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Foreign aid to Nepal–Past and Present: with Reference to U.S. Assistance

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1. INTRODUCTION & SUMMARY

Foreign assistance has been a crucial factor in Nepal's overall development. However, in light of the recent declining rate of growth in domestic revenue, it is but natural that donors should be concerned with the country's absorptive capacity, which is greatly limited by shortage of skilled people, construction materials, medical supplies and an increasing responsibility of HMG to maintain projects terminated by donor countries. These factors may combine to have an adverse effect on new development programs. Therefore, donor countries may be called upon to explore possibilities to extend assistance to include not only the economic development but also some components of the regular budget. In view of these factors, HMG's dependence on foreign assistance will be steadily increasisng in the future as indicated in Table I which shows the share of foreign assistance in Nepal's development budget. For the most part the figures of 1965/66 constitute our base year for comparison in this article. This was arbitrarily selected. Use of another base year would result in varied growth and distribution rates.

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Table I

Foreign Aid As a Percentage of HMG Development Budget

1975/76	40.8
1976/77	37.2
1977/78	46.9
1978/79	50.0
1979/80 Original Estimate	63.2
Revised Estimate	58.1
1980/81 Original Estimate	60.0

Source : Budget Speeches, Ministry of Finance, HMG.

2. FOREIGN AID IN THE DEVELOPMENT BUDGET

1. Since the initial launching of HMG's development plan in 1956, Nepal has depended heavily on finance provided by foreign donors. At that time over 80% of annual total development expenditures were financed by foreign assistance.By the Fourth Plan Period (1970/71–1974/75) this share had dropped to an annual average of 45%. However, for the last year of the Fifth Plan (1979/80), this share has been estimated at 58%. The budget for 1980/81 estimates that 60% of development expenditures will be financed through foreign aid. (Source: Budget Speech 1980/81)

2. According to HMG budget procedures, all foreign aid to Nepal is utilized to promote only development budget projects and programs. Mathematical manipulation of annual budget data varify this.

Development Expenditures = Tax + Non-Tax Revenues (Royalty and sales of Govt. assets, receipts from sales of commodities and services, charges, fees, fines and forfietures) – Regular Expenditures + Foreign Assistance + Internal Loans + Cash Drawings.

Tax plus non-tax revenues have always produced a surplus of revenue after deduction of the regular budget expenditures As long as that condition continues there is no reason to believe that foreign aid is used to directly finance the regular budget. However, to the extent that aid donor permits HMG to use its funds for the domestic regular budget purposes instead of development, it is true. If there were no foreign aid funds available to Nepal, it is assumed that the regular budget would have to be reduced if development efforts were to be implemented.

3. At the beginning of each annual budgetary process, the Ministry of Finance sets expenditure ceilings on the amount of funds each ministry may utilize. These ceilings are for otal budgetary expenditures, including both regular and development type activities. The level of expenditures allocated is determined on the basis of the estimates of income and expenditures submitted by appropriate government offices and scrutinized by the Ministry of Finance. Subsequent to budget approval by the Rastriya Panchayat (Nantional Legislature), the budget's grand total cannot be exceeded. However, there is flexibility within the budget such that a ministry's authorized level of expenditures can be changed by shifting allocations from one ministry to another, with the appproval of Ministry of Finance. Because of flexibility within the budget there is no evidence that the ceilings have ever interferred with the flow of foreign assistance o development endeavours. For example, if additional unexpected foreign aid becomes available for on-going projects after the annual budget has been approved by HMG and the grand total of authorized expenditures cannot be exceeded, but the following alternatives are possible:

a. When foreign aid commitments to a particular project are not actually fully funded by a donor, newly available donor aid that is targetted for other projects in excess of the original estimate may be utilized and the authorized limits on those projects exceeded while the overall budget maximum is not, with the approval of the Ministry of Finance.

b. The Miscellaneous and Contingency categories in the Development sector of the annual budget include allowance for the possibility of extra (not currently available) funds becoming available at a later date. This contingency and miscellaneous allowance is considerable equivalent to approximately Rs. 50 million, about 1.46% of the total budget in the FY 1980-81 budget—and thus should be adequate to allow legal utilization of unexpected revenue flows. However, projects can be included in the budget only after the National Planning Commission has approved them.

c. There is a category in the Auditor General's Report but not included in the data released by Finance Ministry, *"Foreign Assistance Received and Spent By Projects Not Included in the Budget,"* which could either account for funds available after the budget has been approved, or commodities and technical assistance which are usually not included, in the budget, or both. The ammount in this category for 1977/78 was Rs. 223.60 million ($ 18.79 million), in foreign grants and loans. Therefor, it must be stressed again, that at present, the budget ceiling does not restrict the flow of foreign assistance even after the budget has been approved. However, some interesting questions are generated: (1) This raises a question of how important is it to obtain budget approval for donor assisted projects? (2) Does this system create a bias to over estimate foreign aid? (3) The ceiling could pose a serious threat to the use of newly added foreign assistance in any one year if estimated expenditures were close to actual expenditures. This situation could make the inclusion of foreign assistance available after budget approval not possible.

Table II

Actual Versus Estimated Annual HMG Budget Exqenditures

	Million Rs.	Million $	% of Expenditure Under Spent
1974/75			
Original Estimate	1740.9	146.0	
Actual	1513.7	127.0	13.05
1975/76			
Original Estimate	2146.9	180.0	
Actual	1913.4	161.0	10.88
1976/77			
Original Estimate	2606.6	219.0	
Actual	2330.4	196.0	10.60
1977/78			
Original Estimate	3087.4	259.0	
Actual	2674.9	225.0	13.36
1978/79			
Original Estimate	3752.8	315.0	
Actual	3020.8	254.0	19.51

Source: Budget Speeches, Ministry of Finance, HMG.

However, Table II reveals that actual expenditures have not kept pace with that of the planned amount. Since the amount underspent is considerable, (annual average rate of 13.48% from 1974/75–1978/79), extra funds available after the budget has been approved can be easily adjusted to take the place of the unmet funds.

B. Annual Increases and Sources

1. The growth rate of foreign aid (loans plus grants) to Nepal was 10% annually during the Forth Plan period, and since 1974/75 it has grown at an average rate of 28% annually. The growth rate for 1977/78 alone was 54% and in 1978/79 it was 15%. At present, major foreign aid donors to Nepal include 9 major bilateral sources and 5 major multilateral sources (Table IV). The share of Bilateral aid in the total was 54% while that of multilateral was 46% in 1978/79. The multilateral share of total aid has been steadily increasing, since the last 11 years. In 1972/73, multilateral assistance was Rs. 25.2 million ($ 2.40 miilion); it was Rs. 941.4 million ($79.11 million) according to estimates for 1979/80.

2. Thirteen years ago (1965/66) 95.31% of the donor aid to Nepal came from three countries, India, the U.S.A. and China (See Table IV), but in 1979 these three countries contributed enly 21.9%. In this 13 year period India's share of total foreign aid has decreased from 53.1 percent in 1965/66 to just 12 percent in 1978/79. Most of this percentage drop is merely relative and is accounted for by the the substantial annual growth of foreign aid coming from other sources, particularly the multilateral donors.

3. The U.S.A.'s share of foreign aid is also down from 33.0% in 1965/66 to 5.5% in 1978/79. The actual amount of foreign aid disbursed also declined in 1978/79 compared to 1965/66. The foreign aid from the U.S. decreased during 1971–1975, but since 1975 it has been increasing (See Table VIII). From 1957/58 to 1964/65 the U.S. had been the biggest aid donor. Since then, it has moved to the second position, ranking after India. However, in 1978/79 its position has moved even further down (Table IV).

4. The most significant growth in bilateral foreign aid has been from the U.K., which in 1978/79 has taken the U.S.A.'s previous position, as the second largest donor. The U.K.'s assistance has been growing every year, since it started providing aid in

1967/68. In recent years assistance from Japan has been increasing rapidly. Additionally, Switzerland, Kuwait, and Germany have become noticeable donors. In 1978/79, the share of total foreign aid supplied by these five countries was 28.90% (See Table IV).

However, the above mentioned growth rates and percentage distribution would differ, if different years were chosen for comparison. When foreign aid figures are added up according to Five YearPlan periods, so as to get a total picture, it is apparent that the U.S.A has moved from the first and largest aid donors in the First and Second Plans to the fourth position in the Ffth Plan. Countries presently extending greater bilateral assistance other than the U.S., are in order, India, the U.K. and China.

5. In 1965/66, foreign loans played a minor role in Nepal's development expenditures– just 1% of foreign aid. Now the role of foreign aid loans in meeting Nepal's resource deficit is vital, and their share of the development budget in 1980/81 is estimated at 29%. Combined with an additional 31% from foreign grants, the total for foreign aid is 60% of the development budget. (Source; Budget Speech 1980/81).

U.S. assistance over this thirteen year period has been primarily in the form of grants. Similarly, two other countries' assistance has been totally in grants–Canada and China. Bilateral assistance from other sources has been in terms of both loans and grants.

6. World Bank data, regarding the flow of official development assistance to Nepal, show that as of 1977/78, project aid and thchnical assistance continue to constitute 95% of all foreign aid, (Table III). However, the lack of a favorable annual monsoon in Nepal, domestic dependence on imports, and the combined effects of a high population growth rate with stagnant agricultural growth, may well be sufficient to significantly alter this distribution over the next few years. In that case, food and commodity aid could assume an increasing share of total official assistance to Nepal.

Table III

Estimated Total Aid Disbursements-1977/78

	Amount U.S. $ Million	Percent
Project Aid	63.5	56.9
Technical Assistance	42.8	38.3
Food Aid	3.0	2.7
Commodity Aid	2.3	2.1
Total Disbursements	111.60	100.0

Source; World Bank, Nepal Development Performance and Prospects, Report No. 2692–NEP of 12/4/79, Table V-1, P. 61.

Table IV

Foreign Aid to Nepal – Actual Expenditures

	1965/66		1978/79	
	Mill. $	% of Total	Mill. $	% of Total
A. **Bilateral**	23.05	100.0	45.28	54.5
India	12.24	53.1	10.20	12.3
UK	–	–	9.61	11.6
Japan	–	–	6.25	7.5
USA	7.60	33.0	4.60	5.5
China	2.13	9.2	3.39	4.1
Kuwait	–	–	2.99	3.6
Switzerland	–	–	2.86	3.4
Federal Republic of Germany	–	–	2.32	2.8
Canada	–	–	0.80	1.0
Others	1.08	4.7	2.26	2.7
B. **Multilateral**	–	–	37.87	45.5
IDA (IBRD)	–	–	17·08	20.5
United Nations (UNCDF, UNDP, UNICEF, WHO)	–	–	7.64	9.2
ADB	–	–	7.47	9.0
WFP	–	–	3.26	3.9
OPEC Fund	–	–	1.39	1.7
Others	–	–	1.03	1.2
Total	23.05	100.0	83.16	100.0

(Note: The selection of 1965/66 as a base year for comparison is arbitrary. The use of any other period as base will undoubtedly modify the results and the increases/decreases attributed to individual bilateral/multilateral sources.)

(Source: 1965/66 Budget Speech, 1978/79 Economic Survey, 1980)

C· Foreign Aid and Growth Investment Requirements

1. In order to achieve the high rates of economic growth envisaged in HMG's Sixth Five Year Plan, it is absolutely essential that investment through the development budget continue to increase annually at a substantial rate. To finance this, domestic revenue, as well as foreign assistance, must be steadily increased. Domestic tax and non–tax revenues declined in 1979/80, due primarily to "referendum year" politics. Beginning with FY 1980/81, new tax measures (taxable items have increased) and tax rate revisions (excise duties, customs duties and sales have been raised) were introduced to raise domestic revenues. The tax changes are expected to bring an addition of Rs. 236.4 million ($ 19.87 million) in 1980/81. (Source: Budget Speech 1980/81). Despite these increases, HMG may be concerned that it will not be able to contribute its required 25–30% share of the total cost of foreign assisted development projects. This anxiety was expressed in the FY 1980/81 *Economic Survey*, published by HMG. Thus, in the future this could cause a further problem in the mobilization of external resources.

2. The development priorities set by HMG include :

   a. increase agricultural productivity (especially in the Hills);
   b. population control programmes;
   c. development of bio–gas and the harnessing of Nepal's water resources; and,
   d. increased coordination between the public and the private sectors.

   Judging from domestic & foreign analysis of the country's present situation, the above objectives are of the right choice. Despite heavy investment in agriculture in the past, yield per unit of land has actually declined. Total productivity has increased only due to expansion of cultivated land. Because of the increased demand for food it is predicted that Nepal will be importing food in the future. Increased population has contributed to this situation and has also caused deforestation and soil erosion. The U.S. Aid strategy of concentrating in Population/Family Planning, Resource conservation and Rural Area Development is closely in line with HMG's priorities.

3. Thirteen years back (1965/66), the growth of budget revenue was 13% while the growth in expenditure was about 22%. In 1978/79 expenditures increased at a rate

of 13%, while revenue increased at a rate of 15%. In 1979/80, expenditure is estimated to have increased at a rate of 17% while revenue is estimated to have declined by 4%. This growth in total expenditure is not the result of growth only in development expenditures. In the first four years of the recent Fifth Five Year Plan, regular expenditures increased at an annual average rate of 18%, while growth of development expenditures was at 20%. With the resulting low rate of growth in economic development, we assume that if Nepal is to achieve any degree of economic development, then the country will need to sustain these high expenditure growth rates as a minimum.

4. The foreign aid share of recent annual development budgets has bee in the range of 50–60% (see Table I), and there are strong indications that its share will continue to remain this high in the future, given the fact that HMG domestic resources are not expending commensurately. It is not possible for HMG to maintain the present rate of divelopment from internal resources only. The expending regular budget of HMG, in conjunction with the standard donor requirement that HMG supply 25–30% share of the development budget, places constraints on the mobilization of external resources. The World Bank is calling for future financial assistance to be in the form of non–Project aid. Therefore, we can expect an increasing need for bilateral and multilateral donors to consider:

   a. Reducing or abolishing the 25% participation repuirement of HMG in aid financing.

   b. Where commodity supplies are short (as in case of medical supplies for health posts in remote areas), provide them.

   c. Assist in irrigation projects (to a greater extent than planned in integrated rural development projects) so that agricultural growth can be speeded up.

   d. Where required skilled personnel are not domestically available, provide such through increased allowances for technical assistance.

   e. In projects where manual labor is needed, employ Nepalese to the greatest extent possible. The employment of Indians has displaced Nepalese. This guideline is strictly followed by China, and other donors should do the same.

   f. Continue to promote development of the country's infrastructure. A total shift into agriculture, from transportation, etc., may result in reduced absorptive capacity.

D. U.S. Aid

1. Though total multilateral/bilateral foreign assistance has increased substantially during the recen past. However, annual aid disbursemts have been far below the commitment level. This can be seen by looking at Table V.

Table V

Total Fareign Aid Disbursements and Commitments

	1975/76	1976/77	1977/78
Commitment (in Mill. Rs.)	1,415.8 ($ 118.97 Million)	1,961.3 ($ 164.8)	2,094.0 ($ 175.97)
Disbursement (in Mill. Rs.)	505.6 ($ 42.5 Million)	556.9 ($ 46.80)	858.4 ($ 72.13)
Disbursement as a % of Commitment	35.7	28.4	41.0

Source: Economic Survey, 1980.

We can assume that U.S.A.'s performance in providing assistance, too, is falling below its commitments, thus loosing credibility about its seriousness to participate in Nepal's development. The question that needs further investigation therefore, centers on the reasons for the shortfall: are the foreign donors at fault, or has Nepals's absorptive capacity for foreign assistance been satisfied?

2. In the past, U.S. assistance has not been consistent in quantity or annual growth rate–it has fluctuated a great deal. In 1975 it was $ 2.6 million but in the following (Table VIII) years it increased more than fivefold. Though one cannot be optimistic about the amount of USAID's future assistance by looking at past trends, the projected bilateral aid for the future shows the U.S.A.'s genuine interest to increase

its aid. It is estimated to increase steadily from $ 14.4 million in FY 1980 to nearly double in FY 1986. Such would be the largest sum to be provided since commencing aid to Nepal.

3. The foreign aid figures as reported by the Ministry of Finance for each donor do not portray an entire picture when examining any individual donor, or the total of foreign aid. These figures exclude all technical assistance, and some commodity assistance, (See Table III). In the case of individual countries, their aid totals also do not include their contributions to multilateral agencies. Thus, a country's credit for assistance to Nepal is greatly understated. In the case of the U.S. this understatement of contribution has been increasing over time. Table VI is a disaggregation by type for tatal U.S. official assistance to developing countries and multilateral agencies.

Table VI

Distribution of U.S. Official Foreign Assistance
(Percentages)

	Average for 1967–1969	1976	1978
I. Official Development Assistance Bilateral (Grants and grant like contributions and development lending capital)	85%	55%	50%
Contributions to Multilateral Institutions	8%	29%	31%
II. Other Official Flows (official export credits, equities and other bilateral assets)	6%	16%	19%

Source: OECD 1979 Review Development Corporation, p. 225.

We assume that the above picture, on a world-wide basis, is applicable in the disaggregate to aid in Nepal from several other bilateral donors. Therefore HMG official figures, which exclude the multilateral, technical, commodities and participant assistance, and cite only the bilateral category for U.S. aid to Nepal, cover only a portion of the annual actual U.S. aid flow to Nepal.

Table VII

U.S. Assistance To Nepal–Non Project Accounted–1979

($ Million)

1.	Participant Training	$ 0.8
2.	Technical Assistance	4.1
3.	Commodity Assistance	2.1
	Total	$ 7.0

Source: USAID/Nepal.

4. Table VII lists aspects of U.S. assistance excluded from official HMG foreign aid figures because this aid was in addition to regularly released project–identified aid. The total roughly indicates the magnitude of understatement of U.S. aid to Nepal in 1979. The total flow of aid is much greater than the official HMG figures indicate. In the case of the U.S., this is due primarily to the resident–type technical mission maintained by USAID/Nepal. Additional non–quantified benefits to Nepal from a residential technical assistance staff include:

a. Technology transfer to HMG staff counterparts;

b. Additional closer assistance to projects;

c. Additional input into the domestic economy at the local level through personal expenditures by technical advisors for daily living, etc.; and,

d. Employment for local people. (Presently, USAID hires about 202 local Nepalese employees on contract and 83 on a direct–hire long–term basis.)

Table VIII

U.S. Foreign Assistance to Nepal

($ Million)[1]

Through Multilateral Institutions					
World Bank Group[4]	ADB[5]	UN Group[6]	Sub-Total	Total	Bilateral Program as % of Total
			(2)+(3)+(4)	(1)+(5)	(1)+(6)
(2)	(3)	(4)	(5)	(6)	
1.6	3.4	3.6	8.6	148.8	94.2
1.3	3.8	0.5	5.6	13.7	59.1
4.6	–	1.9	6.5	13.7	52.6
5.5	0.9	1.5	7.9	12.5	36.8
1.2	5.0	1.0	7.2	9.8	26.5
8.2	9.9	1.3	19.4	25.7	24.5
9.3	5.3	1.1	15.7	27.6	43.1
14.2	4.2	1.3	19.7	31.1	36.7
5.7	6.2	2.2	14.1	27.4	48.5
13.3	N.A.	1.8	15.1	29.5	48.8

onverted to current dollars equivalent. Exchange rates utilized as specified in IBRD country

ecessor agencies' programs; loans and grants; dollar, local currency and Indian Rupee pro-
ergency relief programs for period 1951 to 1976 inclusive; 1977/79 includes USAID/N bila-
& $-equivalent).Obligation basis.

or Bilateral Program, 1951–1971; for IBRD, 1969-1971; for ADB, 1967-1971; for UN
cal year has been treated as calender year, i e., FY 1974/75 listed as 1975.

commitments, net of cancellations. Includes funds from the concessional loan facility of IBRD
investment promotion facility (IFC). Derived from U.S. share of banks' original copitalization
hments.

ordinary capital resources (ADB), the Special Fund (ADF), and theTechnical Assistance fund,
ng arrangements with other donors. Based on bank obligations, i.e. signed loans agreements
disbursements, and U.S. share of bank's original capitalization and subsequent replenishments.

sements, including allowance for technical assistance and participant training. 1977–80 data
on rough approximations by UN to be refined.

espective donor agencies.

5. Table-VIII shows how the role of U.S. foreign aid to Nepal has shifted to flowing through the multilateral agencies in the last two decades, having gone up from just 5.8% of total aid in 1970/71 to 51.2% in 1980. Major multilateral donor agencies assisting Nepal through loans are the International Development Agency (World Bank) followed by the Asian Development Bank. The U.N. Agencies and World Food Programme provide grant aid.

6. Thus it is clear that while American assistance to Nepal has been declining in bilateral terms (Table VIII), it has in fact been increasing through the years, due to provision of technical and commodity assistance. Participant training and contributions have continued to fall below commitments and improved performance in this area should be the concern of the appropriate authorities.

Book Review

Nepal in Crisis: Growth and Stagnation at the Periphery, by Piers Blaike, John Cameron, and David Seddon, Delhi: Oxford University Press, 1980. Rs. 80 IC.

Nepal in Crisis is largely based on a survey research project conducted in the west-central region of Nepal under the auspices of the British Ministry of Overseas Development. The authors–an economist, a geographer, and a sociologist–come to rather disturbing conclusions about the prospects for Nepal based on an analysis which attempts to relate national and international forces to the problems of rural development. This broad scope of the book based on dependency theory, results in a work which is actually two books rather than one: one book, a detailed analytical study of the rural economy of the west-central region, the other, a polemic which serves as a vehicle for a critique of both "Nepalese state" and the capitalist world economic structure.

The first book, consisting primarily of an analysis of surveys conducted by the authors in the west-central region, studies various aspects of "growth and stagnation" in the rural economy. One particular purpose of this study is to consider the impact which the construction of roads, especially the Siddhartha Rajmarga linking Pokhara with the Indian border, has had on the flow of goods into and out of the region, the prices of such goods and the development of commerce and agriculture. The authors deal with a very serious issue in development strategy: is the development of such infrastructure projects as the Siddhartha Rajmarga, often viewed as the **sine qua non** of economic progress, sufficient to unlock the dynamic forces of development.

Their answer is a resounding "no." In the manufacturing sector the opening of the road to India has accelerated the decline of the artisan and small-scale industries indigenous to the region by lowering the cost of competing products from large-scale Indian industries. Those industries which have expanded with the improvement of transportation facilities–tourism and repair services–have been led largely by entrepeneurs from outside the region and have used as inputs primarily imported goods. Therefore the favorable impact on the region's development has been small.

In agriculture the failure of the road to have a significant impact on development is attributed to the forms and social relations of production. The story of ecological decline in Nepal–forest clearance, erosion, distruction of terraces, and new forest clearances to replace eroded terraces–is a familar one. Within this physical setting the authors question whether some reversal of this process, through appropriate investments in agriculture, is possible given the pattern of land ownership and the tendencies towards accumulation by the various groups of farmers. The first source of pessimism on this point is the subsistence nature of cultivation. In the hills, where 85% of the households grow paddy, only 28% have a surplus to sell. In the Terai, 35% of the households grow sufficient or more than sufficint foodgrains for their own consumption. The fact that 73% of the households market less than Rs. 1000 worth of agricultural products per year indicates the difficulties of capital accumulation on the farm. Nor has the opening of the highway significantly improved these prospects. Households located near the highway experience a real income advantage of 30 rupees per person over their off–road counterparts. Furthermore producers large enough to employ non–family laborers, i.e., those most likely to generate a surplus, have their potential surpluses eaten away by semi–feudal contractual obligations. Why such producers have not been displaced by more aggressive and acquisitive capitalist farmers is unclear, although the authors do mention the existence of small minority of such operators. Further problems facing the agricultural sector are also documented: the decline of reciprocal trade arrangements such as the system of **Bista**, the difficulties encountered in turning to cash crops, the tendency to use outside income for consumption rather than investment on the farm, and the failure agricultural agents to reach large numbers of farmers.

This analysis of the rural economy and its dismal prospects is, in itself, an alarming and serious indictment of past policies towards rural development. However, lst the message be missed, **Nepal in Crisis** moves beyond more description and data analysis to a polemical diatribe against HMG, foreign aid donors, and the capitalist world order. The purpose of these sections of the book is unclear. The authors express their pessimism over the possibilities of real political opposition in Nepal, so the book cannot be seen as a call to action. The broader political analysis is often unrelated to and sometimes contradictory with the economic analysis (Compare, for example, the statement on page 52 concerning the generation of "substantial surpluses" by large landholders with the pessimism stated earlier in this review about the prospects for capital accumulation from agricultural surpluses). The level of rhetoric detracts attention from the very real technical problems facing Nepal by focusing on questions of the motivation of government officials.

The state is depicted as an agency for the extraction of surplus for the benefit of the ruling class, a regime which has used this surplus as well as foreign donor assistance to strengthen internal security forces,an instrumentality which voices deep concern about the problems of development while doing little to bring about the fundamental social and political change which is necessary for advancement. Dependency theory is invoked as a description of Nepal's situation. Foreign producers, particularly in India, are able, with the assistance of their government, to use Nepal as a source of labor and a market for manufactured goods. Arrangements between foreign government and the government of Nepal (trade and transit agreements, foreign aid projects) are designed to enhance the ability of foreign firms to penetrate local markets while guaranteeing that Nepalese producers do not become a competitive threat.

Behind this rhetoric are some interesting and valid observations about the socio-political structure of Nepal. The growth of bureaucracy is seen by the authors as an institution for the cooption and emasculation of potential political opponents-students, intellectuals, and those truly concerned with Nepal's development. As documented by their field survey the tremendous growth of the bureaucracy has had little beneficial impact on the rural economy.It is also pointed out that the rural economy, through land taxes, customs duties and taxes on timber operations, provides considerable financial support for this burgeoning bureaucracy. Even the highways turn out to be a vehicle for the extraction of revenues for the state coffers, in that income generated from tolls and user taxes exceeds the funds spent on highway maintenance.

If Nepal does face an economic crisis, it appears to this reviewer to be primarily a technical rather than a political one, as the authors of **Nepal in Crisis** seem to believe. The fundamental cycle of ecological decline described earlier has its roots in excessive population growth which has outstripped productivity gains in agriculture and forced an expansion of cropland onto marginal lands (thereby further lowering droductivity) and into the forests (leading to soil erosion and depletion of fodder for livestock). It is difficult to attribute this process to political forces. Certainly, it can be admitted that there have been errors in economic planning and in implementation of various programs, that the payoff from certain infrastructure projects has not been as great as might be desired, and that the farmers of socio-economic organization in agriculture are impeaiments to economic development without necessarily invoking the claim of political conspiracy. **Nepal in Crisis** documents convincingly the problems facing Nepal in rural development, and for this contribution it is an important work. The speculations concerning the motivation of HMG towards development in Nepal are on much weaker ground, and in this reviewer's eyes they detract from the more analytical material of the book.

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