

# Foreign Aid and Agricultural Development in Nepal

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## Abstract

The history of foreign aid for agricultural development began in 1951 under the Point Four Program of the United States to strengthen Nepal's democratization process and human resources development. Answering the questions related to the trend of foreign aid inflow, its impact on the development of the agricultural sector and the contribution of the agricultural sector to Gross Domestic Product make the theoretical framework of the paper. Secondary data analysis was the method employed to seek the answers. The results suggest that the per capita total outstanding debt was NPR 50,000 in FY 2076/77 BS, foreign aid and its disbursement increased over the period of 5 years, but its functional use in the agricultural sector had declined sharply to 1.1% at the end of the five years. The agricultural sector had the lion's share of 25.12% of total GDP in 2076/77 BS. The production status of rice and other cereals has increased slightly but not significantly. However, rice import has increased sharply (788,492 mt) at the end of FY 2076/77 BS, i.e., 36.6 times more than the 22,802 mt at the beginning of FY 2072/73 BS. Even then data shows a positive relationship between the inflow of foreign aid and the development of agriculture in Nepal, foreign aid is inversely related to the import of rice during the time of the studied period.

*Keywords:* Foreign aid, agriculture, rice, import, development

## Foreign Aid in Nepal

Foreign aid has been recognized as the most crucial factor in enhancing the overall economic development of a country, especially in meeting basic needs, reducing poverty and even addressing financial crisis. Foreign aid means resources given by developed countries and international organizations to developing countries to help them with their welfare and well-being (Pandey, 2017; Thapa, 2017).

Nepal has been receiving aid for its development from different sources such as bilateral and multilateral agencies. Its history can be traced back to 1937 when the country was badly hit by the massive earthquake. At that time main donors were the US and India (Kaini, 2020). However, the first international development

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cooperation was formally initiated under the Point Four Program of the US on January 23, 1951. Its sole objective was to strengthen Nepal’s democratization process and human resources development (Bhandari, 1985). The Tribhuvan Village Development Program that was launched nationwide was the first US-aided project on rural development in Nepal (Pradhan, 1985). The grant money totaled USD 22,000. Foreign aid later arrived from China in 1956 and from the Soviet Union in 1959 (Thapa, 2017). The US grant was received during the time of its 33<sup>rd</sup> President Harry S. Truman. It played an important role in rallying the forces of the overall development and well-being of people in Nepal (Thapa, 2023).

In this context, this paper has been conceptualized to understand the relationship between foreign aid and the development of agriculture in Nepal. Since the concepts of these two topics are broad, the paper is confined to focusing only on the following three questions:

1. What is the trend of foreign aid inflow in Nepal?
2. What is the contribution of the agricultural sector to GDP?
3. What is the overall impact of foreign aid on agricultural development?

### Methodology

Data was collected from the economic surveys published annually by the Ministry of Finance and the Foreign Trade Statistics of the Department of Customs for the period from FY 2072/73 BS to FY 2076/77 BS. The analysis of these secondary data was done using simple statistical techniques together with a quick review of some documents. The results are presented in tabular forms.

### Selected Macroeconomic Characteristics

The per capita outstanding debt in FY 2072/73 BS was NPR 22,721 but increased by 2.2 times at the end of 5 years i.e. NPR 50,002 in FY 2076/077 BS (Details in Table 1). Currently, the estimation of the per capita total outstanding debt is NPR 70,612 (Ministry of Finance, 2023).

In FY 2076/77 BS, the per capita GDP was USD 1,167 whereas per capita Gross National Income (GNI) was USD 1,180. In the same year the per capita Gross National Disposable Income (GNDI) was only USD 1,475 (Ministry of Finance, 2023).

**Table 1: Per capita total outstanding debt (in NPR)**

Fiscal Year	072/073	073/074	074/075	075/076	076/077
Per capita total outstanding debt	22,721	25,022	32,599	36,910	50,002

Source: Economic Surveys (2079/80: Macroeconomic Indicators)

### Inflow of Foreign Aid

Table 2 shows the approval, disbursement and utilization of aid for 5 years (i.e. FY 2072/73-2076/77 BS). Both approved and disbursed amounts have been increasing over the years while that of utilization in the agricultural sector is significantly decreasing.

According to the table, the amount of aid approved (committed) by the government for FY 2073/74 was NPR 195,600 million. Some 37% of it was disbursed, of which only 7.25% was utilized in the agricultural sector. The approved amount increased to NPR 219, 880 million in FY 2076/77 BS. The actual increase was NPR 14,250 million (Ministry of Finance, 2023).

As far as the disbursement is concerned, the amount increased from 37% in FY 2072/73 BS to 64% in FY 2076/77 BS. However, the utilized amount in the agricultural sector decreased to 1.1% in FY 2076/77 BS from 7.1 % (NPR 5280 million) in FY 2072/77 BS (Ministry of Finance, 2023).

**Table 2: Trend of foreign aid: Approval, disbursement and utilization (NPR in million)**

Fiscal Year	Approved Amount (1)	Amount Disbursed (2)	Use of Amount in Agriculture (3)
072/073	195,600	72770 (37%)	5280 (7.25%)
073/074	250,240	99,850 (40%)	5250 (5.25%)
074/075	202,000	131,550 (65%)	3730 (2.8%)
(2075/076	138,260	147,270 (73%)	1660 (1.1%)
076/077	219,880	139,700 (64%)	1490 (1.1%)

**Source:** (1) Economic Survey (2079/80): (1) Annex 2.8, (2) Annex 2.7, (3) Annex 2.9)

The agricultural sector (which includes agriculture, forests and fisheries) has a lion's share of about one-fourth of the GDP. Table 3 shows that in FY 2072/73 BS, its share was 28.43%, which went down to 25.12% in FY 2076/77 BS. In the current fiscal year, it is estimated to be at 24.12% (Ministry of Finance, 2023).

**Table 3: Share of GDP by agriculture sector**

FY	072/073	073/074	074/075	075/076	076/077
Share of agriculture to GDP (in %)	28.43	26.81	25.63	24.92	25.12

**Source:** Economic Surveys (2079/80: Annex 1.12)

## Foreign Aid & Agricultural Development

Attempts have also been made here to look at the states of rice production, rice import and other selected indicators of agricultural development. First, a look at the rice production situation in Nepal in terms of area, yield and productivity. The time-series data of 5 years in Table 4 show that there is an increase in area by 7%, yield by 13%, and productivity by 0.65% between the FY 2072/73 BS and FY 2076/77 BS. Similar patterns can be seen in maize, wheat and cereal crops (rice, maize, wheat, oat, buckwheat and finger millet) (See Table 4 for details).

**Table 4: Trend of rice and cereal production**

Crops	Indicators	FY 072/073	FY 073/074	FY 074/075	FY 075/076	FY 076/077
		(2015/16)	(2016/17)	(2017/18)	(2018/19)	(2019/20)
Rice	Area (ha in 000)	1363	1552	1470	1492	1459
	Production (mt in 000)	4299	5230	5152	5610	5551
	Productivity (mt/ha)	3.1	3.3	3.5	3.8	3.8
Maize	Area (ha in 000)	906	871	849	928	882
	Production (mt in 000)	2067	2179	1999	2283	2145
	Productivity (mt/ha)	2.2	2.5	2.3	2.4	2.4
Wheat	Area (ha in 000)	767.0	765	759.0	754.0	762
	Production (mt in 000)	1746	1846	1882	1883	1975
	Productivity (mt/ha)	2.7	2.1	2.5	2.5	2.6
Cereal	Area (ha in 000)	3,306	3,519	3,429	3,450	3,421
	Production (mt in 000)	8,614	9,772	10,009	10,686	10,935
	Productivity (mt/ha)	2.6	2.8	2.9	3.1	3.2

**Source:** Economic Survey (2079/80: Annexes 2.9, (2) 7.1)

Another indicator is rice import to Nepal. Rice has been imported from India, China, the US, Vietnam, Thailand, Indonesia, Italy, Japan, the Philippines, Korea and many other countries. The term rice is used by the Department of Customs for tax purposes, and therefore, it includes rice in the husk, husked rice, semi-milled rice (polished or glazed) or broken rice. Technically, the paddy means specifically

the standing crop of rice (Department of Customs, 2020).

The data in Table 5 show the use of aids in the agricultural sector going slowly down to 1.1 % from FY 2072/73 BS to FY 2076/77 BS. However, the quantity of rice imported in FY 2072/73 BS increased by 25.9 times in the second year and after four years in FY 2076/77 BS, it further increased by 34.6 times (Ministry of Finance, 2023).

The table shows the inverse relationship between rice import and grant utilization in the agricultural sector. In other words, the use of grants decreases while the import of rice increases sharply. Nevertheless, one should be cautious in interpreting these data as we have an open border with India. Rice in the season informally goes there from various outlets and is brought back to Nepal, which is, in both cases, not accounted for. So much so that even the bits and pieces of broken rice are included in the category of rice.

**Table 5: Relationship between the use of grant and rice import**

FY	Use of Grant in Agri. Sector (1)	Rice import (in mt) (2)	Increase in Import
2072/073	7.25%	22,802 mt	
2073/074	5.25%	590,198	25.9 times
2074/075	2.8%	743,390	32.6 times
2075/076	1.1%	769,568	33.8 times
2076/077	1.1%	788,492	34.6 times

**Source:** Economic Survey (2079/80): (1) Annex 2.9); Department of Customs (2077)

Similar patterns can be seen in other indicators as well. For example, the sale of fertilizers has gone up from 258,914 mt in FY 2072/73 BS to 400,541 mt in FY 2076/77 BS (Annex 7.5). The sale of improved seeds also grew from 24,950 mt in FY 2072/73 BS to 33,803 mt in FY 2076/77 BS (Annex 7.12). Similarly, 1,853,885 mt of milk was produced in FY 2072/73 BS and it increased to 2,309,000 mt in FY 2076/77 BS (Annex 7.11). The supply of agricultural credit by banks & financial institutions increased from NPR 78,790 million to NPR 225,770 million in 2076/77 BS (Annex 7.14). The number of small farmer groups has also increased tremendously from 77,378 in FY 2072/73 BS to 1,20,337 in FY 2076/77 BS (Annex 7.15). Likewise, the number of employments generated by the agricultural sector also increased annually from 64,544 in FY 2072/73 BS to 113,510 in FY 2076/77 BS (Economic Survey 079/80, Annex 7.15) (Ministry of Finance, 2023).

## Conclusion

The study is based on the data that are presented in the government's annual economic surveys of various years. Despite problems and constraints, the indicators of agricultural development have shown positive signs and indications even though the utilization of foreign aid has decreased over the years. The results, based on secondary data analysis, indicate that the agricultural sector had the lion's share of 25.12% in total GDP, although decreasing over five years in FY 2076/77 BS. In FY 2072/73 BS, it was 28.43%. The expectation for this running fiscal year is 24.1%, which is even lower than that of FY 2076/77 BS. The macroeconomic indicator shows that the per capita total outstanding debt in FY 2076/77 BS is NPR 70,000 as compared to NPR 50,002 in FY 2076/77 BS.

Rice has been the number one imported grain in Nepal. In comparison to the data of FY 2072/73 BS, when the quantity of rice imported was 22,802 mt, the import increased by almost 34.6 times higher i.e. 788,492 mt in FY 2076/77 BS. Most of the rice was imported from India (Foreign Trade Statistic: Annual Statistics of FY 2079/80).

Foreign aid over the years (FY 2072/73-FY 2076/77) grew slightly but not significantly, and it was positively related to rice production (in terms of area, yield and productivity). Similarly, the selected indicators (sale of fertilizers and seeds, milk production, credit given by banks, number of small farmer groups and employment generation) of agricultural development are also positively related to the inflow of foreign aid. However, it is negatively related to the growing rice import in the studied period of FY 2072/73 BS.

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