

**A STUDY ON FOREIGN AID TO NEPAL WITH REFERENCE TO  
DANISH AID**

**A Thesis**

**Submitted to**

**The Department of Economics**

**Prithvi Narayan Campus, Pokhara**

**Faculty of Humanities and Social Sciences**

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of the Requirements for the Degree of Masters of Arts**

**In**

**Economics**

**By**

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## **Department of Economics**

### **LETTER OF RECOMMENDATION**

This thesis entitled “A Study on Foreign Aid to Nepal: With Reference to Danish Aid” has been prepared by Mr. Indra Kumar Shrestha under my guidance and supervision. This thesis is the outcome of his own intensive and independent research work and has been prepared in the form as required by the Department of Economics, P.N Campus, Pokhara. Therefore, I recommend it for examination by the thesis committee of the degree for the Master of Arts in Economics.

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**LETTER OF APPROVAL**

The thesis entitled “A Study on Foreign Aid to Nepal: With Reference to Danish Aid” submitted by Indra Kumar Shrestha to the Department of Economics, Prithvi Narayan Campus, Pokhara, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the degree of Master of Arts in economics has been found satisfactory in scope and quality. So, we accept this thesis as a part of the said degree.

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## ABSTRACT

This Study entitled “ A Study on Foreign Aid to Nepal :With reference to Danish Aid (1992/93 – 2011/12)” has been carried out in partial fulfillment for the degree of Master in Arts in Economics.

The study analyzes the trend of foreign Aid and Danish Aid in Nepal ,areas of Danish assistance to Nepal, policies and commitment made by Denmark to Nepal and the overall impact of Danish aid in Nepalese economy.

Secondary data have been used for the analysis. The data have been collected through annual reports, economical surveys and related publications. The data are presented in figures, tables, percentage, ratio and correlation analysis have been used to calculate facts under study. Trend lines and diagrams are also used to present the situation.

During the period of 1992/93- 2011/12, the amount of total foreign aid received by Nepal is Rs.4763369.9 million, out of which Rs. 287932.5 million (60.4%) is of grant and Rs.18446.4 million (39.55%) is of Loan. In the initial period, most of the aid was in the form of loan but later on the share of grant has been increasing. Similarly, the trend of bilateral and multilateral aid seems to be fluctuated in the beginning of the study period. But in total, bilateral and multilateral aid amount to Rs. 195374.8 million and Rs.281004.9 million which comprises 40.1% and 58.98% respectively.

In the beginning period, sector like transportation, power, and communication had the biggest share of aid and the industry and commerce had the lowest share of the aid but later on the amount of aid to social service increased and became the most recipient sector. During the review period, social service received Rs. 233722.01 million (50.6%), transportation, power and transportation received Rs. 160378.4 million (34.77%), agriculture and irrigation received Rs.62681.9 million (13.5%) and industry and commerce received Rs.7992.8 million (1.9%) of total aid to Nepal.

Foreign aid disbursement is less than that of aid commitment by more than half in which aid disbursement is Rs.476379.5 million and aid commitment is Rs. 799183.2 million.

During the review period Denmark has provided Rs. 54349.18 million as aid which covers 27.81% as share of Danish aid to bilateral aid and 18.87% as share of Danish aid to foreign grant. The percentage of Danish aid to foreign aid is 11.40% which is about one eighth of total foreign aid. Danish aid has highly concentrated in Education, Local Development, Road/Transportation, Agriculture, Forestry and Irrigation, Health, Economic and Financial reform which is 20.14%, 14.70%, 10.91%, 9.79 7.87%, and 7.56% respectively.

The analysis shows that the correlation coefficient is 0.45, which means there is positive relationship between GDP and Danish aid inflow. The variation in Danish aid has significant influence on GDP variable in the Nepalese Economy.

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## LIST OF ACRONYMS

ADB	: Asian Development Bank
AEPC	: Alternative Energy Promotion Centre
CAS	: Country Assistance Strategy
CBS	: Centre Bureau of Strategy
DANIDA	: Danish International Development Assistance
DFID	: Department of International Development
DKK	: Danish Kroner
EEC	: European Economic Community
EU	: European Union
FY	: Fiscal Year
GDP	: Gross Domestic Product
GNP	: Gross National Product
GON	: Government of Nepal
HDI	: Human Development Index
HDR	: Human Development Report
IBRD	: International Bank for Reconstruction and Development
ICS	: Improvement Cooking Stoves
IDA	: International Development Association
IMF	: International Monetary Fund
INGOs	: International Non-Government Organization
JFA	: Joint Financial Arrangement
LDCs	: Least Development Countries
NAG	: Nepal Aid Group

NGO : Non –Government Organization  
NPC : National Planning Commission  
NRB : Nepal Rastra Bank  
ODA : Official Development Assistance  
OECD : Organization for Economic Cooperation and Development  
OPEC : Organization of Petroleum Exporting countries  
SSRP : Sector Reform Program  
UK : United Kindom  
UN : United Nation  
UNDP : United Nations Development Program  
WB : World Bank  
WDR : World Development Report  
WHO : World Health Organization