreign aid has been very strongly biased towards physical infrastructure. For instance,

from the share of the sector for the total seven years, the transport and power have received just about 50% of the total assistance. If irrigation and communication is added, the percentage increases to 61.27%, while agriculture, forestry and industry and commerce have received 21.13% with the other sectors (health education drinking water and others) receiving only 17.60%. This total distribution does not seem to support the underlying objectives of the plan to shift investments to projects that can give quicker returns. Irrigation can be made an exception, although even here, two projects that have claimed the bulk of the resources are large, and their costs have exceeded the original estimates, and performance has been very poor.

Here two points are to be looked into i.e. first, the very high shares of physical infrastructure during the seven years reveals that plan objectives are not necessarily reflected to in the actual disbursement of foreign aid. This could be because of the almost total lack of flexibility to allocate resources, at the time when a new plan is being implemented. This is indeed a pardon but it is true because of the high levels of carry-over of projects from one plan to the other. This carry-over component is high because of incomplete projects from the previous plans and high levels of uncertainty about new projects included in the plans. It is also contributed to by the fact that infrastructure projects are relatively easier to

prepare, justify and administer, a fact that is critical in the contents of the government's generally poor project preparation capabilities.

Another major point is the question of expected benefits to the poor arising out of the sectoral disbursements patterns outlined above. Some benefits to the power groups cannot be ruled out in view of the large amount of construction involved in all these sectors. But it is difficult to say the benefits have been even reasonable. One study examining the case of construction workers in western Nepal points out. "In summary, the overall situation is one of base subsistence wages for long hours of work brought about through a combination of agencies, contractors, merchants and land owners, enforced by the state apparatus".

In terms of the benefits to the poor after the projects, it can generally be maintained that they are effectively included by the pricing mechanism and their income and asset holding positions. Most of the infrastructural benefits are based on the abilities to pay. While access to the other services are directly related to one's overall socio-economic status. The bulk of the poor are therefore at a great disadvantage to either participate or benefit from most of the development projects and it is therefore doubtful if the foreign aid so far has helped them in any significant and meaning full manner. (8)

Progress made in the field of education has been very discouraging with and without foreign aid. Official figures put the overall literacy rate of 24% after 3 decades of planned development. The new education system plan has run into major problems and the government seems unable to wriggle out of the tangle it has gotten into- Periodic directives by His Majesty the King have given it some focus, but given the poor capacity of the government to implement anything systematically and regularly, the problem of educational planning has become a serious one.

In 1982-83, the total foreign aid committed for the educational sector was Rs.250 million. Of this Rs.209 million was for the University (or higher education) alone. This is about 84% of the total foreign aid committed. Although it has not been possible to dig out the figures for the other areas, this level of involvement of foreign aid in higher education has been going on for some time and is expected to go on because the bulk of the aid is for programmes like the Institute of Medicine, Institute of Engineering. Whose development right from scratch cannot be expected to be completed in a matter of a few years.

In terms of some of the more specific projects in rural in the Koshi Hill Area Development Project a recent evaluation report points out that the project has not been involved in any significant manner to promote the development of the education sector. It has provided some material help in terms of roofing materials and help with construction.

In the Rasuwa-Nuwakot project education alone with health received the lowest priorities. In fact, education was left out altogether in the project design. Some funds were made available during the latter years to support one high school building. One hostel, roofing materials for some schools and furniture imported from Kathmandu was given to some of the schools. On the whole the evaluation report points out that the support of the education component was unsatisfactory, particularly since the overall literacy rates were very low.

Literacy seems to be one of the most discriminating social characteristics of the project. "In both districts (Rasuwa and Nawakot) the upper quartile has about four times the literacy level as the lower quantile. The ratio for Rasuwa-women is infinity because the lower quartile had no literate women. After five years of the Rural Development Project and about \$40 million of investment, literacy rates in the district are only half as much as the national average (11.7 in Rasuwa and 15.4 in Nuwahaat) and inequalities are very great.

The Integrated Hill Development Project shows some encouraging signs according to one evaluation report. The project contributed to the development of formal educations through scholarships to students, teachers workshops and schools

house improvements. The scholarship benefitted 551 students and the management has been sensitive to the needs of the disadvantaged 63 schools have received support for various types of improvements. The programme is non-formal education has also moved to support adult literacy and skill development training programmes. Over 200 extension agents have been trained in non-formal education and on the whole participation in the education programme seems to be high.

Moving to the west, the Rapti zone Rural Development Project included about \$1.4 million for education activities relating to school improvement, campus, teacher training, district level teacher training, adult education campus and scholarships for the poor. There has been some delay in getting the activities although adult education causes are beginning to have an impact.

The discussion of education in foreign aided projects suggests that although the concern for the poorer group undoubtedly exists, education is not the central thrust of the projects.

The bulk of the support has gone to the formal education system improving existing schools, teacher training and even scholarships for the disadvantaged group in contrast to different types of non-conventional literacy programmes. While some

attention has been directed to non-formal learning, it appears as a small part of the overall programme. The overall conclusion that the power group have remained virtually unaffected by foreign aid in the education sector sums to be quite apparent.

If the connection between foreign aid supported education programmes and the poor was weak, the relationship of the former with health of the poor is remote, at best. A major part of the effort has been directed towards the establishment of physical facilities without adequate support to the programmes to be launched from this physical infrastructure for the bulk of the rural poor, modern health services are non-existent for all practical purposes.

The Rasuwa - Nuwakat Rural Development Project allocated funds for the establishment of 15 health posts in the two districts, but after five year only one health post was complete according to the evaluation. Medicines for the health posts are centrally procured and the supply does not last beyond two-three month. Vaccination programmes have been started in a number of areas in the district. According to the evaluation study, people spend Rs.91 and Rs.111 for health per household in Rasuwa and Nuwakot respectively. This money goes mainly to traditional healths services more than anything else as people are compelled to seek the help of local healers.

In the Rapti Project, rural health was not a part of the project, inspite of the appalling lack of sanitation which is mandatory for the health and social life, remained untouched.

The KHARDEP Project has a very small health component with assistance in the central of small-pox and goiter. The proposed health post in Khankuta had not been started according to the evaluation report.

The immediate impact of IHDP's community health scheme must be judged to have achieved only relatively success and limited coverage.

Although the actual impact on the health of the poor of the above programmes may be more visible in the long run it is not evident today. Further more health concerns seems to be relatively limited in most of these projects.

It is a sad irony that in a country with such huge water resources, more and more sections of the population are begining to face the problem of the availability of even minimal amounts of drinking water at relatively reasonable distances. The general impressions of studies are that the average travel times for fetching drinking water has been increasing. The problem of water collection has hit hardest the women - mother

and daughters - because of their customary roles in fetching drinking water. In view of the increasing difficulties, improving rural drinking water supply has been emphasized by the government as well as different international bodies.

In the Rasuwa - Nuwakot project seventy schemes were proposed for Nuwakot to serve 1,05,000 people, but after five years there were only 21 drinking water projects completed. Similarly in Rasuwa out of the proposed 30 only 12 were completed. The evaluation study has some interesting observations, "well constructed village water supply systems are hard to find and they are exceptions. The break pressure tanks are either not constructed or badly constructed resulting in the break down of the system. The pipes are not laid down according to the specification so that they are either broken or cut into pieces by the local people for making broom handles or using them as torches for walking in night.

In KHARDEP Project 6 drinking water project were completed from a target of 23 of the three the evaluation study indicated that one had failed because of a dispute in water use and two others were working.

In IHDP Project has had a similar story although, because of the close supervision of the project, the problems are of lesser degree. Interestingly enough the biases in the current approach are fairly evident. According to the project evaluation

the poorer people on the whole face greater difficulties in receiving drinking water projects. Commenting on the problems of the neglected in the project area, the report points out "Facing an acute shortage of water in their area, some of the villagers tried to construct an irrigation channel. Even after 12 years of continued attempt they have not been able to complete it. and nobody as yet has intervened in it except the people in the settlement near the mouth of the canal who frequently cut off the water flow. To get a better idea of the extent to which the poorer group are actually served by the drinking water projects, the process adopted for deciding on the location of the drinking water project is worth highlighting. The village panchayat fills a request form which is sent to the district panchayat. Assisted by the LDO, the district panchayat evaluates the proposal and passes it on to the regional office of the Ministry of Panchayat and local Development. The system selected must have the joint approval of the regional office and the donor agency engineer (at least for UNICEF). The Ministry supplies all the materials and technicians while the community provides the unskilled labour. Special consideration is also given to special groups according to the system guidelines.

Bureaucratic system often develop very formalised systems for decision-making and in circumstances where the demand for services exceeds the resources available formal systems add the stamp of legitimacy to decisions even if they are arbitrary.

What the Pradhan Pancha recommends need not necessarily be in the interests of the poor. Given the domination of the local elite in all political posts, chances that drinking water projects for the poorer groups will be recommended are slim. The different tiers of security will invariably examine only the financial and technical details and not the distributive justice of project locations. It can therefore, be inferred that under the system the described above, the drinking water requirements of the poorer groups are unlikely to be articulated no matter how much emphasis is given to the needs of poor from the top, including the donors. Although it has been argued that the drinking water projects are heavily biased in favour of the local elites, it should be pointed out in all fairness that they are likely to reduce the excessive physical benders on the women (even if they are members of the elite) who have been with out doubt a major disadvantaged group in the Nepalese society. (9).

Support for the development of cottage industries in rural areas is one of these programmes that have been specifically launched in the name of the rural poor and yet the programme has been virtually monopolized by the rich. Implemented with the objective of supplementing the meagre agricultural incomes of the poorer groups of farmers and the landless, it has continued to lack of a target - focus and is fairly indiscriminated as to whom it supports.

In KHARDEP Area, the cottage industry development programme focused on training and developmenting a market outlet.

Although 47 farmers were trained, the lack of working capital has kept the majority of the trained idle.

Commenting on the Rapti project's Cottage Industry efforts the evaluation team points out that "there is a lack of imaginative approaches and reliance on a pattern of conventional activities. There is a heavy use of imported materials with some good exceptions. Markets are not clearly defined and developed. Earning margins are too low".

In IHDP, also the strategy is very similar programmes to trains people in weaving and knitting alongwith the possibility for loans were announced. It is stated that many of the trainees were poor. The evaluation points out, "To have fifty-one trained women as the output of the programme activity serves no useful purpose what so even, unless these people have a chance to practice the skills they have learnt. On the contrary, it is counter productive, as it, and quite rightly so, makes them distrustful of IHDP activities in general".

The Rasuwa-Nuwakot Evaluation study also makes a very critical appraisal of the cottage industry programme pointing out that trainees did not come from the most needy of the households, loom loans were inadequate, training was good but not adequately followed up, emphasis of weaving in cotton was wrong in Rasuwa and returns on the whole were lower than the prevailing wage rates. (10).

All rural development programmes have the objective of increasing gainful employment in rural areas through a variety of programmes. These programmes are expected to contribute to employment generation both directly and indirectly to contribute to employment generation is generated through different infrastructure related construction activities, through increases in gainful self-employment in private sector activities and through increase in agricultural concerned this is one area where they can benefit a great deal if programmes are carefully implemented to ensure minimum employment effects. Lacking in resumes of all other types, they have only their labour to sell and even this is becoming very difficult.

The Rasuwa - Nuwakot rural development project points out that the total man months of employment generated by the project was only 18,510 man months of which only 14% was paid and the rest was voluntary labour. In terms of the distribution of income quartilacs, following table shows the share of the different groups in the two districts.

TABLE PERCENTAGE SHARE IN WAGE EMPLOYMENT BY INCOME : *

	Lower	Middle	Upper	Lower	Middle	Upper
Share in wage employment	15.69	63.37	20.92	26.72	60.39	12.98
Share in total wages	13.54	65.87	20.62	18.36	58.65	22.97

* Wage employment need not correspond to just the project related employment. The shares of different groups can however be taken as being roughly valid for most projects in the area.

Source : Appendix table 4.9 DGO3 Vol. II

What is immediately evident from the above table is that the share in employment is more than proportionate to the share in population for the middle group which accounts for 50% of the population in the district. In terms of wages, the lower quarter is definitely the worst off in both the districts. The high share of the middle group clearly indicates the extent to which there is demand for employment in the hills. Given this type of demand from all sections of the population, it is indeed very important for projects to minimize their paid employment impact as far as possible. In relation to the size of the investment in the Rausara - Nuwakot project, the employment impact has been fairly small obviously not helping to improve the deteriorating economic situation of the rural poor in the two districts.

Data on employment generation from other projects - not just rural development ones is not available to present a more comprehensive share picture. There are however some general hints which indicate that the overall unemployment problems has not been

satisfactory handed. Employment generating infrastructural investments have tended to be very capital intensive. Second, major infrastructure development has been limited to a few areas only. Third, there has been a major concern voiced recently over the huge influx of more competitive and efficient Indian labour. Fourth, delay in project completion have not only reinforced the tendencies towards increased capital intensity, but have hurt employment - promotion as a result of delays in output - expected for various projects.

Given the poor performance of the economy, particularly the agricultural and export sector, it is evident that the unemployment problem will continue to worsen. The last estimate of the planning commission of 63% under employment in year ago. Now it has probably become a hopeless task given the crises resulting from economic mismanagement in the country. In all circumstances, it is the poor who suffers more because even under seemingly normal conditions; it is their lot to suffer for the privileges of the few. (11).

The importance of the extension and training in any rural development programme cannot be over emphasised extension and training cover practically every major field of rural development activities today. Before the rural population even sees any inputs or credit, they hear and contact the extension

agent and or the trainer. He is often seen as a "change agent" introducing workable ideas and innovation to the rural population explaining the mechanism and procedures for acquiring services from various institutions and he is a transmitter of the acceptance and impact of various policies and programmes to the central institution. In many cases he and his agent are the only contact points of the rural population to the development machinery of the government. The extent to which an extension agent can motivate people to accept improvements in production and resources management will very often determine the effectiveness of the programmes. His choice of the clientele is also central to the process of producing inter-group inequalities.

In so far as rural Nepal is concerned, there are a wide variety of extension agents and trainers. Agriculture livestock, community forestry, cottage industry, family planning, health, all have different types of extension systems. In some cases most of these extension activities may fall on one individual, while in others different individuals may be involved.

Although the field level information on the effectiveness of extension is very limited and it is difficult to determine the precise rate of return on different extension programmes, the experience of some of the foreign aided projects may be very instructive in identifying their effectiveness as well as their main target groups. Some of the assessments are as follows :-

1. Although training seems to be taking place, there is an outgoing struggle in most agencies between the need to train and the need to produce. Government agencies put pressure on personnel to finish projects rapidly (quantity is over emphasised) and training time is too often squeezed to a minimum. This is in part the consequence of an excessive pre-occupation with targets and expenditures as opposed to impace and quality results.

2. "The extension services as it exists goes to those farmers who are interested on their own to try out something new and are willing and capable to pay for the risks they take. The developmental inputs and resources get siphoned off to meet the interests of the local village elite while the needs of a poor man are often forgotten. In such a situation the extension agent JTAS and Turis alike are taken as successful only when they can act as sales agents. As a result, the vast majority of the rural poor - share - croppers and landless or near - landless and female farmers who have neither the capacity to take risks to try out their needs and aspirations, become marginalised and executed from the extension and other services supposedly brought to the area to help them."

3. "It is surprising to find out that the majority of farmers in both districts had not ever heard about the three main agricultural innovations related to their main crops. Levels of adoption

are consequently low and do not exceed 40% in any crop. This failure to even inform farmers (let alone promote the use of improved technology) indicates that the extension system has not been effective over the past five years".

These extracts from three different evaluation studies high lights the poor quality of the extension services, the inherent biases (against the poor) and the limited coverage. Certainly one cannot say that there have not been any successful extension service, but these are limited.

The review so far of different projects and their impact on the poor in terms of education, health, drinking water, pottage industry, employment and extension suggests that the poor have received only marginal benefits if at all. If on the one hand the power groups are scattered, disorganised, illiterate and weak, the mechanisms used in programmes for rural development facilities their monopolization by the rich. (12).

The foregoing observations reflect the Nepal is faced with a dilemma agriculture, the lead sector, is moving too slowly and the population is growing rapidly. This has naturally perpetiated the existing widespread a object proverty (13.)

Foreign aid started flaming systematically into Nepal right from 1951-52 to develop various sectors of the economy. It

has been growing fast over the last decade. The total amount of recorded assistance (disbursement) grew from Rs.227.6 million in 1972-73 to Rs.1510.0 million in 1980-81.

The amount of foreign aid to the Nepalese agriculture sector during the period 1951-90 cumulates at US \$ 57 million (Rs.832.2 million). A substantial part of this assistance was made during the 1960's accounting for nearly 4/5th of this total. During the period 1976-80, the agriculture sector received US \$ 78.5 million (Rs.1037 million).

Although the proportion of foreign aid disbursement to the agriculture sector has fluctuated within a short span of time, the absolute size of the assistance, has increased substantially. This reflects the country's desire for developing this sector and the liberal attitude of donors in providing assistance.

The main thrust of foreign aid to the agricultural sector has been to increase production. It has been channelised for the development of irrigation facilities, provision of inputs, machinery and equipment, for support services and infrastructure and for strengthening the institutional base in the field of extension research, training and planning.

The foreign exchange component generally constitutes more than 50% of the planned investment in agricultural projects. Activitywise allocation of it reveals that as much as 61% of expenses on fellowships, study tours and studies is funded out of the foreign exchange portion, while its share in planned outlay on direct investment, salaries and allowances and other expenditures stands at 57, 54 and 49 percent respectively. (14).

TABLE : AVERAGE SHARE OF LOCAL FOREIGN COST IN DIFFERENT COMPONENTS OF FOREIGN AIDED PROJECTS (PERCENTAGES) (15).

Project Components	Local cost	Foreign cost	Total cost
1. Investment	43	57	100
2. Salaries and allowances	46	54	100
3. Study, study tour, training, seminar etc.	39	61	100
4. Others (Office operations and contingencies)	51	49	100
5. Total project cost	44	56	100

Domestic retention of foreign aid, defined in terms of total committee funds less the amount going out of the country in the form of foreign expertise) also seems to vary among projects depending upon their nature. Domestic retention seems to be lowest in credit projects (about 2%) and highest in rural development project (about 66%)

Therefore, though the amount of foreign aid in Nepal appears to look substantial, a major part of it flows back to the donor countries or other developed countries from where capital goods are imported. In addition a large part of it is expended on ex-patriates. Such assistance has however not been able to develop soft wares within the country, and had led all the time to dependence on the outside for maintenance and even, in some cases for operation. (16).

TABLE : ESTIMATED DOMESTIC RETENTION OF FOREIGN AID COMMITTED UNDER DIFFERENT PROJECTS (U.S. \$)

Name of the project	Total project cost	Foreign aid	Foreign exchange cost	Domestic retention in %age *
Fourth agricultural credit project	20.10	16.10	15.80	1.86
Agricultural Research and extension project	20.80	18.10	13.40	26.24
Second JRD Project Mahakali	13.45	11.97	4.10	65.75
Commend Area Development Project	31.00	25.00	13.30	48.43
Total	85.35	71.96	46.60	35.24

* Percentage of total assistance committed.

TABLE : FINANCIAL ASSISTANCE BY SOURCE AND TYPE (U.S. \$ in million)

Projects	Experts and contracting service	Follow ship	Machinery & Eqpts.	Constru ction	Other	Tot al	Gov. al con tribution (%)
Sunsari Morang irrigation project	1.4 (3.7)	-	3.7 (9.9)	19.0 (50.7)	13.4 (35.7)	37.5 (100.0)	55.0
Command area Development Phase - I	12.0 (2.7)	0.2 (4.4)	0.9 (2.0)	21.8 (48.6)	20.8 (46.3)	84.9 (100.0)	62.4
SFDP (IFAD) Mahakali	0.4 (2.5)	-	2.6 (16.1)	0.2 (1.3)	12.9 (80.1)	16.1 (100.0)	80.00
Irrigation Project (Stage- I)	1.4 (7.2)	1.0 (5.1)	2.5 (12.8)	6.9 (35.5)	7.7 (39.5)	19.5 (100.0)	51.30

Note : The figures inside parentheses indicate percentage.

TABLE : TECHNICAL ASSISTANCE BY SOURCE AND TYPE 1983(US \$ in 000's)

Project	Experts & constructing services	Fellow-ship	Machin ery & equip-ment	Constru ction	Others	Total	Govt. con tribution (%)
Inst. support fourth agl. credit project	300	235	375	-	490	1300	159 (11.36)
APPOSE/FAO Training Project	240	90	40	-	210	580	57 (10,000)
ADC	1115	775	-	-	1440	3330	206 (6.14)
JCP	3830	1150	1235	487	128	6830	2480 (36.30)
Total	9415	2250	1650	487	2168	12140	5102 (21.23)

Note : Figures in parentheses indicate the percengage. (17)

The nature and administration of foreign aid also differ from donor to donor.

Generally there are three types of foreign aid viz., financial assistance, technical assistance and commodity assistance

Bilateral aid is generally in the form of technical and commodity assistance and forms the grant portion of aid, where as multilateral aid is generally in the form of loans for financial investment. Assistance from UN agencies is generally granted in the form of technical and commodity assistance.

Bilateral aid is generally controlled by the team leader designated by the donor and the same is true of UN agencies, where as the loan aid is administered by national project managers.

Bilateral aid, either in the form of grants or loans, is generally tied up with the donor's policy where as multilateral aid with the member countries.

If bilateral aid is in the form of commodities, import of commodities is must ehe prices of these commodities in such case is often an inflated one.

The achievement of the foreign aided agricultural project has not been particularly satisfactory. Reported inputs of foreign aid and technical assistance. People are becoming increasingly

about the effectiveness of external assistance in transferring appropriate technology so vitally for agricultural development.

Indeed, there is a need to analyse deeply the effectiveness and appropriateness of external assistance in the development and transfer of a suitable agricultural technology.

The donors, in their effort to develop agriculture, should endeavour to develop and transfer a technology that would best balance local relative costs, market sizes, local skills and managerial ability. There is frequent mention about the appropriate technology which should maximise the use of unskilled labour and encourage savings on capital and other scarce goods. But in practice this has not appeared in most of these projects. (18

Many of the externally assisted projects in agricultural sector have concentrated on building up physical facilities on the assumption that services that are expected to flow out of such facilities would be automatically forthcoming. This assumption in many cases has misled many donor agencies in the past in their understanding of the institutional base in Nepal. The result is that projects are no longer sustainable once external assistance is terminated.

This vaporising tendency of externally assisted project could be halted to a great extent if greater attention paid to the building and strengthening of institutions utilise the physical

facilities to effect a real increase in the levels of production and incomes.

There is an obvious lack of national and sectoral orientation in external assistance which leads to the situation where quite a few foreign aided projects do not really come into the national and sectoral context. This in turn brings concomitant adverse effects on the national economy.

This situation would be rectified only if the project quining foreign aid flowed from the sectoral planning process. For this to happen, it is crucial that the sectoral capability in the planning and implementation in enhance. In this context, the existing policy of involving ex-patriates at project and field level should be abandoned. Expatriate services should be limited to the department level only.

Similarly, the role of expatriates should be viewed in different dimensions. Firstly, one can as whether high-level expatriates are appropriate to the task in hand. Another important question is whether expatriates impact the real amount of knowledge and skills to the local staff so that later are able to perform the required task once these experts leave for home.

Development at this stage is based on utilising a relatively low technological base, and because the service of

of such experts are needlessly expensive high - level expatriates are not always necessary. There is a need for a higher level of interaction between expatriates and their national counterparts and that each side should view this interaction as a learning process. Transfer of knowledge and expertise should accompany the building transfer of knowledge and expertise should accompany the building up of local institutional capability with required manpower. Another important requirement of external assistance is that it should be the total view of the situation and should have inbuilt flexibility to adjust to the dynamic environment. Partial approach of the assistance e.g. concentrating on the physical infrastructive and restriction on financing recurrent and local costs, has some times led to difficulties in projects. These biases and restrictions should be minimised as far as possible.

Similarly, they are should be a shift in the composition of external assistance in face of programme assistance with long term commitment to maintain adequate flexibility in the utilisation of such assistance. Programme assistance rather than project assistance in the agricultural sider in general, and crops and animal development in particular, should from the basis of foreign aid.

A greater effort should also be made by the government to coordinate the various donors to avoid duplication of efforts. The government, rather than depending on the donors, should improve and expand its own planning, evaluation and monitoring capabilities to formulate, evaluate and appraise all programmes/projects. Finally, the government should make proper provisions to meet the initial capital requirement and manpower needs of the projects to avoid delay in its implementation. (19).

CONCLUSION

Nepal started planned system of development in 1950, and five periodic plans spanning a period of 23 years has been completed. These plans have all heavily relied on foreign aid to meet the resources gap. In the first plan (1950-61) 100% of development expenditure and about 1/4 of the government expenditure was financed by external capital. The magnitude of dependence, however, gradually decreased some what up to the 5th plan (1975-80) but shot up again to 60% in the 6th plan. On the average over the last 15 years foreign aid appears to have met about 50% of the annual development budget. In terms of aggregate amount during the last 15 years (1955-80), the country received foreign aid totalling Rs.6669.6 million reflecting an average annual inflow of Rs.444.6 million. But despite this inflow of foreign assistance, the country has never been able to meet the targetted rate of growth

in the cause of planned development. The growth performance of the economy has been very low staggeringly lower than in any part of the world. The world development report of 1980 depicts a very disappointing performance of Nepal during the 1970's as compared to other low income. Asian nations. The available data shows that during 1965-80, the average growth rate ruttet at 20% while the population growth rate was 2.2% (20).

In the present content of the economic situation in Nepal which is characterised by low income, low savings, low technical know-how and low productivity, there is no alternative but to fall back on foreign aid and to keep the pace of economic development on the move. It is an open fact that in an under-developed country like Nepal where domestic resources are not adequate to increase capital formation, productive capacity can be improved only if domestic resources are supplemented by foreign aid and investment.

There was a resource gap of 4.2% how this gap to be bridge up? If it is to be filled up by means further taxation. It is certain that the gap cannot be easily filled in by taxation alone in a poor country like Nepal where a majority of the people are underfed, under clothed and under sheltered. To what extent the people will be forced to make savings or if it is not possible

will the pace of economic development to be slowed down? This is also not desirable. The only solution to the problem of a viable development process in Nepal lies in securing adequate amount of foreign aid and its better utilisation. It is estimated that to attain self sustaining growth these should be the requirement of national income growth rate of 6.5 to 7% on annual net investment income ratio of about 23 to 24%. In Nepal where annual growth ratio of national income is about 3.2% and investment saving rates is 5.2% it is unthinkable that it can attain the self-sustaining growth without foreign assistance for many years to come. However, this is no dispute the fact that too much dependence upon foreign aid is also undesirable because sometimes easy access to foreign aid reduces the need of mobilising internal resources. (21).

There has been big concern both in donor and recipient countries about the effectiveness of foreign aid has been very ineffective in delivering the expected outputs.

The level of resources inflow required for a substantial and meaningful change in the developing countries is quite high. The amount that is flowing into the developing countries at present is meagre in terms of other requirement. But the growing conservatism in the donor countries has led to the shrinkage in will and imagination to offer a growing

developmental assistance. The flow is so small that it has only marginal effects in the recipient countries.

Gross inflows may be very deceptive. The assistance that developing countries receive covers with so many conditions in terms of material import requirements and expatriate inputs that the net flow is very low. In addition to this, the pay off to the local bridge heads in terms of contracts and material supplies siphons off so much, that the actual net investment is further reduced.

It has been empirically studied that the net investment out of the gross foreign assistance comes to only about 25%. About 10% of the total project's cost goes in terms of wages and this is the only benefit that the majority of the poor receive the actuality.

Almost all the foreign aided profits are either directly located in the urban centres or in the close vicinity of such centres. Further more, most of the projects are centrally managed. The ultimate result is that the beneficiaries are the urban elite and urban well to do contracts. The poor and the down trodden are basically left out for all practical purposes.

If it continues, it is indeed a real danger in as much as it retards economic development of the country. Therefore

persistents and consistent efforts should be made to mobilise domestic resources alongwith foreign aid for the rapid economic development of the country. And foreign aid should be regarded only as temporary palliative to generate the process of economic development and not as a permanent factor in the growth of the country. (22).

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