

# CHAPTER ONE

## INTRODUCTION

### 1.1 General Background

Foreign aid can be defined as economic assistance from one country to another, the recipient typically being a less developed country (LDC). Aid is usually intended either to provide humanitarian relief in emergencies, to promote economic development, or to finance military expenditure. Aid may take the form of outright gifts of money, which may be tied to purchases from the donor, or untied and available for expenditure anywhere. It may take the form of soft loans, on terms easier than those available to the borrower in world capital markets. Aid may also be given in kind, including food, plant and equipment, military supplies or technical assistance (Dictionary of Economics, 2002).

Official Development Assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. Loans and credits for military purposes are excluded. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank. Aid includes grants, "soft" loans and the provision of technical assistance. Soft loans are those where the grant element is at least 25 percentage of the total (OECD, 2010). The broader definition of Foreign aid subsumes all money classified as official development assistance and further incorporates military assistance, political development programs, export promotion, debt forgiveness and non-concessional lending by all bilateral and multilateral organizations. Foreign aid itself can be distinguished into various categories based on its purpose and effects, intended upon the recipient country. Financial assistance could be disbursed for various reasons including strategic, political, economic or cultural reasons, which in turn is used as a basis to differentiate various types of donors.

Foreign aid is a policy of giving financial and technical aid to other countries, such as policy may be undertaken for various reasons; emergency relief in time of war,

famine, flood or other disaster, military aid for defense against a common enemy; enlightened self-interest, that is building up a poor country in order to improve one's own commerce or to help world trade in general. Aid make take a variety for forms; direst gift of money and equipment, short term or long term loans, with or without specific conditions of use and or terms of repayment, technical assistance and training programs, aid for particular projects or for broad development programs; sales of surplus food and other goods at advantageous prices (Dictionary of Business and Economics, 1997).

However this general concept of foreign aid is not sufficient in itself. Many writers and many national and international institutions have given various definition regarding the philosophy of foreign aid. Rosenstein Rodan said that, "Aid refers only to those parts of capital inflow which normal market incentive do not provide. It consists of long terms loans, grants, soft loans, sale of surplus products for currency payment and technical assistance".

Whatever way foreign aid is defined, it does not make any difference because its main theme is economic aid or external assistance or economic assistance. It is generally intended either to provide humanitarian relief for the country or for accelerating economic growth or development mainly in developing the LDCs, where the development process is not moving smoothly. This sort of assistance consists of grants, loans, technical assistance etc. and can be provided either multilaterally or bilaterally. Where bilateral aid is offered directly on government to government basis and multilateral aid is channeled through international aid providing agencies such as IBRD, IDA and OPEC etc. In bilateral aid assistance will be receive from the individual donors, where as in the case of multilateral aid or assistance will come from international agencies. Likewise aid extended by non-governmental organization or individual is called private aid.

There are two components of foreign aid, viz; grants and loans. Grants component of aid are free resources for which no repayment is required. A loan with at least 25 percent of grant component is considered ad foreign aid. Grant components are measured in terms of interest rate, maturity and grace period (interval to first

payment of capital) of a loan. It measures the concessionality of loan in the form of present value of an interest rate below the market rate over the life of loan.

Foreign aid is classified into various forms on the basis of its nature, terms, conditions and sources. From the point of view it is categorized as (a) Capital aid, (b) Commodity aid and (c) Technical aid

**Capital aid:** Capital aid refers to the provision of capital in cash or in kind for the implementation of projects as well as which supports balance of payment (BoP).

**Commodity aid:** Commodity aid usually takes the form of transfer of surplus product of the donor to recipient countries.

**Technical aid:** Technical aid involves the training of the recipients national and provision of skilled foreign personnel expert to carry out the required development tasks in the recipient country.

**Financial aid:** financial aid takes the form of either grants or loans. Grants are usually gifts. They do not have repayment liability so they should be used in the projects with long gestation period such as social services. Loans on the contrary have to repay. It generates the reserve flow from the recipient countries. Loans is of three types according to the period of maturity, they are; long terms, mid-term and short term. According to hardness loans are generally two type's therefore soft loan and tied loans are differed according to the interest rate charged per annum and provision of payback period.

Regarding tied and untied aid, tied aid is conditional aid and untied aid is unconditional or free from the tied strings. Regarding motives, it is provided for different purpose such as humanitarian, political, strategic and economic motives. In initial stage of development, foreign aid is indispensable. It is an economic necessity. Even the highly developed countries of present took foreign aid in the initial stage of their development. They are the countries like UK, USA, USSR, Japan and European countries. The final aim of foreign aid is to accelerate the development activities and try to make country self-standing. There is such

condition that general expenditure is increasing and as result internal resources are not sufficient. That is why foreign aid is necessary for supporting developmental expenditure. Therefore, in the present context there is lack of resources. There is compulsory and obligatory need of foreign aid for development of Nepal.

Nepal is one of the developing country with the population 28.8 million, growing at the rate of 1.35 percent yearly (CBS,2011). The per capita income is calculated as \$ 1047 (Economic Survey,2018), this reflects equally unsatisfactory living standard. About 18.6 percent (Economic Survey 2018) of the population are forced to live below the poverty line. The challenge of economic development has been further complicated by its limited or almost untapped natural resource endowment, the landlocked location and rugged terrain and social infrastructure. Its investment needs for infrastructure development, thus, are quite substantial. But at the same time public funds available for infrastructure investment are limited. The fiscal resources base of the country is small but unlikely to grow rapidly. This leaves government highly dependent on outside official development assistance. Fortunately, international donors and development partners have been quite supportive of its development plans and programs.

In 1950 with the dawn of the democracy Nepal started building relationship with foreign countries. After signing the point four program with USA in January 23, 1951 the government of Nepal started receiving foreign aid. Nepal has been receiving foreign aid mostly form 'Nepal aid group', which includes nations like Australia, Belgium, Canada, Denmark, Finland, Norway, Germany, Kuwait, Netherlands, Switzerland, Sweden, UK, USA, Japan and multilateral donors as IDA, IMF, EEC, UNCATAD, ADB, UNDP, WB, WHO, UNICEF, OPEC.

It is found that foreign aid has been playing foremost role in the development of a developing country like Nepal. Democratic practice along with development and construction started in Nepal after the rise of democracy in 1950. Still and before in all development plans the foreign aid is playing a vital role in the development of field such as road, irrigation, communication, hydroelectricity, education, drinking water, agriculture and health. Foreign aid also helped to increase the

productivity and production to expand the development works and to find out suitable technologies.

The magnitude, concentration, pattern, trend, motives and share of foreign aid provided by both countries do not only have economic and development influences in Nepal but they also have political and strategic motives as well.

## **1.2 Statement of the Problem**

Economic development of any country depends upon the utilization of available resources, the ability of the people to exploit the available natural resources and others. But it is unable to utilize this all to their full extent due to the lack of domestic sources of capital and technology. People are moving around the vicious circle of poverty, level of income, saving and investment is very low. To increase these all, aid stands as an inseparable actor in the developing countries like Nepal. Foreign aid has been prominent role for the economic development of Nepal. There is hardly any sector which has not received some form of external assistance and in which many donors have been included. Nepal has to rely on foreign aid as it lacks of capital and technology. With its own sources Nepal unable/couldn't move ahead in the path of development. Nepal is facing the problems of low level of living standards, low level of agricultural productivity, high rate of population, high rate of unemployment, low ability to pay for tax, high gap between revenue, high level of trade deficit etc. Therefore country needs foreign aid to overcome the problems.(Economic Survey,2017 and CBS report 2011)

To generate the employment, enhance the living standards and uplift of all domestic savings only needs huge amount of public expenditure, these makes the foreign aid as necessary thing in Nepal. As we understand that foreign aid brings physical and financial as well as technical knowledge, skilled personal, organization expenditure, advanced production techniques for increasing productivity and market information. Have an objective to develop the under developed countries aid has been providing since long time. In the country like Nepal, we repeatedly hear the government being effortful to receive more foreign aid. Rapid increment in foreign aid is observed every year but it has not been fully utilized (International Co-operation Report). It may happen due to inefficient administration, low absorptive capacity, corruption, delay in

implementation of projects from recipient side and vested interest, directed aid programs, their strategic motives etc. form donor's side.

This study has been carried out to seek answer to the following questions:

- i. What is the trend and pattern of US Foreign Aid?
- ii. What is the difference between US Foreign Aid commitment and disbursement?
- iii. What is the contribution of US Foreign Aid for the sectorial development of Nepal?
- iv. What is the impact of US Foreign Aid in GDP?

### **1.3 Objectives of the Study**

The basic objective of the study is to examine knowledge regarding the situation of US FA in Nepal. In this study an attempt has been made to analyze the role of foreign aid in general and specifically the composition, effectiveness, trend and pattern of US aid on the Nepalese economy.

- i. To analyze the trend and pattern of US aid in Nepal
- ii. To explore the difference between commitment and disbursement of US aid
- iii. To assess the contribution made by US aid for the development of various sectors of Nepal
- iv. To examine the effect of US aid on GDP

### **1.4 Significance of the Study**

Foreign aid has significant role in the development of different sectors of the economy. Nepal has been receiving aid in terms of grants, loan, technical aid , training services scholarship etc. For financial resources deficient country, the rapid economic growth and achievement of required growth rate is difficult without foreign assistance. Foreign aid plays a vital role in economic development, unless it is utilized properly. The significances of the study are:

- i. The study provides a clear cut vision about the trend and patterns of US aid in Nepal.
- ii. The study also clarifies the US aid commitment and disbursement situation in Nepal and it also provides possible reasons about the disbursement of US aid.
- iii. The study also identifies the contribution made by US aid in the various

development sectors of Nepal.

- iv. The study also helps the researchers, planners and other to decide whether to bring in more aid or reduce dependence on it. As, the study is focused on impact of US aid in GDP.

### **1.5 Limitations of the Study**

The limitations of the study are as follows:

- i. The study is based on US aid only because India being close neighboring country of Nepal, the US aid has been continuously in flowed in Nepal as compared to other countries. The US aid occupied top section on the bilateral donor. (International Co-operation Report)
- ii. The study is based on data and information available from secondary sources like Economic surveys, Annual Budgets, US Embassy and others.
- iii. The study is based on the time limit between FY1990-FY2017 because after the restoration of multiparty democracy and implementation of liberalization, privatization and globalization policies in Nepal, there has been free flow of resources. After 1990, The US aid continued to inflow in Nepal. So, the time period of 1990-2017 is chosen.

### **1.6 Organization of the Study**

This study has been organized into five chapters. Chapter I is the introduction to the topic under the study, Chapter II is assigned as literature review then in Chapter III research design and methodology has been explained and data presentation and analysis has been carried out in Chapter IV and finally Chapter V has been organized to summarize and conclude the study.

## **CHAPTER TWO**

### **REVIEW OF THE LITERATURE**

#### **2.1 Review of Theoretical Literature**

Foreign aid is normally associated with national governments and international organizations. Although there are certain private institutions or organizations which extend supports to needy countries, but they do not assume a much significant share in the total flow of aid. Traditionally foreign aid was provided to overcome the saving investment gap, technological shortages etc. in the recipient countries, which would ultimately uplift the developing economy and living standards of people. Therefore foreign aid is views as a concept which refers to the flow of capital and technical resources either directly from the government of donor country or through international channels.

The concept of foreign aid is not a recent phenomenon. It has been coming from early period of classical economists. But it is agreed that foreign aid is originated from the disruption of the world economy than followed by Second World War. Flow of aid becomes more rapid due to polarization, which creates the competing environment between USA and USSR to gain support from the other nations after the beginning of cold war; foreign aid became an integral part of foreign policy.

There are several publications in the field of foreign aid. Here, the review of related literature focuses on the definition of aid, its need for and against for the developments of developing countries like Nepal and its composition. For instance, different national, international published and web based literature (Books, Journals and Articles) have been reviewed related to this study.

The explicit transfer of resources from developed countries to less developed/developing countries in occasional term is called foreign aid. Foreign aid means transfer of financial and other resources in the form of grants, loan, technical assistance etc. from economically better off nations to least developed



countries. The main purpose of resources from developed countries to developing countries is to influence the recipient country through the moral principle of solidarity. Foreign aid also considered as a major means of building relationship with other countries. It is a means of fulfilling donor's and recipient's self-interest.

Britannica encyclopedia defines foreign aid as the international transfer of capital, goods or services from a country or international organization for the benefit of the recipient country or its population. Aid can be economic, military or emergency humanitarian (e.g. Aid is given following natural disaster).

Mihaly (1965) describes foreign aid as a post war phenomenon. He emphasized the importance of foreign aid is for the world's mutuality. In primary notion, he describes foreign aid as a basic "economic assistance" often regarded as a means of financing development rather than as a political tool.

Higgins (1968) emphasized the importance of foreign aid by saying that, the availability or absence of foreign aid of the right kind and in the right amount might take the difference between success or failure of a country's own effort to launch a process of sustained economic growth. The most obvious thing is that foreign aid can fill gap between capital requirements for take-off into sustained growth and domestic capital for saving and required investment. He has explained the usefulness of foreign aid for the construction of roads, dams, electricity projects etc. So the capital requirements of LDCs are not as high as that of developed and fast growing economy. Because the development works on LDCs is equate with public utilities and often with basic necessities. He further emphasize the importance of foreign aid due to low saving investment ratio in developing countries. Since it is unlikely that measures to increase voluntarily domestic saving along or even measure for voluntary and compulsory saving together could provide all the financial sources needed for development of underdeveloped countries. However foreign aid has been a fundamental aspect, without which development process get obstructed in long-run.

Miskell (1968) states that foreign aid is closely associated with economic performance in two basic ways. First various types of aid may provide a means of including policies and programs which lead to improved performance. Second, aid may facilitate the implementation of policy for promoting improved performance necessary to achieve development goals. The goals of concessional aid is to help countries achieve a level of performance which will enable them to develop at a satisfactory pace through the efficient use of their own resources. Thus, the function of concessional aid is not primary to supplement the resources of recipient but rather to help the recipient mobilize its own resources and perhaps to attract public and private non concessional external capital for achieving its development goals. In the theoretical literature on foreign aid there is a tendency to identify self-help with actual performance in terms of certain quantitative indicators. Thus, an increase in the saving ratio constitutes an important indicator of self-help on the assumption that if a government adopt correct policies the saving ratio will rise, similarly an increase in the rate of growth in exports and in investment are regarded as indicator of self-help.

Bhatia (1981) has explained the primary rationale of foreign aid, viewed from the angle of economic growth lied in the belief that without it the economic growth of recipient country is either not possible or would be painful and slow. The overall performance of the aid recipient less developed countries had not been an encouraging one. Accordingly the contribution of foreign aid in the economic growth of a recipient country is also not a matter of only its quantum. Aid resources produce their own impact on the domestic economy and initiate and / or accelerate some of the process. He further states, an important objective of world aid, namely narrowing the gap between the per capita income of poor and rich countries, is an elusive as ever. If anything the gap has widened further over time while the per capita income of the developed countries increased by \$ 2950 during the past three decades, that of the LDCs went up by only \$ 125. The poorest countries recorded an average increase of only 1.1 percent per annum during 1970-80 while the sub-Saharan it was barely 0.2 percent for the same period. Though over a billion people have an annual income of less than \$ 200, half of

them live in dire poverty, it is distributing to note that about one third of the population of the poorest third world countries have an annual per capita of less than \$ 50.

Meir (1984) said about public technical aid; that is, concessional finance or the 'grant equivalent' in the capital inflow has a twofold function. It supplements the LDCs low domestic savings and hence helps to fill the resource gap or saving gap and also provides additional foreign exchange and thereby helps to fill the foreign exchange gap.

Samuel and Gupta (1993) said that foreign economic aid is intended to promote the economic development process in recipient developing countries. However aid is given out of mixed motives viz. commercial, humanitarian and strategic reasons. At one extreme is aid in its purest form and at the other end is said that is hardly aid because it is given in the form of loans with strings attached. The strings take the form of requiring the recipient country to purchase equipment materials etc. from the donor countries, usually at prices that are higher than from alternative sources. Hence the actual net benefit to be recipient country from the least purest forms of aid can be nil or even negative. They further said that aid to be given and received there must obviously be a maturity of interest between donors and receiver. But the balance of interest within the framework of mutuality could determining the effectiveness of the aid for economic development. The implication is that the aid will have limited development effects if it is given mainly to further the commercial and political interest of the donor government or alternatively although given in the interest of the recipient country; it is utilized inefficiently by the recipient government.

Basil (2000) evaluate the development assistance from the practical as well as theoretical point of view. He elaborated the techniques and method of aid evaluating cost benefit analysis, Unintended Effect and Rating (Scoring system).He discussed on a basic issue for the need of aid evaluation, why evaluate? For accountability or for lesson learning. On his book he explained a distinction between the accountability and lesson learning as the objective of aid

evaluation. And he said that aid evaluation is vitally important for the lesson learning objective whose basic aim is to improve future performance.

Todaro and Smith (2003) explain that, in principle, all governmental resources transfers from one country to another should be included in the definition of foreign aid. Even this simple definition, however raises a number of problems. For one thing many resources transfers can take distinguished forms, such as the granting of preferential tariffs by developed countries to LDCs exports of manufactured goods. This permits LDCs to sell their industrial products in developed country markets at higher prices than would otherwise be possible. There is consequently a net gain for LDCs and a net loss for developed countries, which amounts to a real resource transfer to the LDCs, such implicit capital transfers or disguised flow should be counted in qualifying foreign aid flows. Normally however they are not.

Radelet (2006) concludes that aid can keep bad governments in power for too long, and can undermine incentives for saving, tax collection and private sector production. Aid relationships are made much more difficult by a complex chain of principal agent problems that weaken information flows, introduce myriad motivations for different actors and make monitoring and accountability more difficult. He also argues that the aid growth relationship is conditional on the policy or institutional environment but many of those results have been fragile.

Shirazi, Mannap and Ali (2009) state that foreign aid has been contributory towards fostering broad based development and complementing national development initiatives in the recipient countries. Like many capital scarce nations, conspicuously relies on foreign aid to finance saving investment gap and trade gap. The overarching aim of aid is to realize the national development strategy and prevail over the capacity gaps in effective public service delivery. In the country issue paper of The Colombo Plan: Development perspectives: says that Nepal has to continue to rely on increasing external assistance for undertaking increasing development projects basically for two reasons. Firstly the amount of internal resources mobilization less than what is required. Secondly, increasing

current account balance deficit along with negative trade balance are affecting the economy adversely. The paper outlines the task ahead for the Nepal as; Nepal is in her critical stage of development. Her low production base, increasing trade deficits, the adverse current account balance. In this context demand management alone is not sufficient for correction imbalances the economy. Therefore it is imperative to improve the supply situation. For all foreign aid is necessary.

## **2.2 Theories of Foreign Aid**

### **Idealism**

In its most general definition, idealism is the theory that human beings are inherently good. When it comes to foreign aid, idealist theory posits that donors such as governments give aid for humanitarian concerns, such as to share wealth, address human rights and alleviate poverty. Idealist scholars believe that foreign aid is effective, and are optimistic that it can solve socio-economic problems in developing countries. In his book, Lumsdaine says that in terms of motivation, “humanitarian concern in the donor countries forms the main basis of support for aid . Support for aid was a response to world poverty which arose mainly from ethical and humane concern and, econdarily, from the belief that long-term peace and prosperity was possible only in a generous and just international order where all could prosper” (1993: 3).

### **Realism**

Realist theory contrasts sharply with idealist theory. It points that human beings are inherently selfish and desirous of power. Realists believe that aid donors are motivated by self-interest. Furthermore, countries that act out of other motivations will become relatively weak, eventually becoming victims of those who did act in their self-interest and therefore became powerful. As Lumsdaine sums up: “Many scholars assume nations act only to secure national self-interest, because of human selfishness and because only self-seeking states will thrive and continue to have influence” (1993: 4).

According to Realism, because donors are acting in their own interests, they will give aid to countries that they can benefit from in some way, for example through a political, economic or military alliance. Thus the poorest countries, the ones in most need of aid, are often overlooked. This view is supported by scholars such as R.D.

McKinlay and Steven Hook. McKinaly, for example, conducted research which showed that some of the biggest donors (e.g. the United States and France) base their donations on national interest rather than humanitarian concerns (Fuller, 2002: 79).

Realists also believe that aid is largely ineffective and does not give very much benefit to recipient countries. Some question whether socio-economic conditions can be improved at all, for example Realist scholar Carr, in his book , argues that it is impossible to achieve peace in a world of nations acting in their own self-interest.

In his book ,Vincent Martinez Guzman argues that the divide between idealists and realists is not really relevant because they are fighting over different conceptions of human nature, but humans are, in general, not good or bad, selfish or generous, peaceful or violent; they have the capacity to be both. Once humans understand that they have this capacity, they are free to decide. This means that humans are responsible for their decisions, and cannot blame human nature. Nels has a similar point of view, saying: The first is to point out that human nature is not uni-dimensional and that acts of compassion often coincide or alternate with acts of selfishness. Human are able to do good to one another, and bad: why focus on only one side of the story when we have so many examples of altruistic behaviour (Nel, 2009: 100).

Lumsdaine agrees that human nature and motivations are mixed when it comes to foreign aid, saying “Of course aid is not completely pure. Any program involving half a trillion dollars, a score of donor countries, many international agencies, and 120 recipient countries over half a century will involve mixed influences” (1993: 4).Concerning foreign aid, Guzman says that it is merely a palliative measure: it may alleviate problems, but it does not solve them. This is because the root cause of human problems, in his opinion, is structural violence<sup>1</sup>. Foreign aid, therefore, would not be necessary if structural violence was addressed. Thus he proposes that foreign aid should not be to only to alleviate living conditions. Naturally, it is important that people eat, but one needs to go beyond that.

### **Postcolonial Theory**

Postcolonialism is an academic discipline that analyzes the social and economic legacies of colonialism and imperialism. Postcolonialists contend that the West views the East as inferior and incapable without their help (Young, 2003: 2). The theories produced by the West are neither neutral nor objective; rather, they are deliberately designed through socio-cultural engineering. Influenced by the ideas of Derrida,

Foucault and Gramsci, Edward Said tried to counter the narcissistic and epistemological violence of the West against the East by showing the bias, interest and power that are contained in the various theories put forward by colonialists and Orientalists. For Said, Orientalism is the West's way of dominating, rearranging and controlling the Orient.

Western colonization for a hundred years has had implications all over the world, both for the colonizers and for the colonized. The West has used its knowledge and power to construct, administer and subjugate the Orient. Therefore it can be said that the modern project of the West is reflecting the history and practice of colonialism, where European colonialism has become a tool in propagating its ideals. In other words, the West uses the idea of foreign aid as an instrument to achieve its hidden agenda and spread its hegemony (Omar, 2012: 45).

Foucault, a French philosopher and social theorist, also criticized aid (Foucault, 1984: 32-50). For him, foreign aid is a modern term where universal happiness is measured by the culture of Europeans on the assumption that it is good for everyone. In fact it is just an idea of the Europeans, who are a minority in the world population. He adds that aid involves the imposition of European Enlightenment values and ideals such as autonomy, freedom, human rights, etc., which make up an "appropriate identity" for modern people.

### **Dependency Theory**

The diverse components of the underdeveloped do indeed share one characteristic. This is not poverty, stagnation, brotherhood, or skin color; it is the receipt of foreign aid. The concept of the underdeveloped and the policy of official aid are inseparable. Without foreign aid there is no underdeveloped. Official aid provides the only bond joining together its diverse and often antagonistic constituents (Thompson, 1983: 11). Dependency theory explains foreign aid as an instrument of developed countries and international organizations to exploit developing countries politically, economically and culturally, as well as trap them into colonialism and the global capitalist system. As a result, the conditions of development and underdevelopment occur. At the same time, it creates dependency of developing countries upon the major powers. Sadly, the problem of exploitation is rarely discussed and is replaced by the issue of lack of resources, technical expertise, modern institutions or cultural development. Evidence exists, particularly on the great economic inequality. This was clearly stated by Dos Santos (1970): "the spatial form of dependence, in which some countries (the

dominant) achieved self-sustaining economic growth while others (the dominated and dependent), grew only a reflection of changes in the dominant countries” (Peet and Hardwick, 2009: 166).

Dependency is an historical condition which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economies. A situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is, subjected (Dos Santos 1970: 226, cited in Peet and Hardwick, 2009: 166-167).

The theory also states other negative impacts of aid on developing countries such as “weakening accountability, encouraging rent seeking, facilitating corruption, fomenting conflict over control and distribution of funding, siphoning off scarce resources from civil services and alleviating pressures to reform from the government” (Buss and Gardner, 2008: 98). These facts have become important issues in the contemporary debate on foreign aid.

### **Development Theory**

Development is an effort to give people better life conditions. This is the main argument of development theory. In order to develop successfully, a country has two main capitals: human and natural resources. However, sometimes a country does not have enough sources for development. Development theory suggests this can be solved by external sources financing development, in other words foreign aid.

Foreign aid indeed has an important role in development. In his book, Galtung explains that foreign aid via development projects is an important activity in which donor and recipient offer and accept projects of pre-investment, infrastructure, transaction costs, community development, participation, import substitution and export substitution. Aid is also important for achieving the Millennium Development Goals (MDGs), a new global partnership to reduce extreme poverty, which has eight objectives: to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability and develop a global partnership for development (<http://www.un.org/millenniumgoals/>). It is hoped that these goals will be achieved by the year 2015. Their achievement requires a lot of cooperation between donor and recipient countries.



The U.N Sustainable Development Summit (2015, Sep 25-27) adopted the new post 2015 development agenda which is known as Sustainable Development Goals (SDGs). The SDGs includes 17 target goals on various issues such as climate change, economic growth, women rights, equality and health. This is the expansion for the MDGs which included 8 goals. This goal is to be achieved by 2030. The recent announcement of SDGs creates a shift in mentality towards foreign aid and international development. While the previous UN initiative for development, the MDGs focused strictly on improving the conditions for those in developing countries, the SDGs apply to every country. The Development aid is more crucial than ever in era of SDGs.

### **2.3 Review of Empirical Literature**

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

Poudyal (1983) found positive association between foreign aid and saving by using correlation and regression analysis. The study is based on the secondary data and materials and field observation. The main findings of the study are (a) foreign aid is being concentrated on infrastructure and neglected other sectors, (b) positive effect of foreign aid is more on saving than on consumption, (c) the GDP, domestic saving and consumption are highly stable function of foreign aid, (d) elasticity between GDP and domestic saving is higher than that of between GDP and foreign aid. Further he concluded that if aid is utilized in road construction, maximum benefits from roads can be obtained only if in areas opened up by roads complementary development programs are launched simultaneously like agriculture and industry etc. The study shows that there is positive association between foreign aid and saving. Foreign aid is contributing to increase national efficiency through positive effect on income, saving and consumption. The level of GDP is also positively related to the inflow of foreign aid. The main objectives of this study were to examine whether the project is financed by foreign aid on GDP, saving and consumption.

Poudyal (1988) performed regression analysis by using data from 1964 to 1982, between foreign aid and economic growth and aid and domestic saving. He found that foreign aid had a significant positive effect on the level of GDP. The result shows a reasonably good overall fit. He has concluded that foreign aid in Nepal positively contributed to the country's GDP growth but substituted domestic saving. He also estimated the model using five years lag of aid. For that one and two years lag, the coefficients were found smaller and negative. But for the four and five year lag, the coefficient were positive and larger. Thus, he claimed that the long running aid funded projects did not contribute to the economy in short run. The negative short run relationship between aid and growth was attributed to the use of domestic resources to support these long run running foreign financed projects. However, descriptive data analysis made by Poudyal shows that there was more than 50 percent contribution of foreign aid to financing the development plans. The existed gap between foreign aid commitment and disbursement and aid utilization capacity of Nepalese economy was the main problem in this regard. His data analysis also found a noticeable shifts of foreign aid from transport and industry towards agriculture, power and social services.

Khadka (1991) said that Nepal relies heavily on foreign aid and donors coordinate development policy through the Nepal development forum; whose members include donor countries, international financial institutions and international governmental organizations. Its reliance on aid increased 45 percent development expenditure in 1975 to about 56 percent in 1986 and aid GDP ratio increased from 2.6 percent to 6.9 percent during the same period. According to him, aid has not been effective in alleviation poverty in Nepal. On the contrary aid has created dualisms between urban and rural areas in terms of consumption, and it further widen gaps between haves and have not and social disparities is still growing. Aid neither helps to attain the goals nor to establish institutional political machineries. Hence aid failed to alleviate poverty of the country because it was unable to grasp the majority of population who live in rural areas. He has stated that the economic condition has not improved in Nepal despite the priority of aid because an increase in the basic needs to the poor and rural development. Further, he stated that aid has

contributed to creation of physical capacity but this has failed to create the necessary condition for breaking the barriers of development. It is stated that as a matter of fact declined in real terms by the 1970s and aid endorsed by international organizations and bodies remained unfulfilled. Finally he added that learning from crisis is better than becoming chronically dependent on aid.

Acharya (1998) says that although foreign aid did not substantially contribute to the economic development of Nepal. But the importance of foreign aid cannot be denied, because the domestic resources mobilization of Nepal is still very low to fulfill the requirement. In this respect new visions and new ways of aid utilization have to be launched from both donors and recipients to use these aids in the related or concerned sectors optimally not considering aid as a free gift.

Shrestha (2002) by analyzing sectorial distribution of Japanese aid found that Japanese grant assistance has highly concentrated in debt relief measures, transport, agriculture, power and water supply. Japanese grant assistance has been provide to the industrial sector also but in little amount. In the industrial sector loan has also been provided which is NRs. 4240.3 million in amount. Similarly in the power sector loan has been provided of NRs. 9993.4 million. In an aggregate NRs. 7631.4 million of Japanese assistance is in the form of grant assistance while NRs. 14233.7 million is in the form of loan assistance.

Katuwal (2003) by comparing Japanese and US aid to Nepal After Restoration of Democracy concluded that most of the assistance provided by Japan was disbursed in communication (17.15 percent), transport (15.50 percent), economic management (12.83 percent), disaster preparedness (12.71 percent) sectors and on the other hand most of the assistance provided by US was disbursed in health (34.80 percent), human resource development (16.04 percent), agriculture (20.21 percent) and economic management (7.87 percent) sectors for the period of 1990-1999. It shows that increment in Japanese assistance has been comparatively greater than that of US assistance and furthermore he states that percentage and amount of Japanese aid is significantly greater than US aid. He found that for the

period of 1990-1999 amount of total Japanese aid disbursed in Nepal is \$ 673.75 million and amount of total US aid disbursed in Nepal is \$ 190.43 million.

Lohani (2004) uses ordinary least square method to find out the effect of foreign aid on development, and found all of the variables except social aid have the expected signs, and all of them are significant at the 0.05 or 0.01 level. He found that the coefficient of FDI, domestic investment and GDP per capita have a positive impact on HDI. Further he states that countries receive a greater amount of aid if its total saving are low. Poorer countries usually have some of the lowest saving rates, and thus they receive more aid on the basis of such a calculation of aid allocation. Further he found that FDI positively influences human development. When FDI as a share of GDP increases by one percentage, HDI increases by 0.00435, other things being same. Similarly the regression analysis shows that an increase in domestic investment by one percent increases the HDI by 0.0035. Therefore, domestic investment towards schools, roads and hospitals plays a significant role in promoting the well-being of people.

Duc (2006) using cross-country data, investigated the relation between foreign aid and economic growth in developing countries over the period from 1975 to 2000. Overall foreign aid is found to be significantly and negatively correlated with growth. There is a number of underlying causes, such as the fungibility of aid, aid dependency, bad economic management, corruption and poor coordination and cooperation among aid agencies. However, foreign aid to inland countries as well as to South Asian countries during the period of 1992-2000 is found to have positive impact on growth. The results suggest that (1) there may be problems in the present aid providing system, where aid hinders growth of developing countries (2) the successful experience of some inland countries and South Asian nations during the period of 1992-2000 could be a good lesson for other developing countries. He further states that One percent of GDP in assistance normally translates to a sustained increase in growth of 0.5 percentage per capita. Some countries with sound policies received only small amount of aid yet still

achieved 2.2 percentage per capita growth. The good-management, high-aid groups grew much faster, at 3.7 percentage per capita GDP.

Bhattarai (2007) by employing co-integration test found that per capita development expenditure is positively associated with both per capita aid and per capita GDP in the long run. The long run aid coefficient is significant at the 5 percent level, but the elasticity of per capita development expenditure with respect to per capita aid is quite low (0.11). Further he states that the elasticity of per capita non-development expenditure with respect to per capita aid is found to be relatively larger (0.61) than that for development expenditure. In other words, a 1 percent increase in per capita aid leads to approximately 0.6 percent increase in the per capita non-development expenditure, whereas it leads to only a 0.11 percent increase in per capita development expenditure.

Ekanayake and Chatrna (2007) test the hypothesis that foreign aid can promote growth in developing countries using panel data series for foreign aid, while accounting for regional differences in Asian, African, Latin American and Caribbean countries and differences in income levels (low income, low-middle income, upper-middle income and all income levels). They derive their model from a production function in which foreign aid is introduced as an input along with labor and domestic capital. Using data on a group of 83 developing countries for the period 1980 to 2007, they find that foreign aid has mixed effects on economic growth in developing countries. Specifically, foreign aid was found to have a positive effect on economic growth only in African countries. When the different income groups were considered, the foreign aid variable had a negative sign for low-middle income countries and a positive sign for the other three.

Karna (2007) states that foreign aid holds critical importance in Nepal. Even though its economic importance lies in the fact that it provides resources not only for the national budget; rather it also helps bridge the gap between national saving and investment. It also helps to meet the cap between excess of import and exports of goods and services. The very critical issue about foreign aid is that it should be used properly at appropriate place. Nepal has been receiving foreign aid since

early 1951 which seeks to meet the resource for annual budget, to help and provide resource for various periodic plans, to accelerate the pace of economic development in proper way, to utilize the untapped natural resources, to meet the millennium development goals, to escape from vicious circle of poverty, to modernize agriculture, to industrialize and for the proper and balanced sector wise development.

He further argues the fact that, the need to fill saving investment and export import gap aid is important source of development finance in the capital poor economies. It has helped considerably to finance the growing import needs required by the development process. The technical assistance has helped to bridge the technology gap constraining the planning and execution of development projects. It has significantly contributed in removing transport and communication bottlenecks, industrial viciousness and agricultural backwardness. To become specific almost all the highways and communication networks, most public industrial enterprises, agricultural and rural development projects and development projects and development institutions are undertaking foreign aid. From the recipient point of view, the broad goal of seeking aid in Nepal is to promote economic development. He shows 49.9 percent foreign aid as development expenditure from first to ninth periodic plan, yet some of the sectors remain untouched by these assistance. This is due to miscalculation of actual problems. Despite of some critical lines, he establishes foreign aid as the crux of Nepalese economy and spender in its development efforts.

Pyakuryal, Adhikari and Dhakal (2008) found that the domestic saving and investment gap as the percent of GDP at producers' price averaged around 8 percent during the period of FY 1994/95 till 2003/04, whereas it has leveled around 11 percent during FY 2002/03. However, during FY 2004/05 the preliminary estimates shows the gross domestic savings at 14.4 percent and total investment at 28.9 percent revealing the gap of 14.5 percent of the GDP.

Gross domestic saving as percent of the GDP declined from a level of 16.2 percent in FY 1997/98 to 15.2 percent during FY 2003/04, whereas total investment during the same period grew from 24.8 percent of GDP to 26.4 percent. The

resource gap has thus widened over the years due to increasing fiscal deficit. The fiscal deficit of NRs. 15.83 billion in 2003/04 increased by 14 percent and escalated to NRs. 18.05 in FY 2004/05 indicating the widening gap between government expenditure and revenue.

Foreign Aid Policy 2009 outlines key problems contributing to ineffective foreign aid management and poor development results seen both from the donor and country perspective. From donor's perspective lack of ownership, internalization and institutionalization, lack of leadership and direction, poorly functioning institutions, weak governance, fragile political environment, lack of political consensus on economic agenda and absence of policy coherence and consistency were pointed out. Looking through the national perspective, it can be argued that aid has achieved success in a number of areas such as building physical and social infrastructures like roads, health, drinking water and education, in sectors such as agriculture, forestry and irrigation and also in erecting and empowering institutions needed for advancing economic reforms. However, despite the volume and magnitude of aid mismatch of priorities between the recipient and donors. Absence of prioritization based on national needs, ignorance of sustainability, operation and maintenance aspects of the projects and slow disbursement as compared to commitment are the problems.

Sigdel (2010) by adopting non-linear regression model found that there is a significant relationship between resource gap and foreign aid. He found that one billion increment in resource gap is met by more than one billion increment in foreign aid during the period of FY 1981/82 to 2001/02. The flow of foreign aid is found to be faster than the increment in resource gap (1.023477, lag coefficient). The role of foreign aid to bridge the resource gap in Nepal has been crucial, which is estimated to be more than 60 percent of total resource gap. The remaining part is met by remittances and foreign currencies earned by tourism sector. The magnitude of remittances including unrecorded flows increasing to \$ 820 million, which is nearly 14 percent of GDP in FY 2003 from about \$ 750 million in FY 2002 and exceeded the size of exports equal to \$ 642.8 million. He further states that foreign aid to Nepal commenced in 1950/51 with NRs. 1.01 million worth. Up to 1970, foreign aid flow to Nepal confined to diminutive size. During the

period 1950-70 bilateral grants played a predominant role in the structure of foreign aid in Nepal. Foreign aid to Nepal increased substantially in each succeeding decade, which leveled NRs. 186,334.9 million in 2000/01, of which, grants went up to NRs. 63680.5 million and the loan equal to NRs. 122636.3 million. The ratio of ODA to GDP was 3.8 percent in Nepal during the period of 1970s and 7.8 percent in 1980/81 is much higher in comparison of other south Asian countries such as Bangladesh, Sri-Lanka and Pakistan. The higher level of DSA per capita exhibits that Bhutan, Sri-Lanka and Nepal are still more reliant economies and among the south Asian countries. Over the long span of last five decades, magnitude of foreign aid to Nepal is 57.5 percent of total development expenditure. During the first plan (1956-1961), Nepal's development expenditure (NRs. 382.9 million) were fully funded by foreign aid. In subsequent plan periods from the second to the ninth plan (1962-2002) the extent of foreign aid was as high as 52 percent of development expenditure in Nepal. This is indicative of Nepal's heavily depends on foreign aid, which ballooned to the level of NRs. 2151454.4 million during the ninth plan (1997-2002) from a diminutive sum of NRs. 382.9 million in the first plan. In tenth plan Nepal received NRs. 134620 million worth foreign aid which is 57.5 percent of development expenditure. In addition, he concluded that foreign aid has become a foundation of North-South relation.

Acharya and Koirala (2011) stated that foreign aid has been unable to achieve its major objectives in Nepal by principle. Foreign aid helps to bridge the resource gap in short term so that in long term, the developing countries would be able to mobilize its own resources for sustainable development. But in reality, Nepal could never mobilize its internal resources to meet the financial requirements of its developing activities. Similarly foreign aid was started in the country in 1950s with the first and foremost objectives of economic and political stability. But, despite a regular inflow of dollars for more than half a century, the maoist insurgency began and Nepal has now become the most unstable it has ever been politically as well as economically. The impact of foreign aid in Nepal is having paradoxical results. They further raised the issue donor's investment in education. Benefitting recipient or donors themselves and said that, in principle education



does not only increase the productivity of economy but also helps in invention and innovation. But our excellent education productions are working for the developed countries. The country is getting zero from such a huge investment in education while the donor countries investing less than 30 percent of total education budget of Nepal are being to get cream product of the education system. This bitter truth raises the question that whom the donor countries are investing in the education sector of poor countries for the recipient of donor's themselves benefits.

Basnet (2013) examines the effectiveness of foreign aid on growth and domestic saving using a simultaneous equation system. He found that foreign aid has a positive and significant impact on growth in five south Asian countries. The result reveals a negative relationship between foreign aid and domestic savings and there is no ambiguity that foreign aid adversely affects domestic savings in south Asian countries during the period of 1980-2008. His result bring up a very important policy issue that is the positive effects of aid on growth might be offset by the negative effect on domestic saving. Furthermore by using estimation he found the impact of aid on growth is positive and satisfactory significant at the 1 percent level. The result indicate that saving have a satisfactory significant impact on the growth rate of the five countries (Bangladesh, India, Nepal, Pakistan, and Sri-Lanka). He found that saving affects growth rate more than proportionately that is a 1 percent increase in domestic saving rate causes growth to increase by more than 1 percent on average. i.e. 1.5 percent. The growth rate of export and import, however, has a negative association with the rate of economic growth.

Jeffrey (2015) by employing OLS estimation found that bilateral and multilateral aid yields mixed and interesting results. For middle and low income countries, a 1 percentage point increase in inflation on average causes the effect of bilateral aid on growth decrease by 1.516 percentage points and increases the effect of bilateral aid on growth by 2.162 percentage points on average. Further he stated that for multilateral aid, the signs for these two interaction terms (Inflation and Polity2 scores) are opposite to what they are for the bilateral interaction terms. Multilateral aid interacted with inflation yields a positive value, meaning that as inflation increases one percentage point, multilateral aid's effect on growth increases 2.217 percentage points, polity2 (measure of a country's political

regime) scores interacted with multilateral aid are negative, meaning a point increase in a country's polity2 score results in a decline of 4.557 percentage points.

Galiani, Knack, Xu and Zou (2016) using the sample of 35 countries that crossed the IDA threshold from below between 1987 and 2010, found that a 1 percent increase in the aid to GNI ratio raises the annual real per capita short term GDP growth rate by 0.031 percentage point . The mean aid-to-GNI ratio at the crossing is 0.09, so a one percentage point increase in the aid-to-GNI ratio raises annual real per capita GDP growth by approximately 0.35 percentage points. They further said that increasing the aid to GNI ratio by one percentage point, increases the investment to GDP ratio by 0.54 percentage points, although this coefficient is generally not significant. The magnitude of the effects on growth and investment is consistent with the average capital stock to GDP ratio for the sample countries.

## **2.4 Research Gap**

In the context of foreign aid several writing, studies and researches are found to be conducted and explored to examine the volume, area, trend and pattern as well as policies. These studies have analyzed the secondary data of different time period and the effects of foreign aid with special reference to US aid. This analysis carries out the data from Fiscal year FY1990-FY2017of US aid because after FY1990 due to the restoration of multiparty democracy and implementation of liberalization, privatization and globalization policies in Nepal, there has been free flow of resources. After FY1990, the US aid continued to inflow in Nepal. The previous study time period was from FY 1985- FY 2009. The previous study presented the pattern on US aid as a percentage of total aid, but in this study it has shown the pattern of US aid as a percentage of GDP. The study also tries to present the difference in US aid commitment and disbursement which previous study could not. It has also shown the composition of US aid in grants and loans while previous study failed to do so. In the previous studies, the impact of US aid especially on GDP of Nepal was studied but the present study studies the impact of US aid on GDP as well as the impact of US aid grant and US aid loan on GDP of Nepal.

# **CHAPTER 3**

## **METHODOLOGY**

### **3.1 Research Design**

The study is concerned with the trend and patterns of US aid to Nepal. The study aimed at examining the effect of US aid on GDP in Nepal. The study is descriptive as well as analytical type and focuses on trend, magnitude, composition and concentration of US aid. The regression, correlation, hypothesis testing are done according to the given sets of data using SPSS software.

### **3.2 Nature and Sources of Data**

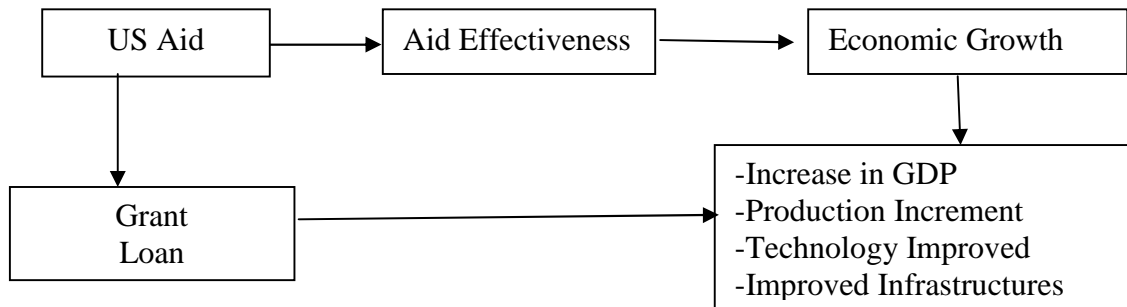
This analysis of the study attempts to get various empirical results using only secondary data. The required data are also obtained from various sources like Economic Surveys, Ministry of Finance (MOF), National Planning Commission (NPC), Central Bureau of Statistics (CBS), Quarterly Economic Bulletin (NRB), World Bank, International Monetary Fund, OECD etc. In addition to those data and information were collected from different newspaper as well as published and unpublished documents of various research institutions. The time coverage of the study is from FY 1990 to FY 2017 because after FY 1990 the pace of US aid in Nepal continued rapidly due to the restoration of democracy and implementation of various policies. The US aid has been providing higher amount of aid after FY 1990.

### **3.3 Conceptual Framework**

Donors give aid in the form of grants and loans. The grants are the free gift from donors but loans have to be repaid. These aids are intended to enhance development in the recipient country. Therefore, aid effectiveness is meant to be aid having a positively significant on economic growth. The economic growth leads to increase in GDP, public investment, production increment, technology, improved infrastructure etc. The conceptual framework can be given as:

Figure 3.1

Conceptual Framework



### 3.4 Variables and Model Specification

The model specified for the comparative study is given below

$$Y = a + bUA$$

Where,

Y = GDP (dependent variable)

a = intercept

b = slope

UA = US Aid (independent variable)

Symbol	Variable Definition	units
Y	Gross Domestic Product	Rs.
UA	US Aid	Rs.

### 3.5 Methods of Data Analysis

The following statistical tools are used in the analysis:

#### Correlation Analysis:

Correlation can be defined as a quantitative measure of the degree or strength of relationship that may exist between two variables. If X and Y are two variables, the correlation coefficient is given by the ratio of the covariance between X and Y to the product of the standard deviation of X and that of Y. This can be expressed as:

$$r_{xy} = \frac{c_{xy}}{\sigma_x \sigma_y}$$

The covariance in the numerator gives a measure of the simultaneous change in the two variables and is divided by product of the standard deviations of X and Y to make the measure free of any unit in order to facilitate a comparison between more than one set of bivariate data which may be expressed in different units. Thus, this measure of correlation coefficient is independent of a shift in the origin and a change of scale.

The correlation coefficient lies between +1 and -1. The correlation coefficient is positive when the two variables tend to move in the same direction. In the event of the two variables tending to move in the opposite directions, the correlation coefficient assumes a negative value.

### **Regression Analysis**

The simple regression is the equation with one independent (explanatory) variable. Let us take a simple regression equation with dependent variable Y and independent variables  $X_1$ . Then the regression equation or line of Y on X is:

$$Y = a + bX$$

From simple regression, we can find out the relationship between dependent variable and independent variable. Once a simple regression equation has been constructed, one can check how good it is (in terms of predictive ability) by examining the coefficient of determination ( $R^2$ ). The value of  $R^2$  always lies between 0 and 1.

### **$R^2$ - coefficient of determination**

All software provides it whenever regression procedure is run. The closer  $R^2$  is to 1, the better is the model and its prediction. A related question is whether the independent variables individually influence the dependent variable significantly. Statistically, it is equivalent to testing the null hypothesis that the relevant regression coefficient is zero. This can be done using t-test. If the t-test of a regression coefficient is significant, it indicates that the variable in question influences Y significantly while controlling for other independent explanatory variables.

### **Test of significance**

The significance level  $\alpha$  for a given hypothesis test is a value for which a *P-value* less than or equal to  $\alpha$  is considered statistically significant. Typical values for  $\alpha$  are 0.1, 0.05, and 0.01. These values correspond to the probability of observing such an extreme value by chance. Suppose the *P-value* is 0.0082, so the probability of observing such a value by chance is less than 0.01, and the result is significant at the 0.01 level.

## CHAPTER 4

### DATA ANALYSIS

#### 4.1 Introduction

This chapter includes presentation and analysis of data. In the process of data analysis the relevant data from various sources are collected, classified and tabulated to fulfill the requirement of the study. Data are presented in the percentage when required. Tables, bar graphs, pie charts, trend line etc are used accordingly to the situation and requirements of the study.

#### 4.2 Trend of US Aid in Nepal

US is the first foreign country to provide aid to Nepal. USA has been providing aids in the economic development and various infrastructure sectors of Nepal. The volume of US aid to Nepal has been increasing in the recent years. USA has been providing high amounts of grants rather than loans in Nepal. The following table shows the volume of US aid in Nepal.

Table 4.1  
Volume of US Aid in Nepal

	US Aid (NRs. Millions)
1990-1993	1,052.17
1994-1997	1,008.57
1998-2001	9,320
2002-2005	12,709.2
2006-2009	16,622.4
2010-2013	19,855.9
2014-2017	29,371.5

Source: Appendix A – 4 years Average.

Table 4.1 shows the volume of US aid in Nepal from 1990-2017 with four year average. The average volume of US aid in FY 1990-1993 was Rs. 1,052.17 million. The US aid decreased to Rs1,008.57 million in the FY 1994-1997. Similarly, in the FY 1999-2001, the volume of US aid reached to Rs. 9,320 million. The amount of US aid reached to Rs. 12,709.2 million in the FY2002-2005. Likewise, in the FY 2006-2009, the volume of US aid reached Rs. 16,622.4 million showing increase in aid

received. The trend of volume of US aid rose significantly to Rs. 19,855.9 million in the FY 2010-2013. The figure continued to rise reaching Rs. 29,371.5 million in the FY 2014-2017. There is huge growth of US aid in Nepal.

Figure 4.1  
Trend of US Aid in Nepal (1990-2017)

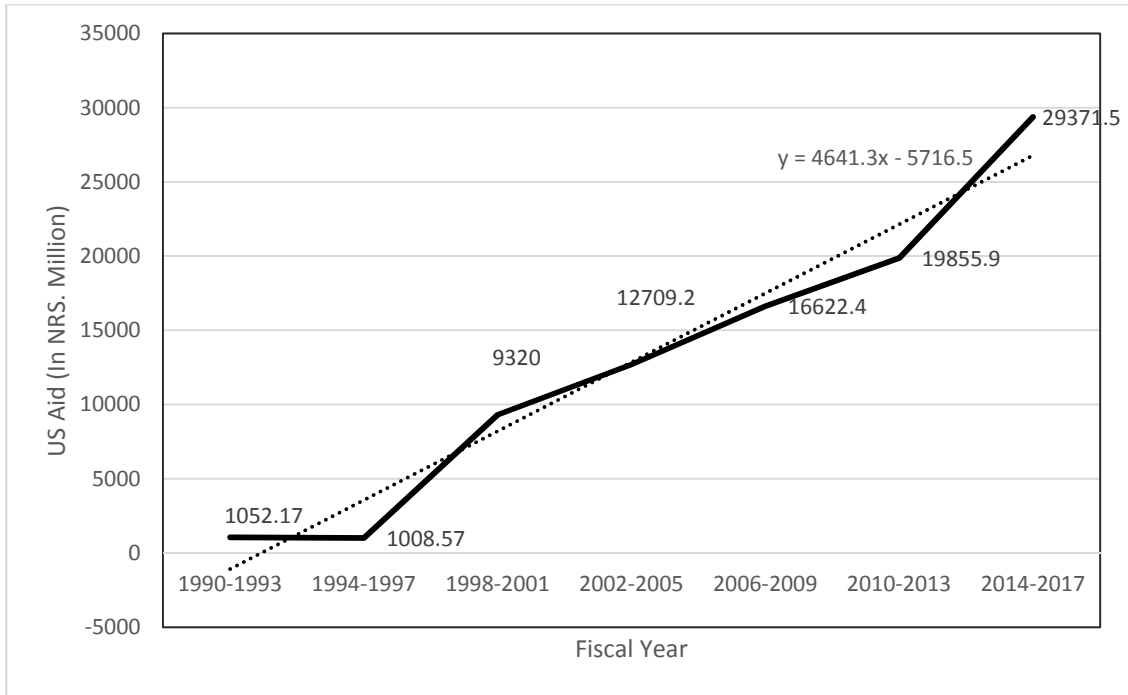


Figure 4.1 shows the trend of US aid in Nepal from 1990-2017 in Nepal. In the FY1990-1993, the US aid amounts to Rs. 1,052.17 million. In the FY 1994-1997 the volume of US aid has fallen to 1,008.57 million. But in the FY 1998-2001, there has been significant rise in the US aid to Nepal reaching Rs. 9,320 million. Again, after FY 2002-2005 to FY 2014-2017, the amount of US has been increasing as shown in figure reaching to a peak of 29,371.5 billion in the period of 16 years. From the above figure, it can be seen that the trend of US aid is on rising phenomena in Nepal and US aid is playing very crucial role in Nepal.

#### 4.3 Pattern of US Aid as a Percentage of Total Aid

Many bilateral and multilateral agencies has been assisting Nepal's endeavor for development, in the form of grant and loan. If we consider the assistance of bilateral donors, it is of high importance though its share has declined significantly these days. If we examine the history of foreign aid, US occupied the first position among the bilateral donor. USA is a developed country and Nepal is a developing country, US

the tiger economy of World has been assisting Nepal in almost all sectors. Most of the US assistance has taken in the form of grant. It has been providing aid in different areas of Nepal. Table 4.2 shows the pattern of average US aid and average total foreign aid received by Nepal in various fiscal years. It also shows the average percent of US aid as of average total foreign aid. The fiscal year is 4years average.

Table 4.2  
US Aid as a Percentage of Average Total aid

Year	Total Aid (NRS. Millions)	US AID (NRS. Millions)	Share of US Aid in Total Aid (in percentage)
1990-1993	34,583.2	1,052.17	3.04243
1994-1997	57,027.4	1,008.57	1.76857
1998-2001	66,895.1	9,320	13.9323
2002-2005	80,497	12,709.2	15.7884
2006-2009	1,41,276	16,622.4	11.7659
2010-2013	2,17,295	19,855.9	9.13776
2014-2017	9,17,624	29,371.5	3.20082

Source: Appendix B – 4 years Average

Table 4.2 shows the US aid as a percentage of total aid of 4years average FY of 28 year period from 1990-2017. In the FY 1990-1993, the average foreign aid was Rs. 34,583.2 million and the average US aid was Rs. 1,052.17 million. The US aid occupied 3.04 percentage of total average aid in Nepal. The average total aid continued to rise to Rs 5,7027.4 million and US aid reached Rs. ,008.57 million but the percentage occupied fell to 1.76 percentage from 3.04 percentage in FY 1994-1997. The total aid to Nepal continued to rise from Rs. 57,027.4. million to Rs. 66,895.1 million in FY 1998-2001 however the US aid rose significantly to Rs. 9320millions So, the average percentage reached 13.93 percentage of total aid. Likewise, in FY 2002-2005, the total aid reached Rs. 80,497 million and the US aid also rose to Rs. 12,709.2 million which is 15.78 percentage of total aid. The total aid and total US aid continued to rise from FY 2002-2010 reaching Rs. 141,276 and Rs. 16,622.4 respectively. The average percentage of US aid to total aid was 11.76 percentage in FY 2006-2009. In FY 2010-2013, the average of total aid reached to



Rs.2,17,295 million and the average US aid reached Rs. 19,855.9 million. The percentage of average US aid to average total aid fell to 9.13 percentage from 11.76 percentage. In the FY 2014-2017, the average total aid recorded Rs. 917,624 and the average US aid reached Rs. 29,371.5 million. The average US aid to total aid was 3.3 percentage.

Figure 4.2

US Aid as a Percentage of Total Aid

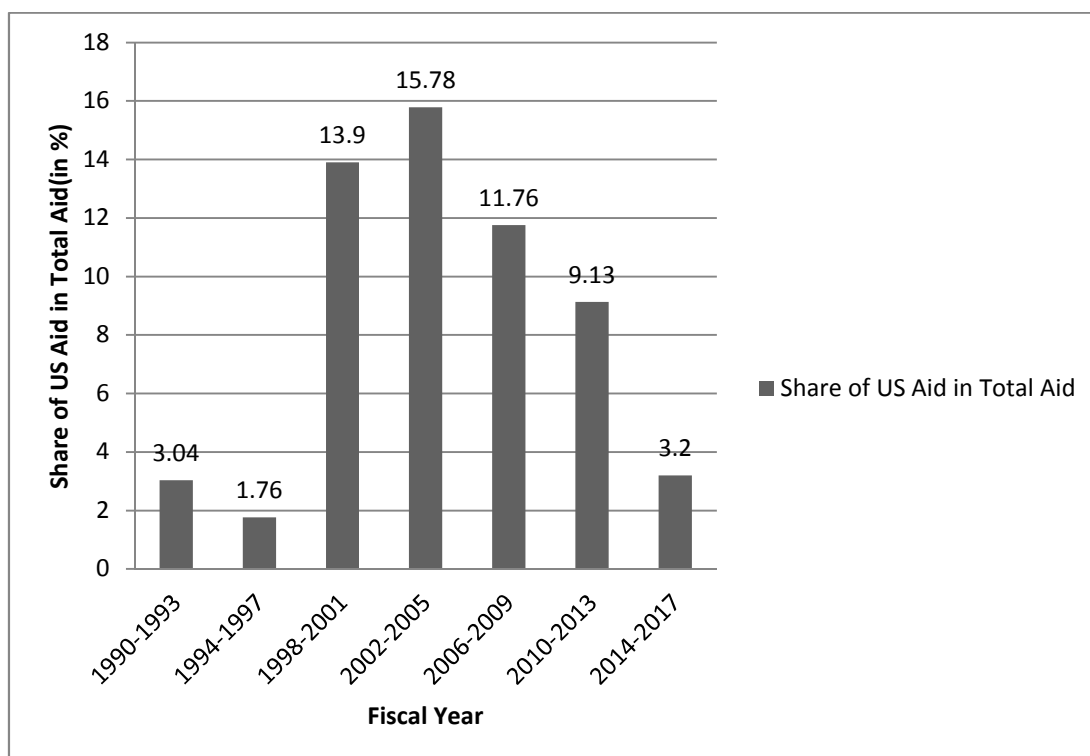


Figure 4.2 shows the average US aid as a percentage of average total aid of 28year period from 1990-2017 with the average period of 4 FY. In FY 1990-1993, the US aid covered 3.04 percentage of total aid in Nepal. But, the US aid portion fell to 1.76 percentage from 3.04 percentage in the FY 1994-1997. The US aid rose to 13.9 percentage in the FY 1999-2001. The figure continued to rise in the FY 2002-2005 reaching 15.76 percentage recording the highest in the figure above. The US aid decreased slightly to 11.76 percentage in the FY 2006-2009. The figure continued to fall in FY 2010-2013 reaching 9.13 percentage. The share of US aid in total aid decreased in FY 2014-17.

#### 4.4 Pattern of US Aid as a Percentage of GDP

The pattern of US aid can be shown in terms of Gross Domestic Product (GDP). US aid has been contributing in the different sectors of Nepal for the better production

and utilization of various sectors in Nepal. Table 4.3 shows US aid as a percent of GDP in Nepal.

Table 4.3  
US Aid as a Percent of Average GDP in Nepal

Year	GDP (NRs. Millions)	US AID (NRs. Millions)	Share of US Aid in GDP ( in percentage)
1990-1993	3,40,121	1,052.17	0.30935
1994-1997	3,66,004	1,008.57	0.27556
1998-2001	21,39,121	9,320	0.43569
2002-2005	27,78,555	12,709.2	0.4574
2006-2009	44,76,977	16,622.4	0.37129
2010-2013	57,00,933	19,855.9	0.34829
2014-2017	1,00,33,515	29,371.5	0.29273

Source: Appendix C - 4 years Average.

Table 4.3 shows the average US aid as a percent of average GDP in Nepal. In the FY1990-1993, the average GDP of Nepal was Rs. 340,121 millions. The US aid inflow was 1,052.17 million. The US aid covered 0.30 percentage of GDP in the FY 1990-1993. Likewise, in the FY, 1994-1997, the average GDP reached Rs. 3,66,004 million and the US aid to Nepal was Rs 1,008.57 million which is only 0.27 percentage of the GDP. Similarly, the GDP was Rs. 21,39,121 million in the FY 1998-2001 and the US aid was Rs. 9,320 million. The US aid occupied only 0.43 percentage of the GDP. Again, in the FY 2002-2005, the GDP continue to rise to Rs. 27,78,555 million and the US aid reached to Rs. 12,709.2 million. It was 0.45 percentage of average GDP. The figure continued to rise from FY 2006-2009. Later in FY 2010-2013, the GDP reached Rs. 57,00,933 million but the US aid was Rs. 19,855.9 million, which is only 0.34 percentage of the GDP. But in FY 2014-2017, the GDP climbed at Rs.1,00,33,515 million and US aid also sky rocketed to Rs. 29,371.5 million and recorded 0.29 percentage of the GDP in 4 year average period of 28 year.

Figure 4.3

US Aid as a Percent of GDP in Nepal

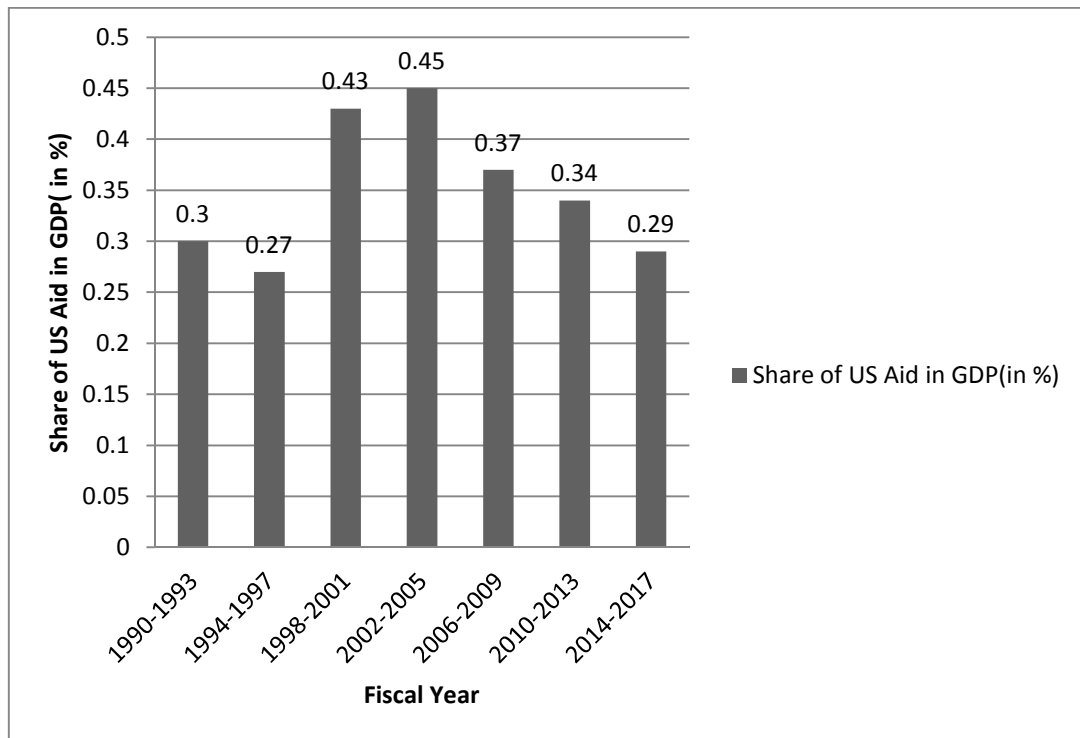


Figure 4.3 shows the average US aid as a percent of average GDP in Nepal. In FY 1990-1993, the average percent of US aid to GDP is 0.3 percentage. Likewise, in FY 1994-1997, the average percent decreased to 0.27 percentage from 0.3 percentage. But in FY 1998-2001, the percentage of average US aid to GDP increased to 0.43 percentage. The figure continued to rise at 0.45 percentage in FY 2002-2005. The percentage of average US aid to GDP fell to 0.37 percentage in the FY2006-2009. Later, in FY 2010-2013, the percentage occupied by US aid to GDP was 0.34 percentage. Similarly, the percentage of average US aid to GDP reached 0.29 percentage in FY 2014-2017. From the figure, it is clear that the average US aid to GDP is raising and falling giving up and down pattern in the 4 year average FY of 28 years.

#### 4.5 Composition of US Aid in Grants and Loans

Aid consist of grants and loans which makes Total aid. The following table shows the total US aid in terms of grants and loans. It also shows the percentage of grants in US aid and percentage of loans in US aid.

Table 4.4

## Composition of US Aid in terms of Grants and Loan (Rs. In Millions)

Year	US AID	US Loan	US Grant	Loan(percentage)	Grant(percentage)
2002-2005	1,27,092	50,481.28	76,610.72	39.72	60.28
2006-2009	1,66,224	74,800.8	91,423.2	45	55
2010-2013	1,98,559	89,351.55	1,09,207.5	45	55
2014-2017	2,93,715	132,171	1,61,544	44.9	55.1

Source: Appendix D- 4 Years Average

Table 4.4 shows the composition of US aid in Nepal in terms of grants and loans from FY2002-2017 making 4 year average FY. In the FY 2002-2005, The US aid was Rs. 1,27,092 million out of which grants consist of Rs. 76,610.72 million and Loan was Rs. 50,481.28 million. In the FY 2006-2009, the grants in the US aid occupied 55 percentage and remaining 45 percentage was occupied by loans. Likewise, in FY 2006-2009, the US aid was Rs. 1,66,224 million. The grant was Rs. 91423.2 million and loans were Rs.74800.8millions. In the FY 2010-2013, Grant was 55 percentage and loan was 45 percentage in the total US aid. Again in FY 2014-2017, the total US aid was Rs.29,3715millions out of which 55.1 percentage was grant and remaining 44.9 percentage was loan. In period of 16 years, the US grants dominated the US aid to Nepal.

Figure 4.4  
Composition of US Aid

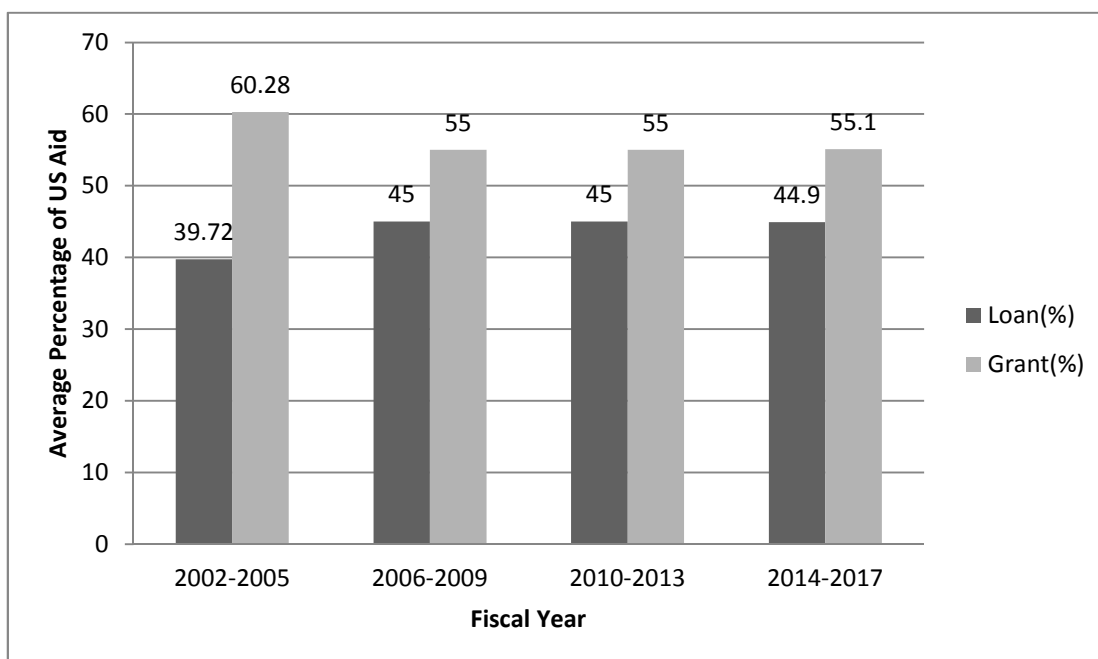


Figure 4.4 shows the composition of US aid in term of grant and loan from FY 2002 to 2017. In the FY 2002-2005, the grant occupied 60.28 percentage of total US aid and loan occupied 39.72 percentage of total US aid in Nepal. Likewise, in the FY 2006-2009, grants again were higher than loan which is 55 percentage compared to 45 percentage of loan. Similarly, again in the FY2010-2013, US grant was 55 percentage than 45 percentage of loan of US aid. It is clear that in the above mentioned FY grants was higher than loan. Again, in the FY 2014-2017, the grant reached to 55.1 percentage and loan was 44.9 percentage in the US aid to Nepal.

#### 4.6 USA Aid Commitment and Disbursement

Nepal has been receiving foreign aid from both the bilateral and multilateral donors. US begin a old neighbor has been providing assistance in various projects in Nepal. According to International Co-operation Report 2017, US ranks in top 5 bilateral donor in disbursing foreign aid to Nepal. The table 4.5 shows US aid commitment and disbursement:

Table 4.5

## US Aid Commitment and Disbursement (Rs. In Millions)

Year	US AID Commitment (In NRs. Million)	US Disbursement Commitment (In NRs. Million)	percentage of Disbursement
2002-2005	1,27,092	55,035.3	43.3
2006-2009	1,66,224	86,700.8	52.1
2010-2013	1,98,559	96,351.6	48.5
2014-2017	2,93,715	1,61,021	54.8

Source: Appendix E- 4 years Average.

Table 4.5 shows the US aid commitment and disbursement situation in Nepal from FY2002 to FY 2017. The average US aid commitment was Rs. 1,27,092 million in the FY 2002-2005 while the US aid disbursement was Rs. 55,035.3 million. Out of aid committed in FY 2002-2005 only 43.3 percentage of US aid was disbursed in Nepal. Likewise, the US aid commitment was Rs. 1,66,224 million in the FY 2006-2009 and US aid disbursement was Rs. 86,700.8 million. The percentage of aid disbursed was 52.1 percentage of total amount committed. Similarly, the aid committed by US was 1,98,559 million in the FY 2010-2013 but only Rs. 96,351.6million was disbursed in that FY. The disbursed percentage reached 48.5 percentage in the FY 2010-2013. Later, in the FY 2014-2017, the amount of foreign aid committed by US recorded at Rs. 2,93,715 million and the aid disbursed reached Rs. 1,61,021 million which was 54.8 percentage of the amount committed.

Figure: 4.5

US Aid Commitment and Disbursement in Nepal

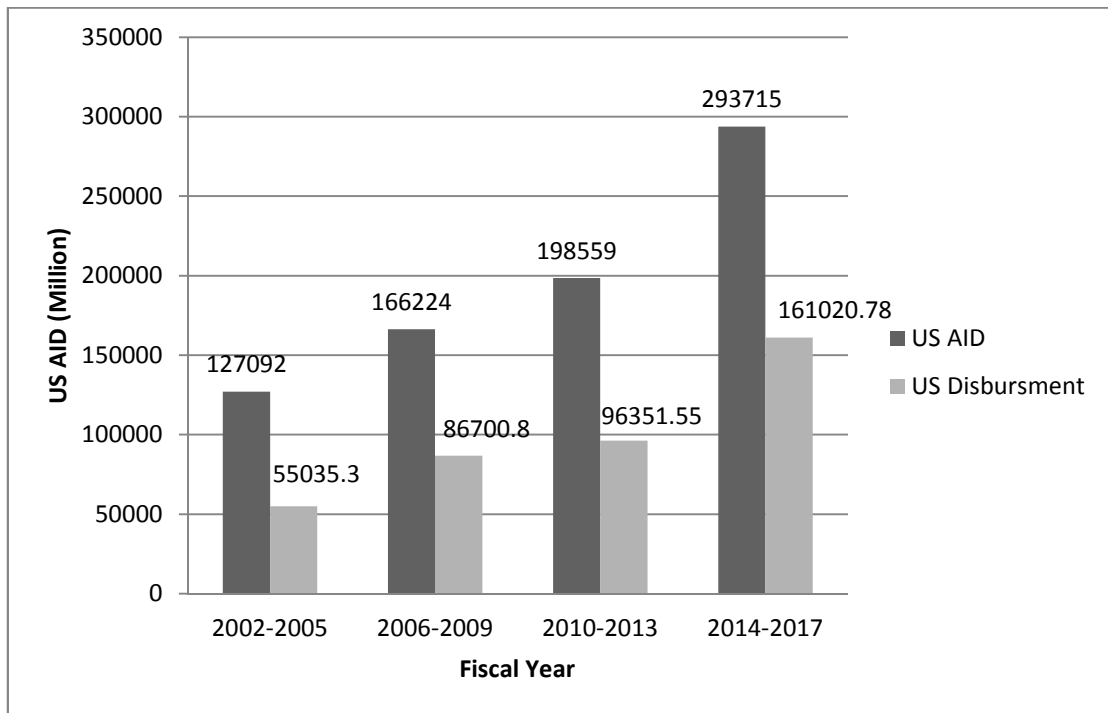


Figure 4.5 shows the US aid commitment and disbursement situation in Nepal. The average US aid commitment was Rs. 1,27,092 million in the FY 2002-2005 while the US aid disbursement was Rs. 55,035.3 million. Likewise, the US aid commitment was Rs. 1,66,224 million in the FY 2006-2009 and US aid disbursement was Rs. 86700.8millions. Similarly, the aid committed by US was 1,98,559 million in the FY 2010-2013 but only Rs. 96,351.6millions was disbursed in that FY. In the FY 2014-2017, the amount of foreign aid committed by US recorded at Rs. 2,93,715 million and the aid disbursed reached Rs. 1,61,021 million.

#### 4.7 Contribution of US Aid in Various Sectors of Nepal

US-Nepal economic cooperation began in 1951 AD. The objective of this program was and continues to be to complement the efforts of the Government of Nepal in the country's national development. US's assistance program in Nepal is guided by the vision that, together with progress in the political process in Nepal, it is equally important to ensure that economic outcomes, particularly in the areas of education, health and infrastructure, must reach people without preconditions. a smooth, fast and unhindered way. To this end, the Government of US provides technical and financial assistance for the multi sectoral development of Nepal. The scope and breath of US's

economic assistance programme has been expanding over the years. US AID helps Nepal to boost food security, sustainably manage natural resources, improve access to quality health care and education, bolster democratic governance, and build its capacity to mitigate and respond to natural disasters. US AID's efforts support Nepal's continued development into a self-reliant and resilient partner that may, in turn, bolster U.S. and regional security and economic prosperity (US Aid Report, 2017).

### **Food security and natural resource management**

Limited access to agricultural supplies and markets threaten farmers' livelihoods. To help farmers to earn a living wage, US AID forges partnerships between suppliers, producers, wholesalers and retailers. As a result, more than 118,000 farm households increased their annual sales by an average of 380 percent between 2012 and 2017. To counter the impact of unplanned development and a growing population on Nepal's natural resources, US AID promotes socially and environmentally responsible hydropower development, sustainable forest and water management, and wildlife conservation (US Aid Report, 2017).

### **Health and education**

Due to limited access to high-quality health care, one out of every 30 Nepali children dies before reaching his or her first birthday. To save lives, USAID increases access to high-quality, decentralized and equitable health services. Between 2011 and 2016, US AID helped to decrease Nepal's under-5 mortality rate by 28 percent. Similarly, low-quality education threatens Nepal's future — only 12.8 percent of third grade students can read. As foundational reading skills are critical to building a skilled population, US AID partners to improve the reading outcomes of one million students in grades 1 to 3 (US Aid Report, 2017).

### **Democracy and governance**

As Nepal transitions to a democratic nation, the country faces one of its toughest challenges yet: adjusting to a new federal structure. Nepal reiterated its commitment to more inclusive and transparent governance by adopting a new constitution in 2015 and successfully completing historic local elections after 20 years in 2017. USAID's support helped secure a record 75 percent voter turnout, and more than 1.7 million



Nepal is over 10 percent of total eligible voters, most of whom were women or members of marginalized groups registered to vote for the first time (US Aid Report, 2017).

**Disaster risk reduction, resilience and reconstruction**

Natural disasters affect thousands of people each year, thwarting Nepal’s self-reliance. US AID is leading efforts to build the government’s capacity to fulfill its post-earthquake reconstruction commitments and mitigate and respond to future disasters. As a result, over 251,000 Nepal is have earthquake-resilient homes and 112,000 have access to high-standard health and education facilities. (US Aid Report, 2017)

**4.8 The Impact of US Aid on GDP**

Foreign aid is said to have effects on economic growth and overall welfare of the economy. Larger amount of Foreign Aid is necessary for the further growth of the economy. But there is also a question like whether foreign assistance has proved beneficial for Nepal. Has foreign assistance shown positive effects on the economic growth and overall welfare of the country? If the answer to these queries is found positive then to some extent it can be argued that foreign aid has played positive role in the Nepalese Economy and is necessary for the further growth of economy. This intends to analyze the impact of US Aid to the total Gross Domestic Product (GDP) of Nepal. All the data in the analysis are taken from various economic surveys, budgets and World Bank. The regression model is used from SPSS software. The following results were obtained:

Table 4.6  
Regression Results

Model	B Coefficient	SE	t	R	R <sup>2</sup>	F	Sig
I Constant	-757923.65	1,23,668.168	-6.129				.000
US Aid	48.206	3.587	13.439	0.944	0.891	180.594	.000

Source : Appendix F.

Note: \*significance at 5 percentage level of significance

The table 4.6 shows the output of the regression where dependent variable is GDP and independent variable which is US aid (US). Due to lack of availability of data only 16years (2003-2017) is taken. In model, the Pearson’s coefficient is 0.944 which

implies that there is positive correlation between the independent and dependent variables. The value of  $R^2$  is 0.891 implying that predictor US aid accounts 89.1 percentage variation in the total GDP by the variation in US Aid. The value of F-statistic is 180.594, which the critical value of F is 4.30 at 5 percentage level of significance which indicates that  $R^2$  is statistically significant. That is the estimated equation is significant. Likewise, the slope of US aid inflow is 48.206 which indicate that there is positive relation between GDP and US aid. This implies that when total US aid inflow increases by Rs. 1 million GDP increases Rs. 48.206 million.

Table 4.7  
ANOVA Table

Model	df	F	Sig
1. Regression	1	180.594	0.00
Residual	22		

Source : Appendix F.

## 4.9 Major Findings

The major findings from the analysis of data are given below:

- I. The US aid is continuing to inflow in Nepal as being close neighbor US is assisting and providing aid to Nepal. The total US aid reached total of Rs. 7,85,590 million since 2003-2017. The US aid occupied 7.1 percentage of the total aid in Nepal. The total US grants reached Rs.3,46,804.6 million and the total US loan aid reached Rs. 4,38,785.4 million in the 17 year period from 2003-2017. The volume of US aid to Nepal is rising taking a pattern of decreasing and increasing through out the study period.
- II. The finding of the study was the total aid commitment to disbursement is very low. Not all the commitment amount has been fully disbursed. The US aid commitment reached Rs. 7,85,590 million and the US aid disbursement reached Rs. 3,99,108.4 million. The disbursed US amount is only 49.70 percentage of the total aid commitment. We can see loophole here and there is huge difference in aid commitment and aid disbursement.
- III. US is providing aid in almost every sector in Nepal. The areas include food security, natural resource management, health and education, democracy and governance, disaster risk reduction, resilience and reconstruction.

IV. The impact of US aid on GDP is found to be positive and significant at 5 percentage level. Using regression analysis, we found that there is positive correlation between US aid and GDP. The Pearson's coefficient is 0.944 which implies that there is positive relation between the independent and dependent variables. The value of  $R^2$  is 0.891 implying that predictor US aid accounts 89.1 percentage variation in the total GDP. The value of F-statistic is 180.594, with the critical value of F is 4.30 at 5 percentage level of significance which indicates that  $R^2$  is statistically significant. That is the estimated equation is significant. Likewise, the coefficient of US aid inflow is 48.206 which indicate that there is positive relation between GDP and US aid. This implies that when total US aid inflow increases by 1 million GDP increases by 48.206 million.

# **CHAPTER 5**

## **SUMMARY AND CONCLUSIONS**

### **5.1 Summary**

Nepal is one of the least developed countries with low level of saving and investment. Nepal suffers from serious problem of resource gap. The revenue collection of Nepal is enough to cover its recurring expenditures. The GON is not able to raise adequate revenue from domestic sources to finance its development projects. The development of Nepal has been patchy and incomplete with limited domestic capital despite having high potential for the exploitation of natural resources. So, GON has been receiving aid from various bilateral as well as multilateral donors. USA, UK, Japan, China, Switzerland, Denmark, Norway are major bilateral donors. Likewise, WBG, ADB, UN, IFAD, DANIDA, DFID are some of the multilateral donor supporting in various activities in endeavoring to sustainable economic growth. In the developing countries like Nepal, due to the insufficiency of financial capital, the adequate mobilization of international resources could not have been made without foreign aid in order to accelerate the rate of economic development and growth. If the utilization of aid is effective, foreign aid plays a vital role in developing towards the modernization of under developing countries. Foreign aid has been a dominant feature of the relationship between developed and developing countries since 1960s; aid recipients have been major sources of external finance for the majority of countries in Africa and Asia. The impact of foreign aid on economic growth remains a subject of considerable debate. Its performance varies across countries due to geographical location, policy environments and socio-economic conditions. The history of foreign aid is not very old for Nepal.

The study attempted to get various empirical results using only secondary data. The required data were obtained from various sources like Economic surveys, Ministry of Finance(MOF), US Embassy, National Planning Commission (NPC), Central Bureau of Statistics(CBS), World Bank, International monetary fund, OECD etc. The time coverage of the study is from FY 1990 to FY 2016 as more US in flowed after the restoration of democracy in Nepal. The regression analysis is used to examine the impact of US Aid as well as its components on GDP.

The study main focus was to show the trend and patterns of US aid in Nepal. The total US aid reached total of Rs.785590 million since 2003-2017. The US aid occupied 7.1 percentage of the total aid in Nepal. The total US grants reached Rs.346804.6 million and the total US loan aid reached Rs.438785.4 million in the 17 year period from 2003-2017. The volume of US aid to Nepal is rising taking a pattern of decreasing and increasing throughout the study period the study shows the impact of US aid in GDP of Nepal. From, the regression analysis we find that US aid has impacted hugely in the GDP of Nepal. US being close neighbor of Nepal has many similarities in social, economic, religious and cultural aspects. Nepal is a land locked country which is surrounded by US in 3 sides. The areas of assistance by US Aid includes food security, natural resource management, health and education, democracy and governance, disaster risk reduction, resilience and reconstruction US has continued its focus on US being top bilateral donor is contributing in various sector of Nepal.

## **5.2 Conclusions**

Developing countries like Nepal are facing deficiency of capital. There exists high resource gap between revenue and expenditure due to deficiency of capital, adequate mobilization of internal resources could not have been made without foreign aid to accelerate the required growth rate of the economic growth and development. Foreign aid is a means from where a self-sustaining required economic growth rate can be achieved. The function of foreign aid is to enable the developing countries to make the transition from economic stagnation to self-sustaining economic growth. In Nepal foreign aid has definitely brought a significant change in a socio-economic status of Nepalese people. More people have access on education, health and communication from when foreign countries assisted Nepal. The number of schools, hospitals, communications and social services facilities has increased significantly. The road network has also significantly expanded enabling a large number of towns and villages in peripheral areas to expand the local people's economic status as well as social life. Therefore, foreign aid plays a foremost role in Nepal, has been effective in bringing the desired level of benefits to the people. Among the various projects under foreign aid, few of them are successful to fulfill their indicated aim but in aggregate they has been less effective in bringing effective level of economic growth. Moreover, it has led us to greater aid dependency.

The US aid to Nepal has increased significantly after the restoration of democracy in Nepal after FY1990. The US aid inflow and GDP of Nepal are highly correlated and US aid has played a vital role on increasing the GDP of Nepal. The US aid grant inflow is more than US aid loan in comparison.

The US aid to Nepal was largely focused on transportation, irrigation and power generation before the restoration of democracy but after 1990, the focus of US aid to Nepal has been shifted to health, education, communication etc. Terms and condition of securing aid from donors including US are normally tough for Nepal. The donors normally pressurize Nepal to receive aid in the areas of their own interest.

### **5.3 Recommendations**

Some weaknesses still can be noted in receiving and utilizing foreign aid to Nepal. On basis of this study, following recommendations are suggested.

- i. Nepal is impoverish and capital deficient country. So, it is very difficult to gain momentum in economic development of Nepal in the absence of enough foreign aid. However, the terms and conditions of loan and grants should be fruitful to Nepal. So, long term loan should be change into grants in order to be free from repayment of loan in the future.
- ii. Disbursement of US aid to Nepal is not satisfactory. The aid commitment has no significant if the amount is not disbursed. Donors always advocate for the better utilization of resources provided to Nepal under different assistance program.
- iii. Garnering higher amount of foreign aid is taken to be a matter of pride by the political leaders and bureaucrats of Nepal which certainly increases the debt burden on the shoulders of Nepali people but it does not guarantee that the aid received will be used in productive sectors. So, aid should be utilized in productive activities.
- iv. The US should provide assistance in production sectors as well as new and emerging technologies such as information technologies, digitization.

## APPENDIX A

### US aid inflow in Nepal in terms of Grants and Loan

In NRs. Million

Fiscal Year	US Aid	US loan	US grant
2002/03	28154	10135.4	18018.6
2003/04	32192	11911	20281
2004/05	32018	12807.2	19210.8
2005/06	34728	15627.6	19100.4
2006/07	33561	15102.5	18458.6
2007/08	38561	17352.5	21208.6
2008/09	43614	19626.3	23987.7
2009/10	50488	22719.6	27768.4
2010/11	47588	21414.6	26173.4
2011/12	48972	22037.4	26934.6
2012/13	52106	23447.7	28658.3
2013/14	49893	22451.9	27441.2
2014/15	79432	35744.4	43687.6
2015/16	69955	31479.8	38475.3
2016/17	67836	30526.2	37309.8
2017/18	76492	34421.4	42070.6

Source: Economic surveys and Annual Budget of various years, Ministry of Finance, Government of Nepal

## APPENDIX B

### Foreign aid inflow in Nepal with US Aid

In NRs. Million

Fiscal Year	Total Aid	US Aid
1990/91	5990.0	23897
1991/92	7800.4	29068
1992/93	9235.6	27568
1993/94	11557.2	24684
1994/95	11249.4	26992
1995/96	14289.0	26687
1996/97	15031.9	23730
1997/98	16457.1	23448
1998/99	16189.0	21627
1999/00	17523.9	21027
2000/01	18797.4	23358
2001/02	14384.8	27188
2002/03	15885.5	28154
2003/04	18912.4	32192
2004/05	23657.3	32018
2005/06	22041.8	34728
2006/07	25854.4	33561
2007/08	29300.6	38561
2008/09	36351.7	43614
2009/10	49769.4	50488
2010/11	57997.8	47588
2011/12	51893.4	48972
2012/13	47199.2	52106
2013/14	60204.6	49893
2014/15	122914.7	79432
2015/16	205894.1	69955
2016/2017	302612.1	67836
Total	1228994.7	76492

Source: Economic surveys and Annual Budget of various years, Ministry of Finance, Nepal



**APPENDIX C**  
**US aid inflow in Nepal in terms and GDP of Nepal**

In NRs. Million

Fiscal Year	GDP	US Aid
1990/91	362756	23897
1991/92	392148	29068
1992/93	340121	27568
1993/94	366004	24684
1994/95	406678	26992
1995/96	440110	26687
1996/97	452158	23730
1997/98	491869	23448
1998/99	485626	21627
1999/00	503364	21027
2000/01	549425	23358
2001/02	600706	27188
2002/03	605088	28154
2003/04	633048	32192
2004/05	727393	32018
2005/06	813026	34728
2006/07	904372	33561
2007/08	1032562	38561
2008/09	1254544	43614
2009/10	1285499	50488
2010/11	1600266	47588
2011/12	1891357	48972
2012/13	1885151	52106
2013/14	1924425	49893
2014/15	2130150	79432
2015/16	2253163	69955
2016/17	2642956	67836
2017/18	3007246	76492

Source: Economic surveys and Annual Budget of various years, Ministry of Finance, Nepal

## APPENDIX D

### US aid in terms of Loan and Grant

In NRs. Million

Fiscal Year	US Aid	Loan	Grant
2002/03	28154	11182.77	16971.23
2003/04	32192	12786.66	19405.34
2004/05	32018	12717.55	19300.45
2005/06	34728	13793.96	20934.04
2006/07	33561	15102.45	18458.55
2007/08	38561	17352.45	21208.55
2008/09	43614	19626.3	23987.7
2009/10	50488	22719.6	27768.4
2010/11	47588	21414.6	26173.4
2011/12	48972	22037.4	26934.6
2012/13	52106	23447.7	28658.3
2013/14	49893	22451.85	27441.15
2014/15	79432	35664.97	43767.03
2015/16	69955	31409.8	38545.21
2016/17	67836	30458.36	37377.64
2017/18	76492	34344.91	42147.09

Source: Economic surveys and Annual Budget of various years, Ministry of Finance, Nepal

## APPENDIX E

### US aid Commitment and Disbursement in Nepal

In NRs. Million

Fiscal Year	US Aid Commitment	US Aid Disbursement
2002/03	28154	13513.92
2003/04	32192	15452.16
2004/05	32018	15368.64
2005/06	34728	16669.44
2006/07	33561	16109.28
2007/08	38561	18509.28
2008/09	43614	20934.72
2009/10	50488	24234.24
2010/11	47588	22842.24
2011/12	48972	23506.56
2012/13	52106	25010.88
2013/14	49893	23948.64
2014/15	79432	38127.36
2015/16	69955	33578.4
2016/17	67836	32561.28
2017/18	76492	36716.16

Source: Economic surveys and Annual Budget of various years, Ministry of Finance, Nepal

## APPENDIX F

### Regression Results

#### Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	US <sup>a</sup>		. Enter

a. All requested variables entered.

b. Dependent Variable: GDP

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.944 <sup>a</sup>	.891	.886	1.77397E5

a. Predictors: (Constant), US

#### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.683E12	1	5.683E12	180.594	.000 <sup>a</sup>
	Residual	6.923E11	22	3.147E10		
	Total	6.376E12	23			

a. Predictors: (Constant), US

b. Dependent Variable: GDP

#### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-757923.653	123668.168		-6.129	.000
	US	48.206	3.587	.944	13.439	.000

a. Dependent Variable: GDP

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