

STATUS OF DEVELOPMENT ASSISTANCE IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**STATUS OF DEVELOPMENT ASSISTANCE IN NEPAL** ”The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

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Ms. Nira Kafle has defended research proposal entitled “**STATUS OF DEVELOPMENT ASSISTANCE IN NEPAL**” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidelines of supervisor Rishi Ram Pantha. Submit the thesis for evaluation and viva-voce examination.

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We, the undersigned, have examined the thesis entitled “**STATUS OF DEVELOPMENT ASSISTANCE IN NEPAL**” Presented by Nira Kafle Candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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TABLE OF CONTENTS

<i>Title Page</i>	<i>i</i>
<i>Certification of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgements</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>viii</i>
<i>List of Figures</i>	<i>ix</i>
<i>Abbreviations</i>	<i>x</i>
<i>Abstract</i>	<i>xi</i>

CHAPTER I INTRODUCTION

1.1 Background of the study	1
1.2 Statement of the Problem	3
1.3 Objective of the Study	4
1.4 Rationale of the Study	4
1.5 Limitations of the Study	4

CHAPTER II LITERATURE REVIEW

2.1 Theoretical Review	6
2.2 Policy Review	14
2.3 Empirical Review	18
2.4 Research Gap	28

CHAPTER III RESEARCH METHODOLOGY

3.1 Research Design	29
3.2 Population and sample	29
3.3 Data collection Tools	29
3.4 Sources of Data Collection	30
3.5 Data Analysis Tools	30
3.6 Research framework and Definition of variable	34

CHAPTER IV RESULT AND DISCUSSION

4.1 Data Presentation and Analysis	36
4.2 Descriptive statistics of all variables	45

4.3 Correlation analysis	46
4.4 Regression Analysis	47
4.5 Discussion	50

CHAPTER V SUMMARY AND CONCLUSION

5.1 Summary	53
5.2 Conclusion	54
5.3 Implication	56

REFERANCE

APPENDIX

LIST OF TABLE

	PAGE NO.
Table 4.1 Development assistance received by Nepal,	37
Table 4.2 Energy (Including Hydro Electricity)	38
Table 4.3 Road Transportation	40
Table 4.4 Health	41
Table 4.5 Education	42
Table 4.6 Reconstruction	43
Table 7.Descriptive statistics	45
Table 8 Correlation analysis	46
Table 4.9 Model summary	48
Table 10 ANOVA	48
Table 4.10 Coefficients of variables	49

LIST OF FIGURE

PAGE NO.

3.1 Research Framework

34

LIST OF ABBREVIATIONS

ADB:	Asian Development Bank
DAC:	Development Assistance Committee
FA :	Foreign Aid
FAP :	Foreign Aid Policy
FAP :	Foreign Aid Policy
FDI :	Foreign Direct Investment
FY :	Fiscal Year
GCE :	Government Capital Expenditure
GDI :	Gross Domestic Investment
GDP :	Gross Domestic Product
GDS :	Gross Domestic Saving
MOF :	Ministry of Finance
NCPI :	National Consumer Price Index
NRB :	Nepal Rastra Bank
ODA :	Official Development Assistance
OECD:	Organization for Economic Cooperation and Development
USA :	United States of America
WB :	World Bank

ABSTRACT

This study entitled “ Status of Development Assistance in Nepal”wasdone as partial fulfillment of the requirements for master degree of Business Studies. It was carried out from the data of MOF, NRB and other similar institution.

This thesis examines the status of Development Assistance in Nepal, and adds to growing literature on the issue of aid effectiveness. Until the mid1960s, almost all development projects in Nepal were financed by Development Assistance. Since 1970, the average aid/GDP ratio remains at over 6 percent and in 2002 development assistance financed over 50 percent of Nepal’s development expenditure is financed by assistance.

To carry out the study scientific research methodology was adopted which includes the problem findings, research design, and secondary data collection, analysis and summarization of the result. To find out the status of development assistance, its contribution to national budget and sectoral contribution observed through analysing the trend ofsectoral development assistance in different fiscal year.

The results obtained from the research shows the assistance dependency is higher in Nepal. Data shows that around 17 percent of the total budget comes from development assistance in recent fiscal year.

Key words : Development, Health, Education, Energy, Reconstruction

CHAPTER I

INTRODUCTION

1.1 Background of the study

The term "Development Assistance" describes the material, financial, or technical support given to a needy country by an international organization or government. Typically, it is awarded to aid with economic development, alleviate poverty, advance social welfare, deal with humanitarian emergencies, or support a range of areas including infrastructure, healthcare, education, agriculture, and governance. The term "development assistance" describes material, financial, or technical support given to underdeveloped countries by other countries or international organizations in order to aid in their development. In developing nations, promoting sustainable economic growth, lowering poverty, enhancing social welfare, and addressing particular developmental issues are the main goals of development assistance(UNO,2022)

It is said that development assistance is essential for developing countries like Nepal to meet their development goals. It is sometimes referred to as "foreign aid" or "economic aid." The development of Cold War competition also drove the giving of overseas aid. The 'Truman Doctrine' was first expressed by Truman on March 12, 1947, during a speech before a joint session of the US Congress.

Military assistance intended to support warring parties deemed strategically significant was the first type of international assistance. When Prussia supported some of her friends in the 18th century, it was first used in the modern age. Industrialization advanced quickly as a result of the Marshall Plan's (USA) enormous success in rebuilding European nations soon following World War II. It's thought that under developing nations, it will be reviewed. The reason why poor countries remain poor is because they do not have substantial foreign exchange reserves or domestic savings to support their large investments. As a result, it is said that development assistance is essential for boosting domestic savings, which would raise investment. This consequently causes the assistance-receiving countries' faster development rate. Self-sustaining growth eventually puts an end to development assistance, raising the nation's quality of living in the process.

The goal of assistance spending is to make the lives of people everywhere better. This include combating infectious diseases worldwide, providing humanitarian assistance, eradicating poverty, lessening the effects of climate change, and advancing the Sustainable Development Goals of the United Nations.

Since 1951, Nepal has benefited from four years of economic help from the United States thanks to President Harry Truman's "Point Four" program. Subsequently, Nepal was receiving assistance from China, India, and other nations, as well as from regional and international organizations. The primary funding source for Nepal's government budget is development assistance(Malla,2020)

The structure of the Nepal help Group, established in 1976 with the goal of coordinating the rising amount of development assistancehelp in accordance with the nation's development priorities, may be the reason for the increasing success of development assistancein Nepal. Roughly one-third of all assistance payments are made to the Nepal aid group.The restoration of democracy in Nepal after 1990 further gave impetus for the expansion of more and more economic aid. In recent years, most of the prime sectors are receiving development assistanceand almost in every sector several bilateral and multilateral donors are involved. the Nepal aid group (NAG) comprise countries like Australia, Canada, France, UK, USA, Switzerland, Germany, Japan and international agencies such as ADB, IDA, AMF, IBRD, WHO and UNDP.

Other major donors for Nepal are China and India. Up to 1960/61 all development assistancewas completely in the grant form, and it was only since 1961/62 foreign loans to enter in the country (Duwadi,2003) After the establishment of diplomatic relations in 1956, Japan began providing assistance to Nepal starting with commodity loans and technical cooperation in 1969.

Despite the history of development assistancein Nepal, the country still suffers from pauperism and socio-economic backwardness with the large gap between and among the people of different region and caste. The scattered population, administrative in efficiency, natural calamities and disasters, lack of education and awareness, assistance conditionality and lack of proper accounting system of development assistanceare the major reason for the setback ofdevelopment assistance. Development assistanceis a

critical component in Nepal's development. According to the Ministry of Finance's recently published Development Cooperation Report (published in 2023 march) development assistance in Nepal accounts for 17% (ODA) percent of the national budget.

1.2 Statement of the Problem

The significance of development assistance in the economy extends beyond its contribution to the national budget, encompassing its role in bridging the gap between national savings and investment. It addresses the disparity between imports and exports of goods and services. However, since the 1990s, there has been a growing realization in Nepal that development assistance has had a limited impact on economic and social development, failing to deliver on its promises. Instead, it has widened economic disparities between the rich and poor while deepening the country's reliance on developed nations. This paper examines the role and impact of development assistance on Nepal's development plans, along with the composition and sectoral priorities of such assistance. There is ongoing debate regarding the effective utilization of development assistance in developing countries like Nepal, and this article also scrutinizes the perspectives and strategies for assistance utilization from both donor and recipient perspectives.

In Nepal, development assistance remains largely unaudited, with more than a third of total assistance falling outside the scope of auditing. Despite over five decades of development efforts, Nepal's reliance on development assistance remains high, constituting nearly two-thirds of the total development outlay as outlined in periodic plans. This indicates a lack of transparency, accountability, and effective coordination with aid providers in alignment with Nepal's development goals and strategies.

Over half of Nepal's development plans rely on development assistance, yet many fail to achieve their intended targets, contributing to the country's increased global dependency without commensurate results. However, there have been instances of positive impacts from development assistance, such as facilitating local elections, constitutional declarations, and post-disaster reconstruction efforts following events like earthquakes. Hence, the study aims to address the following questions:

- What is the status of development assistance in Nepal?

- What is the contribution level of development assistance in national budget after 2013/14?
- What is the status and dependency of Nepal?

1.3 Objective of the Study

The objectives of the study are as follows:

- To analyze the status of development assistance in Nepal
- To find out the area of development assistance received by Nepal
- To analyze the development assistance dependency of Nepal

1.4 Rationale of the Study

The study conducted an analysis of the effectiveness of development assistance in Nepal post-2013/14, following the second constitution assembly election. It aimed to offer valuable insights into the challenges encountered in implementing development assistance and to propose solutions to institutional issues related to its utilization. These findings are intended to be beneficial for researchers and policymakers involved in the execution of development assistance projects (Malla, 2020).

In order to attain the targeted growth rate, the government must either increase savings levels or enhance capital productivity. However, due to the generally low levels of savings in developing countries, achieving stable growth rates becomes challenging. In this context, development assistance plays a crucial role as it fills the gap in savings required for investment, thereby facilitating sustained economic growth.

1.5 Limitations of the Study

This case study focuses on the trend of development assistance in Nepal. Given the comprehensive impact of development assistance, encompassing both direct and indirect effects, it proves challenging to capture all aspects within a single empirical analysis. Consequently, there are several limitations to this study, including:

- The information and data have been collected between ten years period.
- This study is based on trend of development assistance in Nepal only.

- The study relies the secondary data, which have been used with premises their correctness and accuracy.
- Limited range of data tools are used.
- Transfer of private resource, military and technical assistance are left outside the scope of the study.
- The study covers the time series data (secondary data) only In between FY 2013/2014 to 2022/2023.

CHAPTER II

LITERATURE REVIEW

Gaining knowledge in one's field, determining potential contributions, and obtaining concepts for creating a study strategy are the goals of reviewing the literature. Each study is predicated on a similar prior study. Books, journals, research papers, articles, periodicals, unpublished thesis reports, and other materials cannot be disregarded while studying the literature; hence, previous studies cannot be disregarded too. This chapter aids in gathering sufficient feedback to expand the data based on a study's input. There are three sections to this chapter, and they are arranged as follows:

- Theoretical Review
- Empirical Review
- Research gap

2.1 Theoretical Review

2.1.1 Assistance, its Origin and Historical Background

The earliest forms of development assistance primarily consisted of military assistance aimed at supporting strategically important warring parties. In the modern era, the practice gained momentum in the 18th century when Prussia began subsidizing some of its allies. Throughout the 19th and 20th centuries, European powers provided substantial financial assistance to their colonies, primarily focusing on infrastructure improvements to enhance economic output(OECD,2019)

The contemporary structure and scope of development assistance can be traced back to two significant post-World War II developments. Firstly, the implementation of the Marshall Plan, sponsored by the United States, aimed to revitalize the economies of 17 Western and Southern European countries. Secondly, the establishment of prominent international organizations such as the United Nations, IMF, and World Bank played a pivotal role in distributing international funds, defining assistance eligibility criteria, and assessing assistance impacts.

Modern development assistance is characterized not only by its humanitarian aspects, often devoid of donor self-interest, but also by its substantial scale, amounting to trillions of dollars since World War II. Numerous governments participate in providing assistance, and the process is transparent. Post-World War II, development assistance expenditures surpassed prewar levels, with countries like the United States and the Soviet Union using assistance strategically during the Cold War to foster political alliances and secure diplomatic advantages.

Various non-European governments, such as Japan, also initiated their assistance programs post-World War II. Japan's aid program, stemming from reparations payments made after the war, primarily focused on Asian countries. By the late 20th century, Japan had emerged as a leading donor country globally.

The majority of Official Development Assistance (ODA) originates from countries within the Organization for Economic Co-operation and Development (OECD), including Western European nations, the United States, Japan, and others. Although the international community set a benchmark of 0.7% of a country's gross national income (GNI) for development assistance, only a handful of countries have met this target.

Development assistance continues to be utilized for economic development, particularly in Africa, where humanitarian assistance is provided to alleviate suffering from natural disasters, epidemics such as HIV/AIDS, and civil conflicts. Additionally, assistance is used to promote democracy, facilitate judicial reforms, address transnational issues like drug trafficking, and encourage market-oriented economic reforms.

By the late 20th century, private capital flows and remittances from migrant workers surpassed official development assistance as the largest sources of assistance from wealthy countries to poorer ones. Notably, China has emerged as a significant provider of development assistance, particularly through its Belt and Road Initiative, offering infrastructure loans to numerous countries in various regions since 2013.

The 0.7% ODA/GNI target was initially agreed upon in 1970 and has since been reaffirmed at various international assistance and development conferences. In 2005, the 15 countries that were members of the European Union by 2004 committed to achieving the target by 2015. Additionally, the 0.7% target served as a reference for political

commitments in 2005 to increase ODA from the EU, the G8 Gleneagles Summit, and the UN World Summit(UNO,2019)

Discussions regarding official assistance targets began in 1958 and initially focused on the total flow of both official and private resources to developing countries. The World Council of Churches proposed a 1% target, which all DAC members subscribed to during the 1960s. However, this target had a significant flaw as governments couldn't control or predict private capital flows. Efforts to address this issue led to the elaboration of a sub-target for official flows.

A target of 0.75% of gross national product (GNP) for official flows was proposed to be achieved by 1972, based on the work of Jan Tinbergen. The Pearson Commission, in its 1969 report "Partners in Development," proposed a target of 0.7% of donor GNP to be reached by 1975, later extended to 1980 in a UN resolution on October 24, 1970. DAC members generally accepted the 0.7% target for ODA, although there were exceptions such as Switzerland, which did not adopt the target, and the United States, which did not subscribe to specific targets or timetables but supported the aims of the resolution.

With the introduction of the revised System of National Accounts in 1993, gross national product was replaced by gross national income (GNI). DAC members' performance against the 0.7% target is now measured in terms of ODA/GNI ratios.

2.1.2 Defining Development Assistance

Development Assistance refers to the international transfer of capital, goods, or services from one country or international organization to another for the benefit of the recipient country or its population. It can take various forms, including economic, military, or emergency humanitarian assistance provided in response to natural disasters or other crises. development assistance is also referred to as international aid or overseas aid and is typically given with the objective of aiding the development of the recipient country.

In Nepal, the implementation capacity of budget execution has historically been a challenge. To address this, significant changes have been proposed in the budget process. Authorization to spend and program approvals from the National Planning Commission have been eliminated, and instead, program activities are now identified prior to budget

submission to parliament through the Line Ministry Budgetary System (LMBIS) of the Ministry of Finance.

Development assistance remains a crucial component of Nepal's socio-economic development, accounting for approximately 24 percent of the national budget. Nepal receives official development assistance from more than 40 donors. In recent years, there has been increasing demand for assistance information from various stakeholders, including journalists, students, researchers, line ministries, development partners, and the general public.

The International Economic Cooperation Coordination Division (IECCD) is committed to providing key information on aid in Nepal based on its 2013 Development Cooperation Report. This information aims to assist governmental policymakers, line ministries, the private sector, the general public, and development partners in understanding the overall aid landscape in Nepal and making informed decisions regarding assistance utilization and allocation.

2.1.3 Types of flows of assistance

International resource flows encompass the transfer of financial resources from one country to another, encompassing various types of financial flows that reach Nepal from foreign countries. These flows comprise official, private, and commercial sources.

- **Official Flow:** International resource flows encompass all forms of public financing provided by governments and multilateral organizations. Multilateral organizations, such as the Asian Development Bank (ADB) or the United Nations, are international institutions established by multiple governments to address global challenges and provide development assistance to countries like Nepal. Therefore, international resource flows include funding disbursed by these multilateral organizations as well.
- **Private Flows:** International resource flows also encompass flows from private individuals and organizations that do not aim to generate profit. This includes remittances sent by individuals working abroad, as well as private development assistance provided by non-governmental organizations (NGOs), foundations, and

corporate donations. These private contributions play a significant role in supporting development initiatives in countries like Nepal and are considered part of the broader spectrum of international resource flows.

- **Commercial Flow:** It is those which seek to make a profit, such as foreign direct investment from private companies.

2.1.4 Types of Assistance

Assistance can take various forms, known as assistance instruments, which reflect both the content of the aid and how it is delivered. Here are two key concepts used to describe assistance instruments:

- **Concessional:** This concept expresses the degree to which the terms of an Official Development Assistance (ODA) loan are more favorable to the borrower than those of a commercial loan. Loans that are more concessional offer better terms to the borrower.
- **Earmarking:** Earmarking indicates the specific purpose of the assistance. Earmarked aid is designated for a particular purpose agreed upon in advance with the donor.

Here are some common assistance instruments:

- **Grants:** Transfers of cash, goods, or services for which no repayment is required. Grants can be earmarked or not.
- **Loans:** Transfers of cash or goods for which the recipient incurs a legal debt. To qualify as assistance, loans must be soft or concessional.
- **Equity Investment:** Investments that can be considered as ODA if they are not made to acquire a lasting interest in an enterprise. The majority of ODA-eligible equity investments are made by specific donor agencies.
- **Mixed project Assistance:** Aid transferred to specific projects as a combination of cash and in-kind resources. Data may not always distinguish between the cash and in-kind elements.

- **Commodities and Food Assistance:** In-kind aid provided in the form of commodities, such as rice.
- **Technical Cooperation:** This involves the direct supply of experts, consultants, teachers, researchers, and volunteers, as well as contributions to public and private entities for sending experts to developing countries.
- **Non-Transferred:** This includes various types of spending made within the donor country, such as the costs of students from developing countries studying in donor countries, expenses related to refugees in the donor country, debt relief, and donor administration costs.
- **Global Public Goods (GPGs) and Northern Non-Governmental Organizations (NNGOs):** This includes spending for initiatives with global benefits, such as research into vaccines or climate resilience systems. NNGOs involve transfers to non-governmental organizations based in the donor country.

2.1.5 Assistance in Nepal

Nepal has been receiving foreign assistance since 1952, when it joined the Colombo Plan for Cooperative, Economic, and Social Development in Asia and the Pacific, established by the Commonwealth of Nations in 1951. In the early years, most aid was in the form of grants aimed at developing agriculture, transportation, power generation, communications, industry, education, and health. Major donors during this period included India and the United States, along with significant contributions from China, the Soviet Union, Britain, Switzerland, Australia, Japan, and New Zealand. The United Nations also provided technical assistance (Development Corporation Report, 2022). Starting in the 1960s, there was a shift towards loans in bilateral assistance, gradually increasing their proportion relative to grants over the years. By the 1970s, multilateral assistance began to play a significant role in development planning, becoming the predominant source of funding by the end of the 1980s. Key contributors included the International Development Association of the World Bank and the Asian Development Bank, which provided soft loans. Various UN agencies, multilateral lending institutions, and private organizations participated in aid programs, with at least seventeen countries providing bilateral assistance. The Nepal Aid Group, formed in 1976,

consisted of sixteen countries and six international agencies, significantly enhancing aid disbursements. By the mid-1980s, annual recorded assistance to Nepal averaged over \$200 million, with more than 70% of this as grants. However, growing dependence on development assistance raised concerns about increasing debt service obligations. Various forms of aid supported diverse development projects, including irrigation, hydroelectric plants, roads, agricultural programs, health initiatives, and technical assistance. Nonetheless, research indicated a need for donor support to address challenges related to democratic governance, such as enhancing local authority, strengthening civil society organizations, and combating corruption. Scholars like Naresh P. Adhikari, Prabhav Devkota, and Meena Vaidya Malla highlighted the importance of leveraging aid as a catalyst for generating domestic resources, building capacity, and promoting social harmony, political stability, and peace in Nepal essential prerequisites for successful democratization.

2.1.6 Sectors Attracting Assistance in Nepal

According to the OECD report for 2023, Nepal received development assistance across various sectors, with the health sector receiving the largest allocation of Official Development Assistance (ODA) in 2022/23, amounting to \$319.4 million, or 16.3% of the total ODA. This was followed by the financial reform sector at 12.0%, housing at 7.9%, energy at 7.8%, and road transportation at 7.8%. Despite some modest improvements, ODA in Nepal remains highly fragmented. In FY 2022/23, development partners typically engaged with an average of seven different counterpart ministries for project execution. The top ten disbursing development partners accounted for approximately 94.9% of ODA in the same year, with multilateral partners contributing 72.0% of the total. The leading multilateral contributors for 2020/21, in order, were the Asian Development Bank, the World Bank, the International Monetary Fund (IMF), the European Union, and the United Nations (UN). Bilateral partners contributed the remaining 28.0%, with the top contributors being the United States, the United Kingdom, India, China, and Japan.

2.1.7 Dependency Theory:

Dependency theory, which emerged from a Marxist framework, was articulated by Paul A. Baran in his 1957 work, "The Political Economy of Growth." This theory asserts that former colonial powers continue to amass wealth at the expense of their former colonies, perpetuating poverty and underdevelopment in regions such as Africa, Asia, and Latin America. It argues that developed Western nations have effectively 'underdeveloped' poorer countries by keeping them in a state of dependency. The central premise is that the legacy of colonialism has led to the economic subjugation of these regions, which often find themselves supplying raw materials, providing cheap labor, and serving as markets for expensive manufactured goods from industrialized nations. This unequal exchange hampers economic growth in developing countries. Dependency theory highlights the significance of historical economic events in creating this reliance on more advanced nations. From a Marxist viewpoint, this dependency stems from the internal dynamics of peripheral economies, which were integrated into the capitalist world economy in a subordinate fashion, primarily as a result of European colonialism.

2.1.8 Investment Theory

Investment theory encompasses the principles and concepts guiding the process of investing, aiding individuals and organizations in making informed decisions about allocating financial resources to generate returns and manage risks. Key aspects and theories within investment theory include:

2.1.9 Modern Portfolio Theory (MPT):

Developed by Harry Markowitz, MPT emphasizes diversification across asset classes to optimize portfolios by balancing risk and return.

2.1.10 Efficient Market Hypothesis (EMH)

Proposed by Eugene Fama, EMH suggests that financial markets are efficient and asset prices reflect all available information, making it challenging to consistently outperform the market.

2.1.11 Capital Asset Pricing Model (CAPM):

CAPM helps assess the expected return of an investment based on its risk, considering factors like the risk-free rate and the investment's sensitivity to market movements.

2.2.12 Financing Theory

Financing theory, also known as capital structure theory or corporate finance theory, is a subset of finance focusing on how firms choose the mix of financing sources for their operations and investments. It seeks to understand the optimal capital structure, balancing debt and equity financing. Key theories within financing theory include:

2.1.13 Trade-Off Theory: Firms balance the tax advantages and costs of debt financing to maximize value, weighing tax benefits against potential financial distress costs.

2.1.14 Pecking Order Theory: Firms prefer internal financing over external financing, choosing the least costly and risky options first, then resorting to debt and equity financing as needed.

2.1.14 Agency Costs Theory: Focuses on conflicts of interest between stakeholders, suggesting that capital structure decisions aim to minimize agency costs by aligning managers' interests with those of shareholders.

2.1.15 Market Timing Theory: Firms consider market conditions when making capital structure decisions, issuing equity during favorable market conditions and debt during low-interest-rate environments.

Real-world capital structures are influenced by various factors such as industry characteristics, company size, and growth prospects. Financing theory aims to understand how these factors influence capital structure decisions and their impact on firm value and financial performance.

2.2 Policy Review

Nepal has been implementing development programs and economic reforms within a framework that has been shaped significantly by international development experience and interactions between the global community and the Nepalese government. Some of the key policies guiding Nepal's development include:

- Foreign Aid policy, 2002
- International Development cooperation policy, 2019
- 15th Periodic plan

2.2.1 15th Periodic Plan

Nepal's Fifteenth Plan is designed with a long-term vision, building on the political stability achieved after the Constitution was promulgated. It is grounded in the fundamental rights and directive principles set out in the Constitution, providing a framework for development planning. The plan aligns with the global Sustainable Development Goals (SDGs), addressing key development challenges while promoting environmental sustainability, social inclusion, and economic growth. It reflects the government's priorities for inclusive and equitable development and considers the changing international landscape, seeking to leverage global partnerships for support. The plan recognizes the significance of decentralized governance within Nepal's federal system, emphasizing collaboration across federal, provincial, and local levels for effective implementation. The Fifteenth Plan outlines ten national goals centered on prosperity and happiness, along with eight strategies to achieve them. It highlights nine transformative drivers and eight supporting sectors, focusing on areas like infrastructure, information technology, agriculture, industry, education, and health. Moreover, it stresses the importance of capital formation through investment in capacity building at various government levels and aims to mobilize development assistance and foreign investment in productive sectors. In recent years, the mobilization of development assistance has fluctuated, with foreign aid rising significantly from NRs. 72.77 billion in FY 2016/17 to NRs. 150.2 billion in FY 2018/19, though it has not fully met expectations. The government's total debt reached NRs. 1047.1 billion, about 30 percent of GDP, comprising external and internal loans. The SDGs will be implemented through development assistance, projected to increase from NRs. 150.2 billion in 2018 to NRs. 171.456 billion by 2023. Mobilizing internal resources is crucial for effectively realizing constitutional rights and meeting public expenditure demands, with goals of graduating to a developing country by 2022 and a middle-income country by 2030. However, several challenges impede effective utilization of development assistance. Collaboration among government, NGOs, and community organizations often lacks professionalism and transparency, leading to inefficiencies. There is also a problem with overlapping programs by NGOs that waste resources, underscoring the need for better coordination. Inadequate monitoring and evaluation frameworks prevent the achievement of desired

outcomes, and weak data systems hinder informed decision-making. Additionally, community-based organizations and NGOs often struggle with poor internal governance, while ineffective regulatory agencies fail to enforce compliance and protect beneficiaries. Addressing these challenges will require collective efforts from government institutions, civil society, and development partners to enhance collaboration, accountability, and governance practices, ultimately maximizing the impact of development assistance and advancing Nepal's development goals.

2.2.2 Foreign Aid policy, 2002

Foreign aid has been instrumental in funding Nepal's socio-economic development since the mid-1950s, starting with the First Five Year Development Plan (1956-1961). Over the years, it has consistently accounted for a significant portion of the country's development expenditure, averaging about 55 percent annually. Currently, foreign aid contributes approximately 5-6 percent of Nepal's Gross Domestic Product (GDP) each year. Foreign aid remains a cornerstone of Nepal's development strategy, essential for sustaining public investment and supporting poverty reduction goals outlined in recent government Five Year Plans. It plays a crucial role in promoting high and sustainable economic growth and supporting key sectoral programs and activities, thereby contributing significantly to poverty alleviation. This importance is heightened by the structural challenges Nepal faces, such as bottlenecks in the economy, large fiscal and external deficits, and imbalances between savings and investment. Foreign aid helps bridge the gap between available resources and the funding required for development projects, enabling the government to address urgent socio-economic needs and foster inclusive growth. In recent years, the structure of foreign aid in Nepal has experienced significant changes. The share of bilateral assistance has decreased to about one-fourth of total aid, while the proportion of grants has continued to decline, with loans now making up about three-fourths of the total aid. Additionally, there has been a noticeable increase in the importance of technical assistance, which now constitutes over 40 percent of all aid. Notably, free-standing technical assistance grew at an average annual rate of 17 percent during the 1990-1999 period. As the ratio of loans to total aid has increased, Nepal's external debt now stands at approximately 55 percent of GDP. While this level is not excessively high compared to other developing countries, it represents a growing burden

for Nepal. These shifts in the foreign aid landscape reflect the changing dynamics of Nepal's development financing, emphasizing the need for prudent management of debt and aid resources to ensure sustainable economic growth. This policy paper aims to analyze the processes, challenges, and prospects of foreign aid in Nepal to maximize its impact and effectiveness in achieving better development outcomes and meeting increasing aid requirements for financing development activities. It begins with a brief review of past performance and issues associated with aid from both donor and national perspectives. The paper then outlines the government's steps to address these concerns, including new guidelines, strategies, and policies to influence and regulate the flow and composition of aid and ensure its better utilization. It also discusses the implications of the new policy for donor assistance and the adjustments donors will need to make in their programs and policies to support Nepal's development efforts.

Foreign aid has played a significant role in financing Nepal's socio-economic development since the mid-1950s. Initially introduced during the First Five Year Development Plan (1956-1961), foreign assistance has consistently contributed a substantial portion, averaging about 55 percent of development expenditure annually. Currently, foreign aid accounts for around 5-6 percent of Nepal's Gross Domestic Product (GDP) each year.

2.2.3 International Development Cooperation policy, 2019

The Government of Nepal has formulated the International Development Cooperation Mobilization Policy, which is based on the principles set out in the Constitution of Nepal and the changing national and international landscapes. This policy builds on the lessons and achievements of previous frameworks, such as the 2002 Foreign Aid Policy and the 2014 Development Cooperation Policy. The management and utilization of development cooperation must be in line with Nepal's federal governance structure, as outlined in the Constitution. This requires all foreign aid to comply with the principles of transparency, alignment with national interests and priorities, and incorporation into the national budgetary framework. After evaluating the effectiveness of traditional development cooperation methods, it is crucial to mobilize development funding from various sources, including both the public and private sectors, and by combining resources with foreign

aid. Moreover, leveraging knowledge, skills, and technologies acquired from other aid-receiving countries and organizations will be vital for promoting socio-economic transformation in Nepal.

2.3 Empirical Review

Baral s.c (2024) Navigating Nepal's development trajectory: The road to graduation from the LDC status and beyond examined that the Nepal's imminent graduation from the Least Developed Country (LDC) status marks a significant milestone in its development trajectory, highlighting substantial progress in economic, social, and human development indicators. This transition necessitates a strategic approach to capitalize on newfound opportunities while mitigating associated challenges. Drawing on insights from socio-economic indicators and economic evolution data, this paper assesses Nepal's readiness for graduation and outlines key priorities for its post-LDC journey. Emphasizing sustainable development aligned with the Sustainable Development Goals (SDGs), the paper advocates for in-country resource mobilization, system strengthening with a localization focus, human capital development, market access facilitation, resilience building, and promotion of foreign direct investment. By leveraging international support, prioritizing strategic initiatives, and fostering conducive environments for growth and investment, Nepal can navigate the transition effectively and pave the way for inclusive, resilient, and sustainable development.

Chaudhary. D (2024) examined that the Hydropower Development and Economic Growth in Nepal: Challenges and Prospects Nepal is rich in water resources, and hydropower development has been a key issue for the country's socio-economic development. But, it needs to produce huge amounts of electricity to support economic activities and growth, though it faces challenges. The paper attempts to fill this gap by studying hydropower development in support of economic growth and overall development, and further discussing its challenges through a literature review analysis and Key Informant Interviews. Economically, Nepal has more than 42000 MW of hydropower generation capacity, but the present generation capacity is 2945 MW, though only below more than 50 percent of the total generation capacity works out in the dry season due to low water discharge and faces a deficiency of electricity. Nepal also

imports electricity from India to fulfill domestic demands in the season. There is a gap in the demand and supply lines. Hydropower has become a de-facto reality in light of economic development and the production of hydropower is crucial as Nepal exported electricity of Rs.15.4 billion worth last year. However, this study shows that the prospect of hydropower development is optimistic, though, there are several challenges in terms of priorities of needy projects, investment, environment-forest-land policies, and governance aspects. If pragmatic policy, effective governance, and leadership interventions are adopted on time, challenges can be overcome.

lohani s.p (2022) examined that the Current status, prospects, and implications of renewable energy for achieving sustainable development goals in Nepal. The energy mix in Nepal is currently dominated by the traditional and inefficient use of biomass (66.54%) and fossil fuels (27.24%), and energy poverty remains extremely high. This paper reviews relevant literature to provide an overview of the current renewable energy status and energy mix in Nepal, and to discuss prospects for the country to achieve a sustainable energy transition. Nepal-specific papers from peer-reviewed sources and other agency and academic reports were included insofar as these discussed renewable energy and provided recommendations for policy-making on sustainable energy and related development goals. Despite the rapidly falling cost of solar photovoltaic, the share of modern renewable energy in Nepal is currently less than 3%. On this basis, and given the country's sustainable energy goals, we conclude that favorable and aggressive policies and strategies are needed to support adoption of clean energy in Nepal, comprised of a high share of solar generation equipped with battery storage, and balanced with storage such as off-river pumped hydropower technology.

Mohapatra et al. (2016) applied the ARDL approach to show that aid positively affects growth in both the short and long term. In contrast, Hamid Ali (2013) found that foreign aid had a negative impact on Egypt's economic growth.

Kwablah et al. (2014) examined the relationship between foreign aid and income in Ghana across different time periods, revealing varying results, with aid being more effective before a structural break.

Hansen and Tarp (2001) and Asied and Nandwa (2007) utilized OLS regression to examine aid effectiveness. Hansen & Tarp (2001) employed a non-linear aid-growth model to assess the relationship between foreign aid and economic growth, concluding that aid positively impacts growth across different countries. They analyzed data from 56 countries (1974-1993) and included investment and human capital in their model, finding that aid's effect on growth is influenced by investment, though better theoretical explanations are needed. In the education sector, which plays a crucial role in development, 7% of total aid in 2013-2014 was allocated to education for fragile and developing states (OECD-DAC, 2016). Asiedu&Nandwa (2007) examined whether education aid impacts growth in low and middle-income countries, finding varying effects based on income and type of aid.

Nowak-Lehmann et al. (2012) investigated the link between foreign aid and per capita income in aid-dependent countries using data from 1960 to 2006. They found that aid had a negligible or slightly negative effect on income, while its effect on investment was positive but small, and it negatively impacted domestic savings. To handle endogeneity in variables, methods like the Generalized Method of Moments (GMM) are often used, but they are best for small datasets. Several studies have applied GMM, including Nowak-Lehmann et al. (2012) and Qayyum&Haider (2012). Dynamic OLS (DOLS) is another option, as used by Moolio& Kong (2016) in their panel cointegration analysis.

Bhattarai (2009) studied Nepal's aid effectiveness from 1983-2002, finding that aid positively influenced per capita GDP in the long run but had a negative short-term effect. He also noted that good policy environments enhance aid effectiveness. Sharma &Bhattarai (2013) confirmed these findings, though they disagreed on the effect of political instability.

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Moyo (2009) - *Dead Aid*, contrast to Sachs, Dambisa Moyo in *Dead Aid* argued that development assistance is detrimental to Africa's economic progress. Moyo contended that aid fosters corruption, promotes inefficiency, and creates dependency, leading to the stagnation of African economies. Instead of aid, she recommends that African countries focus on alternative sources of financing such as trade, investment, and remittances. Key findings of this review is aid is a key factor in perpetuating poor governance and corruption in Africa. African economies would benefit more from foreign investment, trade, and capital markets than continuous aid.

Quazi (2005) used a cointegration method to study the impact of foreign aid on Bangladesh's GDP, finding that loans boosted growth, while grants did not. He also found that grants primarily financed non-productive expenditures, while loans supported investments and human capital development, leading to higher growth.

Islam (2003) explored the role of political regimes in aid effectiveness across African and Asian countries, concluding that aid has minimal impact in "tinpot" regimes but a strong positive effect in totalitarian systems. Several cross-country studies have produced mixed results on aid effectiveness. For instance, Elbadawi, Kaltani, & Schmidt-Hebbel (2008) found that aid plays a significant role in growth, while Rajan & Subramanian (2008) found little evidence linking aid to economic growth, highlighting that aid's impact depends on several factors, including adaptability and technological advancement.

Burnside and Dollar (2000) - *Aid, Policies, and Growth*, Burnside and Dollar's seminal work focuses on the relationship between aid, policy, and growth in recipient countries. Their study used a cross-country analysis of data from 1970-1993 to examine whether foreign aid fosters economic growth. They found that development assistance is effective only in countries with sound economic policies (e.g., low inflation, small fiscal deficits, and open trade policies). This conclusion has influenced donor agencies to adopt aid conditionality, where aid is tied to certain economic reforms. Key findings of this review are aid is more effective when accompanied by sound policies. Countries with poor policies often fail to benefit from aid, regardless of the amount provided.

Easterly (2003) - *The Elusive Quest for Growth*, William Easterly critically examined the effectiveness of foreign aid in his book, arguing that development assistance often

fails due to misguided assumptions about how economies grow. He noted that billions of dollars in aid had not achieved significant growth in many African countries. According to Easterly, poor governance, lack of accountability, and top-down planning often lead to the failure of aid programs. Key findings of this review is aid alone cannot spur growth without institutional reforms. Aid may create dependency, as it often does not address underlying governance issues.

Sachs (2005) - *The End of Poverty*, Jeffrey Sachs, a strong advocate of foreign aid, took a different perspective in his work. He argued that increased and targeted aid can break the "poverty trap" in many developing countries. His "big push" theory emphasizes that substantial and sustained investments in infrastructure, health, and education can lead to a virtuous cycle of development. Sachs advocates for scaling up aid, especially in health (e.g., tackling HIV/AIDS, malaria) and infrastructure. Key findings of this review is Large-scale aid is necessary to address deep structural poverty. Development assistance is crucial to achieving the Millennium Development Goals (MDGs) and should be expanded rather than cut back. The literature on development assistance presents diverse views on the effectiveness of aid. Early proponents like Burnside and Dollar (2000) highlighted the importance of sound policies, while more recent critics like Moyo (2009) emphasize the unintended negative consequences of aid, such as dependency and corruption. Scholars such as Sachs (2005) advocate for scaling up aid to address structural poverty, whereas others, like Rajan and Subramanian (2008), question whether aid can achieve long-term economic growth. In conclusion, the effectiveness of development assistance appears to be context-dependent, varying based on the type of aid, the conditions in the recipient countries, and the specific goals of aid programs.

Mbaku (1993) applied OLS to test the relationship between foreign aid and economic growth, concluding that aid had little impact, while domestic resources were more influential. Murthy, Ukpolo, & Mbaku (1994) later found contrasting results, showing a positive effect of aid on growth.

Review table 1.

S.N	Author(s) & Year	Objective	Methodology	Findings
1.	Baral S.C. (2024)	Examined Nepal's imminent graduation from Least Developed Country (LDC) status and its impact on development trajectory.	Analyzed socio-economic indicators and economic evolution data to assess readiness for LDC graduation.	Nepal must focus on sustainable development, resource mobilization, human capital development, resilience building, and foreign direct investment promotion to ensure a smooth post-LDC transition.
2.	Chaudhary (2024)	D. Investigated hydropower development's role in Nepal's economic growth and associated challenges.	Literature review and Key Informant Interviews on hydropower development and economic growth.	Nepal's hydropower capacity is underutilized; addressing challenges in investment, governance, and environmental policies could optimize development.

3.	Lohani S.P. (2022)	Reviewed the current status, prospects, and implications of renewable energy in Nepal. for achieving Sustainable Development Goals (SDGs) in Nepal.	Literature review of renewable energy sources and energy mix in Nepal.	Nepal's renewable energy adoption is low (less than 3%), requiring aggressive policies to support solar and hydropower for a sustainable energy transition.
4.	Mohapatra et al. (2016)	Studied the effects of foreign aid on economic growth.	Applied ARDL approach to analyze aid's impact on short- and long-term growth.	Aid positively affects growth in both the short and long term.
5.	Hamid Ali (2013)	Investigated the impact of foreign aid on Egypt's economic growth.	Empirical analysis using OLS.	Foreign aid negatively impacted Egypt's economic growth.
6.	Kwablah et al. (2014)	Examined the relationship between foreign aid and income in Ghana.	Time-period-based analysis.	Aid was more effective before a structural break in the economy.

7.	Hansen & Tarp (2001)	Assessed the relationship between foreign aid and economic growth across different countries.	Non-linear aid-growth model using OLS regression.	Aid positively impacts growth, influenced by investment, but needs better theoretical explanations.
8.	Asiedu & Nandwa (2007)	Investigated the impact of education aid on growth in low and middle-income countries.	OLS regression on education aid.	Varying effects based on income and type of aid.
9.	Nowak-Lehmann et al. (2012)	Studied the link between foreign aid and per capita income in aid-dependent countries.	Used Generalized Method Moments (GMM) to address endogeneity.	Aid had a negligible effect on income and a small positive effect on investment, but negatively impacted domestic savings.
10.	Bhattarai (2009)	Studied aid effectiveness in Nepal from 1983-2002.	Empirical analysis of aid's impact on per capita GDP.	Aid positively influenced long-term per capita GDP, but had negative short-

			term effects.
11.	Moyo (2009)	Argued that development assistance is detrimental to Africa's economic progress.	Literature review of foreign aid impacts in Africa. Aid fosters corruption, promotes inefficiency, and creates dependency. African economies would benefit more from investment and trade.
12.	Quazi (2005)	Investigated the impact of foreign aid on Bangladesh's GDP.	Cointegration method analysis. Loans boosted GDP growth, while grants financed non-productive expenditures.
13.	Islam (2003)	Explored political regimes' role in aid effectiveness across African and Asian countries.	Cross-country empirical analysis. Aid had minimal impact in weak regimes but a positive effect in totalitarian systems.
14.	Burnside & Dollar (2000)	Examined the relationship between aid, policy, and growth	Cross-country analysis (1970-1993). Aid fosters economic growth in countries with sound policies

		in recipient countries.	but fails in countries with poor governance.
15.	Mbaku (1993)	Tested the OLS regression relationship between foreign aid and economic growth.	Aid had little impact; domestic resources were more influential in economic growth.

2.4 Research Gap

During the review of previous studies it was found that most of researches The effectiveness of foreign aid is highly context-dependent. Studies like Burnside and Dollar (2000) and Hansen & Tarp (2001) suggest that aid is more effective in countries with sound economic policies and favorable conditions. Conversely, poor governance and policy environments often hinder aid effectiveness, leading to mixed outcomes. There is no consensus on the overall impact of aid on economic growth. Some studies, such as those by Hansen & Tarp (2001) and Mohapatra et al. (2016), find positive effects, while others, like Nowak-Lehmann et al. (2012) and Hamid Ali (2013), report negligible or even negative effects. The variation in results indicates that aid's impact on growth can be influenced by various factors including the type of aid, the recipient country's economic and political context, and the specific mechanisms of aid delivery. Effective aid often requires strong institutional frameworks and good governance. Research by Burnside and Dollar (2000) highlights that aid is more beneficial in countries with effective policies. On the other hand, critics like Easterly (2003) and Moyo (2009) argue that without addressing governance issues, aid can exacerbate problems like dependency and corruption. The effectiveness of different types of aid (e.g., loans vs. grants) and sectoral focus (e.g., education vs. infrastructure) varies. For instance, Quazi (2005) finds loans to be more effective for growth than grants, while studies by Asiedu & Nandwa (2007) and

Bhattarai (2009) show that sectoral allocations like education can have mixed effects depending on the context. Some research, such as Bhattarai (2009), indicates that aid can have positive long-term effects on growth, but may have short-term negative impacts. This suggests that the benefits of aid may take time to materialize and can be influenced by external and internal factors in the recipient countries. Recent critiques, like those from Moyo (2009), argue that aid can hinder economic development by promoting dependency and inefficiency. Alternatives such as trade, investment, and remittances are suggested as more sustainable sources of growth.

From the investigation of literature, the overall effectiveness of development assistance is mixed and depends significantly on the recipient country's context, including policy environment, governance, and the type of aid provided. While aid has the potential to contribute positively to economic growth and development, its impact is not guaranteed and can be influenced by various factors. Effective aid often requires alignment with sound policies, strong institutions, and consideration of the specific needs and conditions of recipient countries.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research design is the part of the study where there is analyzed the data of development assistance of past 10 years. To analyzed the data, data from MOF, WB, NRB and other journals are taken. Thus to achieve the stated objectives, descriptive and casual comparative research design methodology have been followed.

3.2 Population and sample

The situation of development assistance after 2013. Key informant selected purposively and In the study on the "Status of Development Assistance in Nepal," the population consists of all sectors receiving development assistance, including energy, road transportation, health, education, and reconstruction, across the years. The entire spectrum of development programs and projects funded through bilateral and multilateral aid agencies, including data from government reports, donor agencies, and international organizations, are part of the population. The sample would include selected projects or programs from each sector (energy, transportation, health, education, and reconstruction) funded by key development partners, such as the World Bank, Asian Development Bank, and bilateral donors over a defined period, for instance, from 2013 to 2023. Stratified sampling can be used to ensure each sector is represented proportionally in the analysis, and the sample can focus on large-scale projects to capture the trends in development assistance.

3.3 Data collection Tools

The study is mostly based on secondary data published and unpublished in the form of books, booklets, annual report, research reports, newspaper, articles etc.

Data are collected from economic survey published from ministry of finance. Various planned documents of government, monetary policy, micro economic indicators, world Bank report of Nepal, Development corporation Report, 15th periodic plan and previous research report of Shanker Dev Campus library.

3.4 Sources of Data Collection

To analyze the various dimensions of development assistance and its policy in Nepal, its regulation pattern, law and acts, different kinds of journals, constitution, periodic plan of Nepal government, economic survey, websites, documents and research papers are studied. The researchers visited the concerned government offices and other resource persons frequently. As the research is based on secondary data from different sources, it is edited and formatted for easy analysis and interpretation. All the relevant data and statistics collected have been tabulated according to the need of the study. The tables prepared and presented in this study have been derived from the donor's portfolio statistics and economic survey of Nepal.

The quantitative and qualitative data was derived from secondary sources, mainly the published and unpublished records of GON and DPs. These enabled levels of assistance, fund flow, relationship aid and budget and operational factors to be analyzed, besides the policy and strategic trends and decisions were reviewed and the result is assessed.

The Main Data Sources

- MOF published the economic survey, budget and expenditure data for the period, including record of FCGO and National Planning Commission (NPC).
- World Bank Reports, studies and publications.
- Relevant publications from newspaper like Gorkhapatra online, Himalayan times, Kantipur and related journals.
- World Development Report published by United Nations Development Program
- Publications from research scholars from Google

3.5 Data Analysis Tools

Development assistance with different aspects (loan, grants, distributions, conditionality, aid modality etc.) are the major variables that are analyzed during data analysis. Statistical tools like Arithmetic mean, standard Deviation, C.V, Correlation coefficient, Regression analysis etc are used where they are required. The collected and calculated data are interpreted with the help of tables and illustrations etc. Various statistical tools can be

used to analyze the data available to the researcher. These tools are used in research in order to draw the reliable conclusion through the analysis of financial data. Following statistical tools are used in the study.

3.5.1 Descriptive statistics

Some statistical tools have also been used in the study. Following descriptive statistics tools are used to analyze the relationship between two variables.

Arithmetic mean

Mean is the value that represents the group of values and provides an indication of the concentration of values in the distribution's central part. An average provides us with a point that is most representative of the information. It portrays the aspects of the entire representative of the data. The value of arithmetic mean lies in between the two extreme observations of the entire data. It is an envoy of the mass homogeneous data. The value of the AM is obtained by adding together all the items and by dividing this total by the number of items.

The arithmetic mean is simple, and most people with even a little bit of finance and math skill can calculate it. It's also a useful measure of central tendency, as it tends to provide useful results, even with large groupings of numbers.

Mathematically, Arithmetic Mean (AM) is given by,

$$\text{Mean}(\bar{X}) = \frac{\sum x}{N}$$

Where,

$$\bar{X} = \text{Mean}$$

$$\sum x = \text{Sum of variables}$$

$$N = \text{Number of values}$$

Standard deviation(σ)

A stock's standard deviation is a valuable instrument for investors to use when searching for their optimal stock. Some investors prefer a risk free strategy, while others like to take a more risky approach. The standard deviation helps to point them in the right direction.

The standard Deviation measures the absolute dispersion. The greater the standard Deviation, greater will be magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

$$\text{S. D } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Coefficient of variation

Coefficient of Variation (CV) is a relative measure of risk. It is the standard deviation divided by the expected return, which measures risk per unit of return. To compare the variability between two or more series, CV is more appropriate statistical tool. Mathematically,

$$\text{C.V.} = \frac{S}{\bar{x}} \times 100$$

3.5.2 Correlation analysis

Correlation coefficient (r)

When the relationship is quantitative nature, Correlation coefficient is the best mathematical method for discovering and measuring the relationship and expressing it. If the value of the variables is directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, the correlation is said to be negative, but the correlation coefficient always remains within the limit of +1 to -1. By Karl Pearson, the simple correlation coefficient (between two variables, say X and Y) is given by, Where, $r(x, y)$ is the correlation between two variables X and Y.

$$r = \frac{\sum (X - \bar{X})(Y - \bar{Y})}{\sqrt{\sum (X - \bar{X})^2} \sqrt{\sum (Y - \bar{Y})^2}}$$

When, $r = +1$, there is perfect positive correlation.

$r = -1$, there is perfect negative correlation.

$r = 0$, there is no correlation.

r lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

r lies between 0.5 and 0.699, there is a moderate degree of correlation.

r is less than 0.5, there is low degree of correlation.

3.5.3 Regression analysis

Regression analysis is the statistical tool that can predict the unknown value of one variable from the known value of any other variable. The variable, whose value is given, is called independent variable and the variable whose value is to be predicted is called dependent variable. It is used to determine whether the dependent variable is influenced by the given independent variable or not.

3.5.4 The Regression Model

Model for this study has been made as follows:

$$\text{DARN} = \beta_0 + \beta_1\text{ENGY} + \beta_2\text{RDT} + \beta_3\text{HTH} + \beta_4\text{EDU} + \beta_5\text{RECON}$$

Where,

DARN = Development assistance received by Nepal

β_0 = Intercept

β_1 = Coefficient of ENGY

ENGY = Energy

β_2 = Coefficient of road T

RDT = Road Transportation

β_3 = Coefficient of health

HTH = Health

β_4 = Coefficient of EDU

EDU = Education

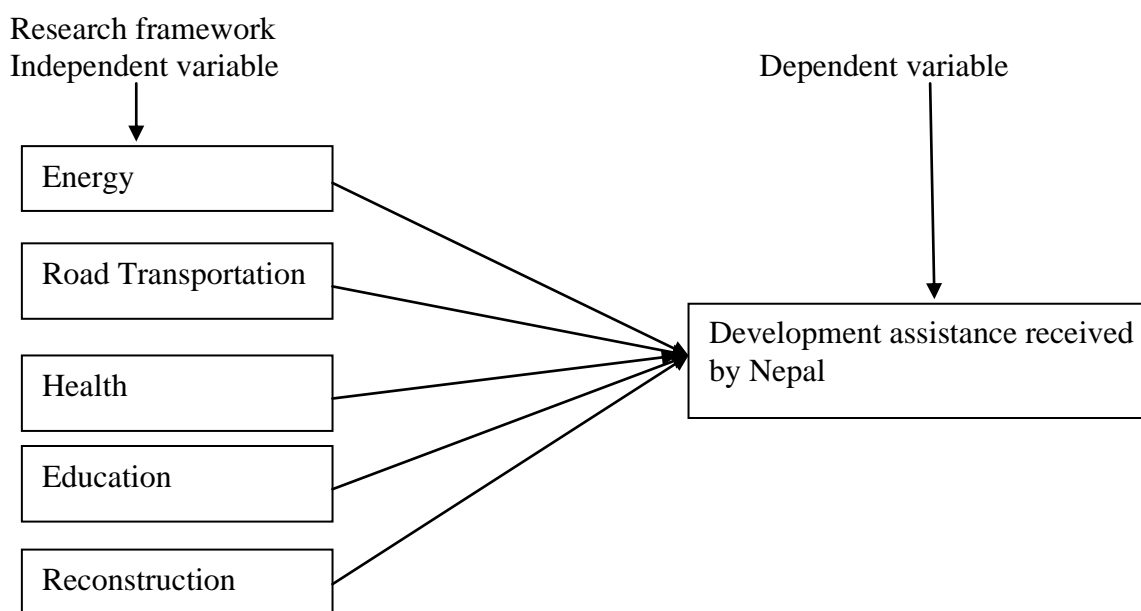
β_5 = Coefficient of Recon

RECON = Reconstruction

3.6 Research framework and Definition of variable

From the literature review, energy, road transportation, health, education and reconstruction sector should be tested among development assistance received by Nepal in different year. Hence, the research conceptual framework is presented as follows;

Figure 3.1



Source: *Nowak-Lehmann et al. (2012)*

Definition of variables

Development Assistance Received by Nepal: Development assistance refers to financial aid or support provided by foreign governments, multilateral organizations, and NGOs to promote economic development, improve social welfare, and reduce poverty in Nepal. It has been instrumental in funding various sectors like infrastructure, healthcare, education, and post-earthquake reconstruction efforts. This support plays a crucial role in the country's economic growth and social development (ADB, 2023).

Energy: The energy sector in Nepal, primarily hydropower, is vital for economic development. Despite its vast hydropower potential, Nepal faces energy shortages, and investments in energy infrastructure remain crucial for achieving sustainable growth and enhancing living standards. The government has prioritized energy generation,

transmission, and distribution to meet rising domestic demand and export electricity to neighboring countries (World Bank, 2023).

Road Transportation: Road transportation is the backbone of Nepal's transportation infrastructure, facilitating the movement of people and goods across the country. Although progress has been made in expanding and improving the road network, challenges such as mountainous terrain and poor road conditions persist. Investments in road infrastructure aim to enhance connectivity, promote trade, and improve access to essential services (UNDP, 2022).

Health: The health sector in Nepal focuses on improving access to healthcare services, reducing maternal and child mortality, and combating infectious diseases. Despite progress, challenges remain in terms of healthcare infrastructure, workforce, and service delivery, particularly in rural areas. Development assistance and government initiatives aim to address these gaps and strengthen the healthcare system (WHO, 2023).

Education: Education is a key priority for Nepal's development, with efforts to improve access to quality education, reduce the literacy gap, and promote gender equality in education. Although significant improvements have been made in primary and secondary education, challenges persist in higher education and vocational training. Education development initiatives focus on enhancing the overall quality of the system and its alignment with the labor market (UNESCO, 2023).

Reconstruction: Post-earthquake reconstruction in Nepal, particularly after the 2015 earthquake, has been a major focus of development efforts. Reconstruction initiatives aim to restore housing, schools, health facilities, and heritage sites. The process has faced delays due to various challenges, including funding gaps, but remains crucial for the country's long-term recovery and resilience (National Reconstruction Authority, 2022).

CHAPTER IV

RESULT AND DISCUSSION

The study tries to analyze specific variables of selected the variable Development Assistance Received by Nepal refers to the financial and technical support provided by international donors to promote Nepal's development across various sectors. Energy represents the investment and initiatives aimed at improving access to electricity and renewable sources. Road Transportation encompasses the development of infrastructure to enhance connectivity and mobility. Health refers to efforts and resources allocated to improving healthcare systems and services. Education focuses on investments in educational infrastructure, quality, and access. Lastly, Reconstruction pertains to the rebuilding efforts post-natural disasters, particularly focusing on restoring infrastructure and housing.

4.1 Data Presentation and Analysis

The role of development assistance in Nepal's development has been significant since the mid-fifties, coinciding with the country's transition into planned and systematic development. Currently, development assistance covers approximately 25-30% of the government expenditure and over 60% of the development budget, highlighting its crucial contribution to Nepal's fiscal framework. In terms of sectoral distribution, development assistance has been allocated predominantly to agriculture, forestry, and fisheries, followed by energy, transportation, health, social development, and human resource development. This allocation reflects the priorities and focus areas of Nepal's development agenda. Nepal's involvement in the Colombo Plan, initiated during the Commonwealth summit in Colombo, Sri Lanka, in 1950, marked a significant milestone in its engagement with foreign aid. Joining the Colombo Plan in 1952 allowed Nepal to benefit from foreign aid aimed at cooperative economic and social development in the Asia-Pacific region. Through this plan, Nepal received grants primarily focused on human capital development, including scholarships for studies in professional and technical fields. These scholarships enabled Nepalese scholars to pursue higher education abroad, contributing to the country's capacity-building efforts. The grants received under

the Colombo Plan supported vital sectors such as agriculture, transportation, infrastructure, hydropower, communications, education, health, and industry. To further analyze and interpret the impact of development assistance, it is essential to consider the value of Nepal's Gross Domestic Product (GDP) alongside the inflow of foreign aid, including grants and loans. The GDP data, denoted in Nepali currency (NRS in 10 million), can be sourced from the Ministry of Finance website.

4.1.1 Development assistance received by Nepal

Table 4.1

Development Assistance Received by Nepal, GDP and total Foreign Financing of Different year

Year	GDP(at current price)	Total Develop-ment financing (\$ billion)
2013/14	194929	1,000,000,000
2014/15	223253	1,000,000,000
2015/16	242364	1,100,000,000
2016/17	260818	1,400,000,000
2017/18	307714	1,600,000,000
2018/19	345595	1,600,000,000
2019/20	385893	2,000,000,000
2020/21	388870	1,700,000,000
2021/22	427730	1,480,000,000
2022/23	482573	1,400,000,000
Mean	316,331.2	1,440,000,000
S.D	106,162.75	314,269,050.36
C.V	33.5	21.8

Source: MOF,2023

In this above table presents data on GDP at current prices, foreign loans, foreign grants, and total development financing for Nepal from fiscal year 2013/14 to 2022/23. The table presents data on Nepal's GDP at current prices and total development financing

from 2013/14 to 2022/23. The GDP has shown a consistent upward trend, starting at NPR 194,929 million in 2013/14 and increasing to NPR 482,573 million in 2022/23. Development financing has fluctuated, beginning at \$1 billion in 2013/14, peaking at \$2 billion in 2019/20, and then declining to \$1.4 billion by 2022/23. The mean GDP over the period is NPR 316,331.2 million, with a standard deviation of NPR 106,162.75 million, indicating moderate variability. In contrast, development financing has a mean of \$1.44 billion, with a standard deviation of \$314.27 million, reflecting lower variability. The coefficient of variation (C.V.) for GDP is 33.5%, while for development financing, it is 21.8%, suggesting that development financing is more stable than GDP growth during this period. Over the ten-year period, Nepal's GDP at current prices demonstrated steady growth, while development financing experienced some fluctuations. The peak in development financing occurred in 2019/20 with \$2 billion, followed by a gradual decline in subsequent years. Despite the variations in financing, the GDP continued to rise, indicating economic expansion. The lower coefficient of variation for development financing (21.8%) compared to GDP (33.5%) suggests that development assistance was relatively more stable. Overall, the data shows a positive economic trajectory, supported by consistent though varying levels of external financing.

4.1.2 Energy (Including Hydro Electricity)

Energy (Including Hydro Electricity) refers to the generation, transmission, and distribution of power, with a particular focus on hydropower as Nepal's primary energy source. It encompasses the infrastructure, policies, and projects aimed at harnessing water resources to produce electricity. Additionally, it includes renewable energy initiatives and efforts to expand access to energy for sustainable development.

Table 4.2

Energy (Including Hydro Electricity)

US\$ million

Year	Energy(including hydro electricity)
2013/14	58,200,000
2014/15	78,600,000
2015/16	150,600,000
2016/17	72,200,000
2017/18	116,700,000
2018/19	220,600,000
2019/20	142,900,000
2020/21	300,000,000
2021/22	126,400,000
2022/23	297,000,000
Mean	145,830,000
S.D	85,827,350.20
C.V	58.8

Source: MOF,

In this table shows that the table shows the yearly development assistance provided to Nepal's energy sector, including hydropower, from 2013/14 to 2022/23 in US dollars. The financial support has fluctuated significantly over the years, beginning at \$58.2 million in 2013/14 and peaking at \$300 million in 2020/21. The mean assistance during the period is \$145.83 million, with a standard deviation of \$85.83 million, indicating considerable variability. The highest amount of aid was in 2020/21, while the lowest was in 2013/14. The coefficient of variation (C.V.) stands at 58.8%, suggesting a high degree of fluctuation in energy sector financing throughout the decade. This volatility highlights the irregular nature of funding in the sector, despite an overall increasing trend.

4.1.3 Road Transportation

Road transportation refers to the movement of goods and people via roadways using vehicles such as cars, trucks, and buses. It plays a vital role in connecting regions, supporting economic activities, and enabling daily commutes. Efficient road transport systems are crucial for trade, accessibility, and infrastructure development.

Table 4.3

*Road Transportation**US\$ million*

Year	Road Transportation
2013/14	117,000,000
2014/15	109,000,000
2015/16	52,000,000
2016/17	87,000,000
2017/18	46,000,000
2018/19	83,000,000
2019/20	78,000,000
2020/21	38,000,000
2021/22	139,000,000
2022/23	253,000,000
Mean	103,800,000
S.D	61,550,007.39
C.V	59.3

Source: MOF,

The table outlines the development assistance provided to Nepal's road transportation sector from 2013/14 to 2022/23 in US dollars. Over the ten-year period, the funding has shown significant fluctuations. In 2013/14, assistance stood at \$117 million, followed by a drop to \$52 million in 2015/16 and a low of \$38 million in 2020/21. However, there was a sharp increase to \$253 million by 2022/23, indicating a renewed focus on road infrastructure in recent years. The mean assistance across the period is \$103.8 million, with a standard deviation of \$61.55 million, showing high variability in the amounts received. The coefficient of variation (C.V.) of 59.3% highlights the considerable inconsistency in development aid for road transportation. Despite the volatility, the sector saw a significant increase in funds toward the end of the decade, which may reflect the growing importance of infrastructure development in

Nepal's economic planning. This uneven distribution of aid underscores the challenges in securing consistent financial support for the transportation sector.

4.1.4 Health

Health is the state of complete physical, mental, and social well-being, not merely the absence of disease or infirmity. It encompasses a balanced lifestyle that supports bodily functions, emotional stability, and social integration. Maintaining health involves prevention, care, and wellness practices across these dimensions.

Table 4.4

Health

US\$ million

Year	Health
2013/14	115,700,000
2014/15	177,700,000
2015/16	103,400,000
2016/17	89,600,000
2017/18	145,300,000
2018/19	87,000,000
2019/20	318,400,000
2020/21	222,700,000
2021/22	241,500,000
2022/23	318,400,000
Mean	178,260,000
S.D	77,174,336.11
C.V	43.3

Source: MOF,

In this above table shows that the table presents development assistance provided to Nepal's health sector from 2013/14 to 2022/23 in US dollars. Over the ten-year period, funding varied significantly, starting at \$115.7 million in 2013/14 and reaching \$318.4 million in both 2019/20 and 2022/23. The mean assistance over this period was \$178.26

million, with a standard deviation of \$77.17 million, indicating substantial fluctuations in financial support. The lowest amount of funding was in 2018/19 at \$87 million, while the highest was in 2019/20. The coefficient of variation (C.V.) stands at 43.3%, highlighting moderate variability in the financial aid provided to the health sector. This indicates that while the funding was somewhat inconsistent, the overall trend shows an increase, particularly in the latter years, reflecting growing attention to healthcare needs in Nepal.

4.1.5 Education

Education is the process of acquiring knowledge, skills, values, and habits through teaching, training, or research. It fosters intellectual development and personal growth, enabling individuals to contribute effectively to society. Education can take place in formal settings like schools or through informal experiences.

Table 4.5

Education

US\$ million

Year	Education
2013/14	175,100,000
2014/15	113,700,000
2015/16	111,600,000
2016/17	127,200,000
2017/18	202,200,000
2018/19	204,000,000
2019/20	133,300,000
2020/21	202,000,000
2021/22	172,100,000
2022/23	120,000,000
Mean	158,530,000
S.D	34,458,370.69
C.V	21.8

Source: MOF,

In the table 4.5 shows that the The table provides data on development assistance allocated to Nepal's education sector from 2013/14 to 2022/23 in US dollars. Over this ten-year period, funding fluctuated but remained relatively stable compared to other sectors. In 2013/14, the assistance was \$175.1 million, and while it dropped to \$113.7 million in 2014/15, it recovered in the following years. The lowest level of funding was recorded in 2015/16 at \$111.6 million. However, the education sector received its highest funding of \$204 million in 2018/19. This peak was followed by a decline to \$133.3 million in 2019/20, though funding surged again to \$202 million in 2020/21.

The mean funding for the period is \$158.53 million, with a standard deviation of \$34.46 million, indicating moderate fluctuations. The coefficient of variation (C.V.) stands at 21.8%, which reflects a lower variability compared to other sectors like health and transportation, showing that funding for education was relatively consistent. Notably, after the peak in 2018/19, there was a gradual decline, with funding reaching \$120 million in 2022/23. This dip in recent years could point to shifting priorities in development assistance or the reallocation of resources to other critical sectors.

Despite the occasional declines, the overall trend in funding for education shows a commitment to maintaining relatively high levels of investment, especially during the middle of the decade. The data suggests that Nepal's education sector has received steady, though not significantly increasing, support, which may reflect an ongoing emphasis on improving educational infrastructure and access. However, the fluctuations in funding highlight the need for more consistent financial backing to sustain long-term educational development initiatives. The moderate variability suggests that, while there were some highs and lows, the sector has been relatively stable in receiving external aid, providing a foundation for gradual progress in education over the decade.

4.1.6 Reconstruction

Reconstruction refers to the process of rebuilding or restoring infrastructure, institutions, and communities after a crisis or disaster, such as a natural calamity or conflict. It aims to

address the physical, economic, and social impacts of the event while promoting long-term development and stability.

Table 4.6

Reconstruction

US\$ million

Year	Reconstruction
2013/14	0.00
2014/15	500,000
2015/16	56,100,000
2016/17	157,600,000
2017/18	138,000,000
2018/19	73,700,000
2019/20	202,000,000
2020/21	142,700,000
2021/22	142,800,000
2022/23	142,000,000
Mean	91,390,000
S.D	36,280,000
C.V	39.7

Source: MOF,

In this above table shows that table presents development assistance for Nepal's reconstruction sector from 2013/14 to 2022/23 in US dollars. Funding began in 2014/15 with \$500,000, sharply rising to \$56.1 million in 2015/16 following the 2015 earthquake. The highest allocation occurred in 2019/20, reaching \$202 million, while subsequent years saw a stabilization around \$142 million. The mean assistance for reconstruction over the period is \$91.39 million, with a standard deviation of \$36.28 million, indicating moderate variability. The coefficient of variation (C.V.) is 39.7%, suggesting significant fluctuations in funding. Overall, the data highlights an increase in financial support following natural disasters, with a steady flow of assistance in later years.

4.2 Descriptive statistics of all variables

The below table shows the descriptive statistics for dependent and independent variables of selected development assistance in Nepal for the study period of 2013/14 to 2022/23. The dependent variable Development assistance received by Nepal and independent variable is energy, health education transportation and reconstruction.

Table 7.

Descriptive statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DARN	10	1000000000	2000000000	1428000000	322931021.2
ENGY	10	58200000	300000000	156320000	88184526.23
RDT	10	38000000	253000000	100200000	62632614.86
HTH	10	87000000	318400000	181970000	89385830.97
EDU	10	111600000	204000000	156120000	38843984.23
RECON	10	0	202000000	105540000	68958219.23

SOURCE: SPSS Analysis

In this above table shows that the descriptive statistics table The table presents descriptive statistics for six sectors receiving development assistance in Nepal: Disaster Risk Reduction (DARN), Energy (ENGY), Road Transportation (RDT), Health (HTH), Education (EDU), and Reconstruction (RECON). Each sector's data covers a ten-year period. For DARN, the minimum assistance provided was \$1 billion, while the maximum reached \$2 billion, with a mean of \$1.43 billion and a standard deviation of \$322.93 million, indicating significant variation in funding levels. In the energy sector, assistance ranged from \$58.2 million to \$300 million, with an average of \$156.32 million and a higher standard deviation of \$88.18 million, reflecting substantial fluctuations in financial support. Road transportation funding varied from \$38 million to \$253 million, with a mean of \$100.2 million and a standard deviation of \$62.63 million, showing moderate variability. For health, assistance ranged from \$87 million to \$318.4 million, with an average of \$181.97 million. The standard deviation was \$89.39 million, highlighting significant funding fluctuations. In the education sector, the minimum assistance was

\$111.6 million, and the maximum was \$204 million. The mean was \$156.12 million, with a lower standard deviation of \$38.84 million, indicating more stable funding. Finally, reconstruction received between \$0 and \$202 million, with an average of \$105.54 million and a standard deviation of \$68.96 million, reflecting high variability, especially during the post-disaster periods.

4.3 Correlation analysis

This section presents the descriptive statistics of the data for the study. Correlation Analysis between variables was studied to find relations among the different variables. Pearson's Correlation analysis is used to determine the relation between various independent and dependent variables associated with the research.

Table 8

Correlation analysis

		DARN	ENGY	RDT	HTH	EDU	RECON
DARN	Pearson Correlation	1					
	Sig. (2-tailed)						
ENGY	Pearson Correlation	0.428	1				
	Sig. (2-tailed)	0.217					
RDT	Pearson Correlation	-0.214	0.237	1			
	Sig. (2-tailed)	0.553	0.509				
HTH	Pearson Correlation	0.047	0.449	0.498	1		
	Sig. (2-tailed)	0.162	0.193	0.143			
EDU	Pearson Correlation	0.030	0.218	-0.370	-0.204	1	
	Sig. (2-tailed)	0.279	0.546	0.293	0.572		
RECON	Pearson Correlation	.854**	0.350	0.009	0.545	0.079	1
	Sig. (2-tailed)	0.002	0.322	0.980	0.103	0.829	

** . Correlation is significant at the 0.01 level (2-tailed).

Sources: SPSS Analysis

In this above table shows that the correlation analysis table reveals the relationships between the dependent variable, Disaster Risk Reduction (DARN), and various independent variables: Energy (ENGY), Road Transportation (RDT), Health (HTH), Education (EDU), and Reconstruction (RECON). Among these variables, Reconstruction (RECON shows a strong positive and significant correlation with DARN, evidenced by a Pearson correlation coefficient of 0.854 and a significance level of 0.002 ($p < 0.01$). This indicates that as funding for reconstruction increases, funding for disaster risk reduction also tends to increase significantly, suggesting a strategic alignment in resource allocation toward improving disaster resilience.

The Energy (ENGY) variable displays a moderate positive correlation with DARN (0.428), but this relationship is not statistically significant ($p = 0.217$), indicating that while there is a positive trend, it may not be robust enough to draw definitive conclusions. The Health (HTH) variable shows a weak positive correlation with DARN (0.047), which is also not significant ($p = 0.162$). In contrast, Road Transportation (RDT) exhibits a slight negative correlation (-0.214) with DARN, indicating an inverse relationship, but this is also insignificant ($p = 0.553$). Similarly, Education (EDU) has a negligible positive correlation (0.030) with DARN, which lacks significance ($p = 0.279$). In conclusion, the most notable finding from the correlation analysis is the strong positive and significant relationship between DARN and Reconstruction, suggesting that investments in reconstruction efforts are closely associated with improvements in disaster risk reduction strategies in Nepal.

4.4 Regression Analysis

Multiple linear regressions show the effects of multiple independent variables on single dependent variable. Its analysis is used to analyze the impact of multiple independent variables on single dependent variable. Thus, multiple linear regression analysis is used to predict the impact of independent variables of interest on deposit. The equation for impact of independent variables is expressed in the following equation:

$$\text{DARN} = \beta_0 + \beta_1\text{ENGY} + \beta_2\text{RDT} + \beta_3\text{HTH} + \beta_4\text{EDU} + \beta_5\text{RECON}$$

Table 4.9
Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.942 ^a	.888	.748	162026950.96998
a. Predictors: (Constant), HTH, EDU, ENGY, RECON, RDT				

Sources: SPSS Analysis

In this above table shows that the model summary table model summary indicates a strong relationship between the dependent variable and the independent variables, with an R value of 0.942, suggesting a high degree of correlation. The R Square value of 0.888 implies that approximately 88.8% of the variance in the dependent variable can be explained by the independent variables: Health (HTH), Education (EDU), Energy (ENGY), Reconstruction (RECON), and Road Transportation (RDT). The Adjusted R Square value of 0.748 further refines this estimate, accounting for the number of predictors in the model, and indicates that the model is effective in explaining the variability of the dependent variable.

Table 10
ANOVA value in trillion

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	833.55	5	166.71	6.350	.049 ^b
Residual	105.01	4	26.25		
Total	938.56	9			

a. Dependent Variable: DARN

b. Predictors: (Constant), HTH, EDU, ENGY, RECON, RDT

Sources: SPSS Analysis

In this above table shows that the The ANOVA table indicates that the regression model significantly explains the variance in the dependent variable, DARN, with an F-value of 6.350 and a significance level of 0.049 ($p < 0.05$), suggesting that the model is statistically significant. The Sum of Squares for Regression is 833.55 trillion, while the Residual Sum of Squares is 105.01 trillion, leading to a total of 938.56 trillion. This analysis demonstrates that the independent variables collectively contribute meaningfully to explaining the variation in DARN..

The regression Coefficients of the Model are indicated below table.

Table 4.10

Coefficients of variables

Coefficients					
Model	Unstandardized Coefficients		Standardized	T	Sig.
	B	Std. Error	Coefficients Beta		
(Constant)	677999594.16	303567387.87		2.233	.089
ENGY	.305	.746	.083	.409	.031
RDT	-1.444	1.120	-.280	-1.289	.267
EDU	2.183	1.622	.263	1.346	.049
RECON	3.073	1.017	.656	3.022	.039
HTH	.999	.933	.276	1.070	.345

a. Dependent Variable: DARN

Sources: SPSS Analysis

In this above table shows that the coefficients table coefficients table presents the relationship between the dependent variable, DARN, and various independent variables, revealing their respective impacts. The constant term is approximately 677.99 million with a T-value of 2.233 and a significance level of 0.089, suggesting that while it is close to significance, it is not statistically significant at the conventional 0.05 level. Among the independent variables, Energy (ENGY) has a coefficient of 0.305 with a significance level of 0.031, indicating a positive and statistically significant relationship with DARN.

Education (EDU) shows a coefficient of 2.183 and is significant at 0.049, suggesting that increases in educational funding positively correlate with DARN. Similarly, Reconstruction (RECON) has a strong coefficient of 3.073 and is significant at 0.039, indicating a highly significant positive relationship with DARN as well. In contrast, Road Transportation (RDT) has a coefficient of -1.444 with a significance level of 0.267, indicating no significant relationship with DARN. The Health (HTH) variable also shows no significant impact, with a coefficient of 0.999 and a significance level of 0.345. Overall, the results suggest that both Education and Reconstruction are significant predictors of DARN, highlighting their crucial roles in disaster risk reduction strategies.

4.5 Discussion

The status of development assistance in Nepal reflects a complex interplay of economic progress, resource allocation, and strategic priorities, particularly as the country approaches graduation from Least Developed Country (LDC) status. Baral (2024) highlights the significance of this transition, emphasizing that Nepal's advancement in various socio-economic indicators presents both opportunities and challenges that must be strategically navigated. This is crucial as the country seeks to align its development efforts with the Sustainable Development Goals (SDGs). In contrast, Chaudhary (2024) underscores the importance of hydropower development as a critical element for economic growth, illustrating how the management of Nepal's abundant water resources could substantially impact its development trajectory. Lohani (2022) further supports the discourse on energy, asserting that a sustainable energy mix is vital for achieving developmental goals, particularly in transitioning from traditional biomass to modern renewable energy sources. This emphasis on energy aligns well with the findings of Mohapatra et al. (2016), who indicated that effective aid can positively influence growth, corroborating the notion that strategic investments, especially in infrastructure and human capital, can facilitate development. The correlation and regression analyses from the study on Disaster Risk Reduction (DARN) reveal significant relationships with Reconstruction (RECON), emphasizing the necessity for coherent resource allocation to enhance disaster resilience.

The results indicate that increased funding for reconstruction is closely linked to disaster risk reduction efforts, supporting the idea that a focused approach to development assistance can yield tangible benefits. Similar results are echoed in Bhattarai (2009), where effective aid positively impacted GDP over the long term, suggesting that policy environments enhance aid effectiveness. Conversely, the insights from Moyo (2009) raise critical concerns about the potential drawbacks of aid dependency, cautioning against neglecting sustainable investment alternatives. In sum, the discourse on Nepal's development assistance underscores the need for a balanced approach, prioritizing strategic investments in energy, education, and reconstruction, while remaining vigilant about the risks of dependency on external aid.

The findings of this study align with Bhattarai, P., & Pant, K. (2018) This study examines the effectiveness of foreign aid in various sectors, similar with my focus on sectoral fluctuations in funding. It analyzes how aid allocations have shifted over time and their outcomes in sectors like health, education, and infrastructure. Khanal, D. (2019) This review focuses on the role of foreign aid in Nepal's development and discusses the challenges of dependency and sustainability. It also addresses the alignment of aid with national development priorities, which aligns closely with the challenges highlighted in my conclusion. Dhakal, T. N. (2020). this study specifically looks at the transition from bilateral to multilateral aid in Nepal and its implications for development planning and execution. It provides an analysis similar to my discussion on the evolution of aid types and the role of multilateral organizations like the ADB. Poudel (2017) would be the least similar to my conclusion and summary. This study's focus on environmental aid and conservation outcomes is quite different from the macroeconomic and sectoral analysis of development assistance's role in Nepal's overall economic and social development. It doesn't address the major themes of government expenditure, sectoral allocation, aid dependency, or the shift from bilateral to multilateral aid. Ghimire, M. (2016), This review centers on the impact of community-level development projects funded by NGOs and smaller donors. It examines grassroots empowerment and local participation, which are not key focuses in my summary and conclusion. It lacks a broader national perspective on government expenditure or sectoral shifts in aid.

Both reviews address the role and impact of development assistance in Nepal's development. They emphasize the significance of foreign aid in supporting the country's economic growth and development initiatives. Both reviews discuss the allocation of development assistance across various sectors. They highlight how funds are distributed among agriculture, energy, transportation, health, education, and reconstruction.

Each review considers historical trends in foreign aid. They both outline shifts in aid patterns over time, such as the increasing role of multilateral aid and fluctuations in sectoral investments. The reviews identify key development partners, including multilateral organizations like the World Bank and ADB, as well as bilateral donors like the UK and USAID. Both reviews examine the relationship between development assistance, GDP growth, and national budget contributions, noting how aid influences government expenditure and development priorities.

CHAPTER V

SUMMARY AND CONCLUSION

5.1 Summary

Development assistance for nearly last 56 year has remained an integral part of the Nepalese economy. There has been may fold increase in the volume of assistance to Nepal. During this period there has been sum improvement in the physical and social economy indicators of Nepal. Numbers of hospital and health telephone irrigation and road access. Never the less all the facilities remain beyond the reach of a large mass of the people.

The above information highlights the longstanding role of development assistance in Nepal's economy and development efforts, along with some associated challenges and considerations:

Development assistance has been integral to Nepal's economy for over five decades, contributing significantly to various physical and social infrastructure developments. However, despite improvements in indicators like healthcare, education, and infrastructure, many facilities remain inaccessible to a large portion of the population.

There have been concerns about the optimal utilization of development assistance, with corruption posing a significant challenge. Lack of proper criteria for selecting aid projects and varying forms of assistance, ranging from infrastructure to entertainment projects, further complicate the situation.

Development assistance has played a dominant role in financing Nepal's development plans, with more than 50% of development expenditure being financed by assistance during different planning periods. While aid has helped bridge the saving-investment gap and accelerate growth and poverty reduction, there are concerns about dependency and the sustainability of this model in the long term.

Various socio-economic sectors, including transport, power, communication, agriculture, irrigation, and forestry, have attracted significant amounts of development assistance. This reflects the diverse development needs of the country and the areas where assistance has been prioritized.

While econometric results may not indicate immediate development assistance dependency, graphical analysis suggests a widening gap between foreign aid and gross domestic savings (GDS), raising concerns about increasing aid dependency in the long run. Further research is needed to understand the implications of aid dependency and the sustainability of relying on development assistance for development.

In summary, while development assistance has played a crucial role in Nepal's development journey, there are challenges related to its optimal utilization, dependency, and long-term sustainability. Addressing corruption, ensuring effective project selection criteria, and exploring avenues for domestic resource mobilization are essential for maximizing the benefits of development assistance while minimizing its potential drawbacks.

5.2 Conclusion

This study aimed to analyze the role and impact of development assistance on Nepal's economic and social development, focusing on its contribution to government expenditure and sectoral allocation. The findings reveal that development assistance has been a critical component of Nepal's fiscal framework, covering approximately 25-30% of government expenditure and more than 60% of the development budget. This significant contribution underscores the vital role of foreign aid in supporting Nepal's development efforts and addressing its financial gaps.

Historically, development assistance to Nepal has evolved, with a noticeable shift from predominantly bilateral aid to a more significant role played by multilateral aid, particularly from institutions such as the Asian Development Bank (ADB). The increase in foreign loans, especially from 2017/18 onwards, alongside a rising proportion of grants, indicates a strategic move towards reducing debt burdens while still leveraging external resources for development.

Sectoral analysis shows considerable fluctuations in funding across different areas. The energy sector, for example, saw substantial increases in recent years, reflecting a focus on infrastructure development. Similarly, investments in road transportation and health have shown variability, with notable peaks and troughs that align with changing priorities and

emerging needs. The education sector has also experienced fluctuations, highlighting the evolving focus on educational development.

The contribution of development assistance to the national budget has generally decreased in recent years, despite an overall increase in foreign aid. This trend suggests that while the total amount of aid has grown, its proportion relative to the national budget has diminished, potentially due to increasing government revenue or changes in aid allocation strategies.

The analysis of development partners reveals that multilateral organizations, particularly the World Bank and ADB, play a significant role in providing aid, with substantial contributions from bilateral donors as well. However, challenges remain in aligning aid with national development priorities and addressing discrepancies between donor disbursements and government budget estimates.

In conclusion, while development assistance has been crucial in supporting Nepal's development, ongoing efforts are needed to improve alignment with national priorities, address aid fragmentation, and enhance the effectiveness of aid utilization. The evolving landscape of aid, influenced by both historical trends and current priorities, underscores the need for strategic management to maximize the impact of development assistance in achieving sustainable development goals and addressing pressing socio-economic challenges.

This conclusion effectively ties together the objectives of analyzing the role, impact, and sectoral distribution of development assistance, as well as addressing the challenges and opportunities for Nepal's development strategy.

5.3 Implications

There is a need for better alignment between development assistance and national development priorities. This requires enhanced coordination between government agencies and donor organizations to ensure that aid effectively addresses the country's most pressing needs.

- The shift towards more foreign loans indicates a need for careful debt management strategies. Nepal should focus on maintaining a sustainable debt-to-

GDP ratio to avoid over-reliance on loans and ensure long-term fiscal stability. Improving the effectiveness of aid involves addressing fragmentation and ensuring that aid is used efficiently.

- This may involve better tracking and evaluation systems to measure the impact of aid and make necessary adjustments. The significant contribution of development assistance to government expenditure highlights the importance of aid in fiscal policy. Nepal must continue to leverage this aid while also enhancing domestic revenue sources to reduce dependency.
- Fluctuations in sectoral funding suggest that investment priorities may need to be stabilized to achieve consistent progress in critical areas like energy, infrastructure, health, and education. The impact of aid on social development can be substantial. Ensuring that aid is effectively utilized can lead to improvements in health, education, and infrastructure, thereby enhancing overall quality of life for Nepal's population.
- The distribution of aid across different sectors may affect various social groups differently. It's important to consider equity and inclusion in aid allocation to address disparities and ensure that marginalized communities benefit from development efforts. The evolving landscape of aid requires improved coordination among multilateral and bilateral donors. Establishing clear communication channels and collaborative frameworks can help in aligning aid with national goals. Strengthening the capacity of government institutions to manage and utilize aid effectively is crucial.
- This includes training for staff, improving administrative processes, and developing robust monitoring and evaluation systems. To achieve sustainable development goals, Nepal needs to integrate aid into long-term development strategies. This involves planning for the gradual reduction of aid dependency and focusing on self-sustaining development initiatives. Aid can play a role in building resilience against economic and social shocks. Ensuring that development assistance is directed towards strengthening institutional and

infrastructural resilience can enhance the country's ability to handle future challenges.

- In summary, the implications of this thesis suggest that while development assistance has been crucial for Nepal's progress, strategic improvements are needed to optimize its impact. This involves better alignment with national priorities, effective debt management, improved aid effectiveness, and a focus on sustainable and inclusive development.

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<https://www.journals.elsevier.com/world-development>

8.4 Reconstruction

The reconstruction sector received the fourth-highest total ODA disbursement in FY2021/22, approximately USD 142.8 million.

Humanitarian support was the most utilised aid modality within the reconstruction sector in FY2021/22, delivering USD 96.2 million or 67.5% of total ODA to the sector.

The sector's second-largest aid modality, project support, received USD 40.6 million or 28.5% of the total ODA to the sector, reflecting a focus on specific, tangible initiatives.

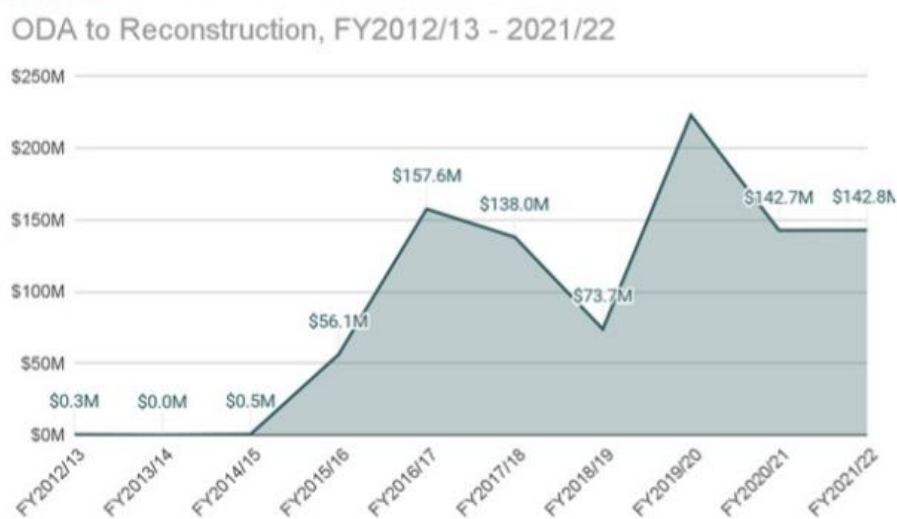
Loans were the most utilised assistance type within the reconstruction sector in FY2021/22, delivering USD 118.5 million or 83.1% of total ODA to the sector.

Grants were the reconstruction sector's second-largest assistance type, delivering USD 21 million or 14.7% of the total ODA to the sector.

• 59

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FIGURE 8.14. ODA to Reconstruction, FY2012/13 - 2021/22



8.5 Energy

The Energy (including hydro/electricity) sector secured approximately USD 126.4 million in total ODA in FY2021/22.

Project support was the most utilised aid modality within the energy sector in FY2021/22, delivering USD 109.6 million or 86.7% of total ODA to the sector. The sector's second-largest aid modality, program-based support, received USD 12.6 million or 10% of the total ODA to the sector, signalling targeted investments in energy programs that address systemic energy challenges.

Loans were the most utilised assistance type within the health sector in FY2021/22, delivering USD 120.9 million or 50.1% of total ODA to the sector. Grants were the health sector's second-largest assistance type, providing USD 61.5 million or 25.4% of the total ODA to the sector.

• 56

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FIGURE 8.11. ODA to Health, FY2012/13 - 2021/22



8.2 Education

The education sector received the highest total ODA of approximately USD 172.1 million in FY2021/22. The highest disbursement in a single year was in FY2018/19 at approximately USD 242.4 million. However, there has been significant fluctuation in disbursements over the years, with a high of USD 242.4 million in FY2018/19 and a low of USD 111.6 million in FY2015/16. FY2021/22 saw a reduction from the previous year of approximately 21.4%.

Project Support was the most used aid modality within the Education sector in FY2021/22, delivering USD 104.03 million or 60.5% of total ODA. The sector's second-largest aid modality, Humanitarian Support, received USD 20.26 million or 11.8% of the total ODA to the sector.

Loans were the most utilised assistance type within the Education sector in FY2021/22, delivering USD 117.1 million or 68.1% of total ODA to the sector. Grants were the Education sector's second-largest assistance type, providing USD 26.3 million or 15.3% of the total ODA, indicating a significant reliance on loan-based financing in this sector.

8.2 Education

The education sector received the highest total ODA of approximately USD 172.1 million in FY2021/22. The highest disbursement in a single year was in FY2018/19 at approximately USD 242.4 million. However, there has been significant fluctuation in disbursements over the years, with a high of USD 242.4 million in FY2018/19 and a low of USD 111.6 million in FY2015/16. FY2021/22 saw a reduction from the previous year of approximately 21.4%.

Project Support was the most used aid modality within the Education sector in FY2021/22, delivering USD 104.03 million or 60.5% of total ODA. The sector's second-largest aid modality, Humanitarian Support, received USD 20.26 million or 11.8% of the total ODA to the sector.

Loans were the most utilised assistance type within the Education sector in FY2021/22, delivering USD 117.1 million or 68.1% of total ODA to the sector. Grants were the Education sector's second-largest assistance type, providing USD 26.3 million or 15.3% of the total ODA, indicating a significant reliance on loan-based financing in this sector.

• 57

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FIGURE 8.12. ODA to Education, FY2012/13 - 2021/22



8.5 Energy

The Energy (including hydro/electricity) sector secured approximately USD 126.4 million in total ODA in FY2021/22.

Project support was the most utilised aid modality within the energy sector in FY2021/22, delivering USD 109.6 million or 86.7% of total ODA to the sector. The sector's second-largest aid modality, program-based support, received USD 12.6 million or 10% of the total ODA to the sector, signalling targeted investments in energy programs that address systemic energy challenges.

Loans were the most utilised assistance type within the energy sector in FY2021/22, delivering USD 84.5 million or 66.9% of total ODA to the sector. Grants were the energy sector's second-largest assistance type, providing USD 34.5 million or 27.2% of the total ODA, underlining a clear preference for loans in this sector.

• 60

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FIGURE 8.15. ODA to Energy (including Hydro/Electricity), FY2012/13 - 2021/22



Considering these trends, the health and education sectors will likely remain key focus areas for ODA disbursements, given their consistently high funding levels over the years. However, the substantial decrease in total ODA disbursement from FY2020/21 to FY2021/22 signals that future disbursements may be subject to considerable fluctuations, contingent on global and local economic and social circumstances.

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