

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

Foreign aid is not a new concept. Its nature and objectives have been changing from time to time. Before the First World War, foreign capital was used as a profitable mode of investment. Foreign aid emerged in a planned way after the postwar period.

The term foreign aid is defined in the economics dictionary as the administered transfer of the resources from the advanced countries for the purpose of encouraging economic growth in the developing countries. The term is generally used to transfer to the nominal value of direct and indirect flow of the finance and other resources. It was granted from the government of the rich countries and multilateral institutions to those of poor countries. The resources can be transferred in various forms: financial, technical or commodities. The Development Assistance Committee, (DAC) of the Organization for Economic Cooperation and Development, (OECD) defined the concept of the foreign aid. Official Development Assistance (ODA) is defined as all flows to less developed countries and multilateral institutions provided by official agencies including state and local government or by their executive agencies. It was defined by distinguishing between Official Development Assistance and other official flows. Thus foreign aid or assistance, according to the OECD, refers to the only flow, which is termed as Official Development Assistance, (ODA) that is grant or loan undertaken by the official with promotion of economic development or welfare as the main objective.

Foreign aid by its sources is classified in two parts namely bilateral foreign aid and multilateral foreign aid. Transfer of resources from one country to another country is known as bilateral foreign aid and the transfer of the resources from international institutions such as IBRD, IDA, OPEC, IMF, ILO, ADB, WB etc is known as multilateral foreign aid. Depending on the terms and conditions of foreign aid, it is classified as tied or soft loan and untied or hard loan. Foreign aid received by the receiving country only fulfilling the certain terms and conditions is known as tied or hard loan, where as aid not associated with the terms and conditions is known as

untied or soft foreign aid. From the view point of its nature it is broadly classified as capital aid, commodity aid, technical aid and financial aid.

The final aim of foreign aid is to accelerate the development activities and try to make country self standing. There is such condition that generates expenditures is increasing and as a result internal resources are not sufficient. That is why, foreign aid is necessary for supporting development expenditures. Therefore, foreign aid is compulsory and obligatory for the economic development of any country.

In the developing countries like Nepal, domestic resources are inadequate to meet the financial requirements of economic development. The present level of capital formation of Nepal is too low and substantial increase in saving is not possible due to extremely low level of income and widespread poverty. Public borrowing and taxations have got their own limitations Deficit financing is also discarded because of its inflationary impact on the economy. At this juncture, the only alternative to pull the economy out of vicious circle of poverty remains as the foreign aid. Thus foreign aid is advantageous for the acceleration of growth mechanism in these underdeveloped countries. In fact, it is a supplement to poor domestic saving of less and backward economy. To see the economic history of various countries; it is found that many advanced countries have to rely on foreign aid for spending up the pace of economic development.

Nepal's first experience in foreign aid is said to have begun with the services of British technical experts who assisted in the period of Rana Prime Minister Chandra Samsher. Nevertheless, the formal assistance program commenced with the point four program of the United States, signed on 23rd January 1951, when the Rana were still in the power. After the US aid, India also took interested in providing assistance. Although there were only two donor countries during the 1950s and the early 1960s, Nepal got many opportunities to receive aid in later years from USSR, China, UK, France, Germany, Canada etc. This assistance started contributing considerable amounts of aid to various projects in Nepal. After late 1970s, Nepal has been receiving

foreign aid mostly from Nepal aid group: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Japan, Kuwait, Netherlands, Switzerland,

Sweden, Saudi Arabia, UK, USA and other six multilateral donors: IDA, IMF, EEC, UNCTAD, ADB and UNDP. Besides, Nepal has been receiving aid from other bilateral donors as well as multilateral agencies like IBRD, WHO, IFAD, WFP, UNICEF, OPEC, FUND, OECD, DAC etc.

There are many possibilities of economic development in Nepal but the main obstacle on the way is capital investment. Huge amount of capital should be invested for the rapid economic growth. Since Nepalese people are in the vicious circle of poverty like in other developing countries, they cannot save from their income to invest. On the other hand, they spend their income at purchasing luxurious goods rather than investing on productive activities. The consumption is always high so marginal propensity to save is about near to zero.

Nepal receives much aid from bilateral and multilateral sources. Among them, Denmark is one of the major donors to Nepal. Denmark has provided development assistance to Nepal since 1973, with a loan assistance of Danish kroner 20 million for the dairy development schemes and the establishment of slaughter house in the country. Later, this loan was converted in grant assistance in 1980. In 1989, when Nepal was included in Denmark program countries; Denmark has extended its assistance to Nepal on various sectors of the economy. The main objective of Danish Development assistance is poverty alleviation. Danish assistance to Nepal has been mainly directed to expanding the telecommunication system, strengthening the dairy sectors, energy, education and natural resources, administration, re-organizing society for strong women in development and good governance and so on.

1.2 Statement of the Problem

The world is characterized by a minority of rich and majority of poor countries. The developing countries face huge resource gap. This gap is the difference between total expenditures and total revenue of the government. In order to fulfill this gap internal source is inadequate due to low level of income and poverty or saving-investment gap. For this, external assistance is required. Therefore, in the developing countries, desired economic growth is possible only if domestic saving is supplemented by foreign aid. Thus, in Nepal it is very hard to deny the importance of foreign aid. It has

become an importance source to meet saving investment gap because it has inspired the nations left behind by the technological revolution to mobilize these resources of economic growth. It has also produce a transfer of resources on an unprecedented scale from richer to poor countries. In this way foreign aid has been taken as a means of reducing saving-investment gap.

Foreign aid has been playing a crucial role for the economic growth of Nepal .But the problem is that foreign aid has not been able to bring economic growth and development as expected. Various issues of Economic Survey published by MOF ,Government of Nepal show that on the one hand the disbursement of aid had been increasing steadily and resulting increases in expenditure. On the other hand, Nepal has been facing a problem of under spending at time. Fiscal year 2001/2002 to 2002/2003 aid disbursement has increased from 14384.8million to 15885.5million. Similarly, in 2002/2003 aid commitment was 43202.7million and disbursement was 15885.8million. It is clearly seen that there is a huge gap (27317.2million) between commitment and disbursement. Donors are not providing their committed aid due to various reasons such as lack of clear commitment from the government; donors own strategic interest rather than economic development, corruption, ineffective monitoring system of recipient country etc. It also creates uncertainties to start projects. It may happen due to inefficient administration, no availability of sustainable implementation of projects and also due to over calculation of the donor countries. The next problem is that, the donors are using aid as an instrument to serve their own interest rather than representing the interest of Nepal and Nepalese people. Similarly there is also the problem that the large amount of foreign aid flows back to donors in the form of compensation to expatriate consultants and imports of equipment. The large portion of aid is misused by the bureaucrats, projects staffs and political leaders without reaching the targeted groups. Utilizations of foreign very low in Nepal due to the country's low absorptive capacity, low productivity and so on. Regarding the Danish aid to Nepal, it is gradually increasing and it covers the most important sectors such as education, environment, natural resources, energy and the strengthening of democracy as well. The main objectives of this study lies in the analysis of the Danish aid trend and the volume to the economic development of Nepal through various economic sectors. In this way we are trying to find out the answers of the following questions.

1. What is the position of foreign aid in Nepal?
2. What is the trend of Danish aid to Nepal?
3. What are the policies prepared and commitment made in between Nepal and Danish Government for aid?
4. What projects are conducted with the support of Danish aid?
5. What is the overall impact of Danish aid on Nepalese economy?

1.3 Objectives of the study

The overall objective of this study is to analyze the trend and pattern of Danish aid in economic growth of Nepal. The specific objectives of this study

- a) To analyze the trend and pattern of foreign aid to Nepal.
- b) To explore the trend and pattern of Danish aid to Nepal.
- c) To describe policies and commitment made in between Nepal and Danish Government for aid.
- d) To identify the areas of Danish assistance to Nepal.
- e) To analyze the overall impact of Danish aid in Nepal's economy.

1.4 Significance of the study

Foreign aid has significant role in the socio-economic development of Nepal. Nepal has been receiving aid in the terms of grant, loan technical aid, training services etc. For the capital deficient country, rapid economic growth and achievement of required growth rate is difficult without utilization of foreign aid. Nepal is receiving the aid since FY1952/53. Now, Denmark is being one of the major donor country to Nepal and has been providing assistance to Nepal since 1973.

Foreign assistance in the form of grant, loan, technology, training scholarship etc. has multiplier effects on the income and accelerator effects on the investment and ultimately the country can be self sufficient to finance investment. This approach holds the view that self sufficiency should be taken as ultimate goal of the long term aid. The developed countries to the road of self - sustaining growth.

The study of foreign aid provides a clear-cut idea about the aid being provided by advanced countries to underdeveloped countries .Denmark is one of the highly

developed countries in the world and plays a vital role in the development of developing countries through its aid. This study aims to analyze the trend and volume of aid being provided by Denmark for the economic development of nation.

1.5 Limitations of the study.

Major limitations of the study are,

- a) The study is completely based on the secondary data and no attempt has been made to check the validity and reliability of data.
- b) Political as well as military aid has not been taken into consideration and it has omitted the social effect also.
- c) Only the official development assistance (ODA) has been analyzed in their nominal values.
- d) The study is confined only on limited Economic indicators.
- e) The study covers the time period from FY 1992/93 to 2011/12.

1.6 Organizations of the study

This study has been divided into five chapters. Chapter one is concerned with general background of the study, statement of the problem, objectives, significance of the study, limitations and organizations of the study. Chapter two incorporates literature review of related matters under the heading of foreign aid, Danish aid and research gap. Chapter three has discussed about research methodology. Data presentation, analysis and findings of data are carried out in chapter four. Summary, conclusions and suggestions have been mentioned in chapter five.

Bibliography and appendices are given at the end of thesis.

CHAPTER-2

REVIEW OF LITERATURE

The transfer of capital technologies from developed countries and donor agencies to underdeveloped, third world, countries either in the form of loan or grants from time to time is generally known as foreign aid. Foreign aid is generally considered as one of the important factors for the development after Second World War With growing independence of many developing countries and with the workout of the Marshall plan, the scope of foreign aid has become more significant.

Donors motivation for granting development assistance are complex, interlocked and are not always reflected in the publicly pronounced from aid. In general, the declared objectivities have evolved over the years and included support for economic programs and strengthen democracy, good governance and human rights.

Related to the foreign aid, there have been several publications are published in the form of books, booklets journals and other useful articles written by Nepalese as well as foreign writer in the context of foreign aid in Nepal. There are also dissertations referring to the foreign aid submitted by the students of economics for the fulfillment of their masters' degree. Similarly, there are several articles in the local newspaper are published referring to their field.

In the domain of foreign aid there have been several publications are published in different forms but adequate publications is found in the field of foreign aid to Nepal along with Denmark assistance. So, I have dealt with the whole trend of foreign aid to Nepal.

2.1 Theoretical Review

In real sense, foreign aid means the transfer of resources from the industrialized to the developing countries. But after the Second World War, the common meaning of foreign aid has changed and also been influenced by the political and economical interest of the donor countries. There is no common opinion of about the definitions of foreign aid. "The short answer of foreign aid is that it consists of explicit transfer of

real resources to less developed countries on concessional terms". (Jagdis and Eckans: 1997). It is usually planned either to promote economic development or to provide humanitarian relief in emergencies.

Rodan, (1957), in his book *Note on the Theory of Big Push*, has explained that one of these invisibilities speaks the indivisibilities as a basis for the Big push theory to remove the original inertia of less developed countries. In the view of the saving gap he adds, foreign aid assumes much importance as a means to break the vicious circle of poverty and help to accelerate the pace of growth.

Rodan, (1961), in his book *International Aid For Underdeveloped Countries*, aid should be allocated where it will have maximum catalytic effect of mobilizing effort. He states the purpose of an international program of aid to underdeveloped countries is to accelerate their economic development up to a point where satisfactory rate of growth can be achieved on self-sustaining basis.

G. Papanek (1973), in his book *Aid Foreign Private Investment, Saving and Growth in less Development Countries*, in a cross country regression analysis of thirty four countries, treating foreign aid, foreign investment, other flows and domestic saving as explanatory variables finds that foreign aid has a greater effect on the growth than the other variables. He explains that the aid is supposed to be specifically designed to foster growth and, more importantly, is biased toward countries with a balanced of payment constraint. He also finds a strong negative correlation between foreign aid and domestic saving, which he believes co-contributed to the growth performance and development of the nations.

Bhatia, (1981), in his publication entitled *Does foreign aid help?* Defines foreign economic aid to a country as a fluid concept and admits of different definitions. It is associated with the resource inflow from outside the economy but the phenomenon of resource inflow of the economy can be complex and multi-dimensional. Further, external assistance in whatever manner defined is intimately related to the objectives with which it is given and obtained. Equally important are its form and mechanics as also the compulsions, which generate it. All these aspects of foreign aid are international dependent. The objectives of the external assistance are : (1) accelerating

the economic growth(2)bringing the economy nearer to the point where it is no longer needs foreign aid. It is necessary to note that the economic growth of a country is not a function only of the volume of its natural and manmade resources. Accordingly, the contribution of foreign aid in the economic growth of a recipient country is also not a matter of only its quantum. To that end the research study must look at component of actual resource inflow and the terms and conditions under which it is provided. Aspects like utilization efficiency have an equally important bearing up on the issues under considerations.

Poudel S.R. (1983), carried out research study in entitled Impact of Foreign Aid in Nepal's Development, under CEDA, T.U. Kirtipur. He looks at the complementary of the foreign aided project and the relationship between aid and gross domestic product, aid and saving, and aid and consumption in Nepal. The main objectives of this study were to examine whether the projection is financed by foreign aid on GDP, saving and consumption.

The study is primarily based on the secondary data and materials and field observation. Both descriptive as well as quantitative techniques are used to examine the issues. The study has taken in the western development region for the case study. To evaluate the effects of the foreign aid on GDP, saving and consumption number of linear single equation models are used. The main findings of the study were:(a)foreign aid is being concentrated on infrastructure and neglected other sectors, (b) the GDP, domestic saving and consumption are highly stable functions of foreign aid,(c) elasticity between GDP and domestic saving is higher than that of between GDP and foreign aid. Suggesting that GDP growth is more than responsive to domestic saving than foreign aid. Positive effects of foreign aid are more on saving than consumption.

Gurung, (1984), in his book, Nepal Dimension of development says that the acquisition of the external aid is only an initial part of the process. The more difficult part is its effective utilization. He has pointed out the possibility of economic development through foreign aid if the recipients' countries have the capacity to adopt them to their real needs. He has added that when an underdeveloped country is confronted added with foreign aid and ways of doing things that are diverse in character, varied in approach and perplexing to in technology. The answer to this dilemma may after all lie within the recipient countries themselves in better

appreciating their own priorities, resources and potentialities and which in itself is a challenging task.

Dharmadasani,, (1988), has focused mainly on Nepal regarding the foreign aid, it has described about the nature, dimensions and implications of foreign aid in Nepal. The central theme of this study is that within the prevailing structure constraint of Nepal society, the process of development has itself contributed to the growth of external assistance. The study has examined the contribution of foreign aid in the process of plan development up to 6th plan. He has said that instead of visualizing the future without aid, Nepal should lease to be dependent on aid as the prime mover of the economy.

Pant Y.P. (1974) ,in his book *Problem of Development of Smaller Country: A study in Problem and Prospects of Development Process*, has written on the topic of external assistance in a separate chapter. According to him, the external assistance available to the least developed small countries can be discussed under the heading of foreign aid in the form of grants, loans and technical assistance. Shortage will be supported by foreign aid at least in the initial stage of development plans. He further says that rapid formation of capital for the acceleration of the growth of LDC_s cannot be possible without foreign aid, even if domestic resources are mobilized to the optimum level.

Pant claims that the international flows of resources lower the stage of development, greater the percentage of import of net loans and grants. The efforts of advanced countries and international agencies to enhance the knowledge and skill to developing countries through technical assistance have been increasing in recent years.

Meier, (1976),in his book *Leading Issues on Economic Development*, writes that capital accumulation is regarded as a core process by which all other aspects of the growth are possible. Capital increases by investment and investment needs more saving of foreign assistance. In his view, foreign aid might have some limited use; aid should be given to those who help themselves. In short run, calculation of aid requirements through the industrial assumption needs to be looked at very carefully. Over long run, it is not much use indeed it may more harmful.

Dhungana B. (1981), in his article *Foreign aid a free lunch for Nepal*, says that there is not even one sector which is free from foreign assistance. In this article, he has shown beautifully the percentage of the external assistance in different plan periods of Nepal. According to his view the impact of foreign aid is a small resource. In this sense foreign aid has only marginal effect on recipient countries. He further adds that net foreign investment out of the gross foreign assistance comes only about 25 percent.

Singh R.(1985), in his book, *State Intervention, Foreign Economic Aid, Saving and Growth in LDCs*, also finds that foreign aid has a strong positive impact on economic growth in less developed countries for the periods 1960-1970 and 1970-1980. He concludes that this is very possible when state intervention is not taken into account. When the state intervention variable is included in the regression, the effect of foreign aid gets statistically weak.

Jhingan, (1997), says foreign capital can enter a country in the form of private capital. Public foreign capital is more important for accelerating economic development than private foreign capital. The financial needs of LDCs are so great the private foreign investment can only particularly solve the problem of financing. He has also focused his study against the foreign aid. According to his foreign aid has failed to improve the income earning capacity of LDCs and they are now saddled with large external public debts. Foreign aid frequently influences policies in to appropriate directions. He concluded that foreign aid helps in modernizing society and strengthen both private and public sectors. Foreign aid is thus indispensable for the economic development of the LDCs.

Khadka N. (1998), in his book *Foreign Aid, Poverty and Stagnation of Nepal* has written that Nepal heavily relies on aid. Its reliance on aid increased from 45% development expenditures in 1975 to about 56% in 1986 and AID ratio increased from 2.6 to 6.9% during the same period. The main objectives of this study were to examine the socio-culture and political constraints to find out the sources wise and sector wise allocation of aid over the past three decades and to analyze the policy implications for aid and development in the future. The above objectives of his study

regarding the aid inflow are significant. These objectives try to examine every aspects of aid clearly so far aid had not been effective in alleviating the poverty in Nepal. On the contrary aid has created socio-economic dualism by favoring urban sector rather than rural areas where development process is almost stagnated. It is urban biased. It caused huge gap between urban and rural areas in terms of consumption it further widened gaps between haves and have not and social disparity is still growing. Aid neither contributed to attain the goals nor helped to established institutional political machineries. Hence aid failed to alleviate poverty of the country because it was unable to grasp the majority of the population who live in the rural areas.

Pant G.D. (1998), in his book *Foreign Aid, Economic Growth and Social cost Benefit Analysis*, examines carefully the effects of foreign aid on the economic growth of the least developed country like Nepal, together with social cost-benefit analysis of two foreign aided projects. The analysis was principally based on Shibuya-Yamasita and the UNIDO.

The objectives of the study were the following to measure the effects of foreign aid on economic growth, saving and the investment to judge the extent to which the Nepalese economy is dependent on foreign aid to elaborate contribution of projects, particularly these appraisal were undertaken by them, to analyze the impacts of foreign aided projects through the social cost benefit approach on the basis of objectives implicitly, to provide details on aid administration and to recapitulate the main findings and suggest some policy implications.

Finally the researcher put some recommendation regarding foreign aid. Firstly the government should request to the donor to finance agro-based industries that could reduce the cost of production directly, secondly emphasized on the road project which could help to generate income and employment thirdly government should request such donor to accommodate the local people training and learning process so as to enable them to maintain and operate the projects satisfactorily after handover.

Mihalay, (1965), in his book, *Foreign aid and politics in Nepal*, gives the descriptive facts about foreign affairs and political condition of Nepal. According to him, Nepal has attracted unusual attention from aid donors, Nepal receipt aid from so many sources from initial until today. They are USA, India, China, Denmark, USSR, Japan,

and Australia, United Nations and its agencies and the fund foundations. He also concludes that in Nepal, there are tribes and groups of people, diversity of religious and languages that are barrier to national unity and to national affects to advance economic growth. Hence the aid giving country has to face various difficulties. He showed the impacts of minor aid programs provided by different donor countries. According to him, in minor aid program, few of them are successful to fulfill their indicator, but in aggregate, they create serious problems of Nepal. In addition, he has shown the impacts of two types of foreign aid in Nepal: short term and long term impacts. In short term impact, aid project did not improve political consciousness as hope by donors. In long term impact, aid not only failed to give a significant boost of Nepal's economy but also it may even have made growth more difficult to achieve.

Pant (1974), in his book, Problem of development of smaller countries, tried to examine the effects of external assistance. According to him, the external assistance available to the least developed and smaller countries can be discussed under the heading of foreign aid in the form of grants, loan and technical assistance. According to him, shortage will be supported by foreign aid at least in the initial stage development plans. He further says that rapid formation of capital for accelerating the growth of LDCs cannot be possible without foreign aid even if domestic resources are mobilized to the optimum level.

Rostow (1968), argues strongly in favor of foreign aid. He is very optimistic about this decisive condition of development aid. A) It has helped the negotiating capacity of the aid recipient countries. B)General of the nation of the human community is an inherently divisive world and D)The institutionalized development had damp the domestic conflicts inherent in the modernization process in these countries which pursued reasonable balance, purposeful and sustained development program. He discarded totally the view that without development aid with its encouragement of planning the economics of the developing countries would have been less centralized and more relying on the price system and the bracing winds of competitive private enterprises.

Dharamdasani (1988), in his book Dynamics of Foreign Aid in South Asia: a case study of Nepal has explains that foreign aid has played a significant developing

countries during the last few decades .It has been used by the donors as an instrument of foreign policy to influence the domestic and external behavior of the recipient nations and has been a vital role in the newly emerging countries struggle against poverty and their quest for self sustained economy and political stability.

Mihlay (2002), in his book, *Foreign Aid and Politics in Nepal*, states that economic assistance was often regarded as simply a means of financing development rather as a political tool. His study has attempted to demonstrate that the nation and agencies which extended economic aid to Nepal, with few significant expectations, failed to accomplish what they set out to accomplish. Aid has both the short term and long term impact. Because of the shape and directions, donors gave to aid programs. Aid only not failed to give a significant boost to Nepal's economy but it may even have made growth more difficult to achieve.

Sigdel B. (2004), in his articles *Foreign Aid in Nepal*, says that foreign aid is one of the most original politico-economic phenomenon's of the twentieth country. In addition, foreign aid has become a foundation to North-south relation, which emerged as one of the principal levers for the globalization of social policies. Despite the influx of foreign aid to developing countries from industrialized nations, it is still diminutive in comparison to their economies which fall between 2 to 3% of their GDP. Political, economical, humanitarian and social concerns motivate especially bilateral aid from developed to developing nations. Similarly the World Bank groups and regional multilateral development bank's assistance programs are confined to the developing endeavors of developing countries.

He concludes that the socio-economic sector succeeded in attracting large amount of foreign aid in Nepal. The transport, power, communication agriculture, irrigation and forestry sectors attracted considerable amount of foreign aid in the past followed by industry, commerce and social services sector. Some have argued that poverty is not a major concern of foreign aid flow to Nepal, but politics and political strategic considerations have been the major determining factor. Empirical findings reveal that the role of foreign aid to meet ever-growing resource gap is immense. The regression model shows that there is a significant relationship between resource gap and the foreign aid during last twenty one years. The D-W test, which is also nearly 2 %

indicates the significance of the foreign aid to mitigate ever growing resource gap. The foreign aid supplements more than 60% of the total resource gap and the remaining are met by the remittances and the foreign currencies earned from the tourism sector.

Mahat Ram. S. (2005), in his book, *In Defense of Democracy, Dynamics and Fault Lines of Nepal Political Economy*, states that it is one thing to depend upon foreign aid for the development finance and other nation and leads to some erosion in it instead, and when it develops a tendency to fuel the greed of some in the name of the need for many.

Foreign Aid Policies and Working Policies in Three Year Interim Plan FY 2007/08-
FY 2009/10

- Special emphasis will be given to increase the grant proportion in total foreign aid and the concessionary loan will be devoted to the development of infrastructure and the other productive sectors on a priority basis.
- Technical assistance will be used with a focus on the objectives of achieving sustainable national capacity development.
- Accountability of government and local stakeholder's role in development projects and programs will be ensured.
- In the management of development program and projects, institutionalized and it will be ensured that the project implementation would be completed on the stipulated time, quantity and quantity cost with a view to utilize resource in a sustainable manner.
- Foreign aid utilization will be enhanced through improvement in management, operational procedure and system simplification. Foreign aid conditionality's shall be improved.
- Promotion of indigenous skill, efficiency and technology will be the condition of foreign aid acceptance.
- Foreign aid will be utilized in the reconstruction of infrastructure destroyed during the conflict.
- Sense of government ownership of development projects and programs will be promoted.

- Initiatives shall be taken by the concerned ministries to prepare project Bank as a basis of foreign aid mobilization.
- Infrastructure such as roads, bridges, electricity and communications will be given priority for the foreign aid mobilizations.
- Foreign aid flow to potential private sector investment will be discouraged.
- Technical assistance will be utilized to promote the national capacity building.
- In order to ensure that the aid received from INGOs is mobilized for the optimum benefit of national priority endeavor's, a national policy will be drafted and necessary legal provisions will be made for its enactment aid.

In the line of the above objectives and focuses of this policy of Nepal, we can critically examine that, in the long term foreign aid should be channeled to national priority sectors which include infrastructure development. Within these broad sectors emphasis will be given to rural infrastructure, electrification, rural roads, public health, drinking water and assistance gradually by building internal capacity. No loans should be used for the technical assistance, foreign aid should be used to encourage partnership among the government, the private sector, civil society, NGOs and donors to develop project management leadership then only it can enhance benefit and sustainability and eliminate corruption. All the projects which are financed by the foreign aid should be examined from the social, economic, financial, managerial, technological and environmental perspectives.

Dahal Madan. K, conducted the study on Foreign Aid in Nepal: The Changing Context(2008), this study states that foreign aid is highly competitive and conditioned to higher level of democracy, human rights, governance, liberalization and economical reforms backed by decelerating states of corruption and conflict in the recipient countries. Unfortunately Nepal does not have capacity to argue and campaign for more foreign aid as per requirements attributing to the poor economic strength combined to a diminutive GDP. The prime concern of the foreign aid is of raising its productivity through effective utilization. Foreign aid needs to be directed towards achieving the overarching national goal of inclusive growth. He says that at the backdrop of theoretical underpinnings of foreign aid is essential not only for

sustaining development activities and poverty reduction but also for the efficiency to enhance competitiveness of both government and the private sector, which would be instrumental in maximizing benefits from the globalization and liberalization. Foreign aid has played a crucial role in the process of economic development and poverty reduction in Nepal for more than five decades since the inspection of the First Five Year Plan in 1956. The donor communities have been generous to provide external assistance to Nepal during and after the political change in 1990. However, recent experiences with the performance of foreign aid have been frustrating attributable to both internal as well as external factor. Finally he concludes that Nepal is passing through a critical juncture of poverty and stagnation, Nepal needs greater quantum of foreign aid from neighboring countries especially India and China and other industrialized economics not only to sustain inclusive growth and accelerate process of poverty reduction but also for achieving enduring peace and stability in the country through implementation of reconstruction, rehabilitation and reintegration programs.

Overall, having found out that to some extent foreign aid positively affects GDP, its importance to build infrastructure in Nepal and its need to meet a large proportion of our development expenditure, its importance to Nepal is enormous. And on the other side, the inefficiencies, misuses costs and dependence syndrome aid has generated makes every concerned citizen to consider about its existence in Nepal.

2.2 Research Review

Pyakurel, B. Adhikari, D and Dhakal, D.P (2008), in their book “Is Foreign Aid working”, an analysis of aid effectiveness and growth, globally, foreign aid regime shows a mixed result of both as a success or failure story. In Nepal, foreign aid is successful because it has generally contributed to economic growth. Foreign aid has been increasingly contributing to the national financial requirement over the years. In the period between FY 1950/1951 and FY 2004/05, the share of the foreign aid in total national expenditure remained 29.6%. It shows that the country has been able to meet about three fourth of its national expenditure from its own resources.

They conclude that the country is now going through the hard times. Nepal could not meet her expenditure commitment proposed during 2002-07 period largely because use of the increasing security expenses, debt servicing liabilities, additional fund for increased salary, provident fund and pension benefits. The country desperately needs extreme financial assistance to bridge the development gap, it is already been delayed to carefully asses Nepal's relative development status by thinking the role played by external assistance.

Bhattarai, 2009, did the thesis on the topic "Foreign aid to Nepal with reference to Danish aid". The overall objectives of the study was to analyze the trend and pattern of foreign aid to Nepal, to analyze trend and pattern of Danish aid to Nepal, to examine the area, volume of Danish assistance to Nepal and to suggest and recommend to improve effectiveness of foreign aid especially Danish aid in the economic growth and development of Nepal.

The major findings were the trend of foreign aid shows many fold increase in the quantum of aid flows to Nepal. Trend analysis clearly shows that the proportion of loans have been increasing consistently with commensurate decline in grants which implies an increasing debt burden. Danish aid has covered various sectors of Nepalese economy like poverty alleviation, gender issues, democracy, human rights, education, health agriculture and power generations.

Nepal, (2009), did the thesis on the topic "Impact of Danish aid on the Nepalese economic growth."The broad objective of the study was to analyze the trend, pattern, volume projects and program of Danish aid to Nepal and to analyze the impact of Danish aid in economic growth of Nepal. She concluded that Danish aid to Nepal in the form of grant, loan and technical assistance. She also concluded that the value of GDP is increasing ratio. The national GDP of country is proportionately related with the foreign aid. In fiscal year 1990/91 the contribution of foreign aid in national budget amounted 25.5% and in FY 2008/09 it is around 28% in total budget and 53% in development budget. It seems that the contribution of national budget is high aid dominant. So Nepal's budget is heavily dependent on foreign aid. So there is interrelationship between growth of GDP, foreign aid and national budget.

The major findings of the study was that the disbursement has been much lower than the commitments by huge proportions except FY 1990/91 where disbursement is higher than commitment .Also Danish Development assistance has highly

concentrated in poverty alleviation, education, environment, human rights, good governance, democracy and decentralizations.

G.C Gagan. D.(2013), did the thesis on the topic “Japanese Aid To Nepal”. The major of the objectives of the thesis was to examine the trend and magnitude of overall foreign aid, to analyze the Japanese aid flowing to Nepal in terms of trend and magnitude and impact of Japanese aid in GDP.

He concluded that the foreign aid has important role for the economic growth of our country but due to political instability and policies of nation aid has not been fully utilized with the interest of donor nations. During his review period total foreign aid was Rs.438276.8 million out of which Rs.250282.2 million is grant and Rs.187993.6 is loan. Similarly, multilateral aid seems to be about double than bilateral aid which is Rs.268452.5 million and Rs.169824.3 million respectively.

Tripathi Binod. P.(2011), did the thesis on the topic “Foreign aid in Nepal with special reference to US AID”. Some of the conclusion of the thesis was that the foreign aid has helped to boost up the Nepalese economic in many instances. The number of hospitals and health posts have increased, quality as well as quantity of schools, teachers and students has added up, drinking water, irrigation, electricity and road access have also got improvement in their supply. But we have to remember that most of the foreign aided projects were centered on urban areas only. The people of rural areas are beyond the reach of the service of these foreign aided projects except irrigation.

2.3 Research Gap

In the context of foreign aid several writings, 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 periods and the effects of foreign aid with special reference to Danish aid on GDP of Nepalese economy. This analysis carries out the data from Fiscal year 1992/93 to Fiscal year 2011/12 of overall foreign aid and Danish aid to Nepal and also has studied the impact of Danish aid especially on GDP of Nepal.

CHAPTER - 3

RESEARCH METHODOLOGY

3.1 Research Design

Research design of the study is a plan, structure and the strategy of investigation conceived so as to obtain answer to research questions. This study is descriptive type and is designed to describe the volume of foreign aid and Danish aid inflow in Nepal. These designs are also used to gain insight about the foreign aid situation in Nepal with reference to Danish aid. For this purpose, simple correlation model and the variables have been explained.

3.2 Selection of the study period

To meet the objectives of the effectiveness of foreign aid in Nepal, the time series of 21 years from FY 1992/93 to 2011/12 is carried out. During the analysis of Danish aid and its contribution on Nepalese economy, correlation analysis has been used. The study focuses on Danish aid and its impact on GDP.

3.3 Sources of Data

This analysis of the study attempts to get various empirical results using only secondary data. The required data are also collected from various sources like Economic Surveys, Ministry of Finance (MOF), Danish Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), and Quarterly Economic bulletin published by Nepal Rastra Bank (NRB) Foreign Aid Division of MOF, different newspaper as well as published and unpublished documents of various research institutions. The coverage of the study is from FY 1992/93 to 2011/12.

3.4 Data Collection and Procedure

In the process of data analysis the relevant data from the various sources are collected, classified and tabulated to fulfill the requirements of the study. Data are presented in the percentage when required. Tables, graphs, diagrams, pie charts, trends lines ,mean

and standard deviation etc are used according to situation and requirements of the study. The aid loans, grants, and technical assistance which have been compared with total aid in flow in Nepal.

3.5 Data Processing

In order to make the empirical analysis, simple correlation coefficient have been used. The study attempts to show the correlation between Danish aid and GDP growth in Nepal.

Correlation Coefficient: This relation depicts the relation between dependent and independent variable in the form of

$$r_{XY} = \frac{\Sigma XY - n (\bar{X} \bar{Y})}{\sqrt{\Sigma X^2 - n (\bar{X})^2} \times \sqrt{\Sigma Y^2 - n (\bar{Y})^2}}$$

Where,

R_{xy} = Correlation coefficient,

X = GDP

Y = Danish aid

\bar{X} = Mean of GDP

\bar{Y} = Mean of Danish aid

CHAPTER-4

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

Foreign aid for the least developing countries like Nepal is not the requirements but also the compulsion. It is not possible only through the internal resources to invest on basic infrastructure for its balanced development. Hence foreign aid plays a crucial role to achieve desire rate of economic growth, social and cultural development to eradicate poverty and even to mobilize the internal resources.

The history of foreign aid in Nepal is not so long. It was initiated with the independence from the Feudalistic Rana regime in 1951, with point four program of United States in the form of grant .During 1950s and the early 1960s, India and United States were only two donor countries for Nepal. After the formation of “Nepal Aid Group” in 1976, the quantum of foreign aid increased more significantly. This group was formed to provide a forum to coordinate the growing level of foreign aid in line with the country’s development priorities. The Nepal Aid Group(NAG) comprises countries like USSR, Australia , Canada Denmark ,Belgium ,Austria ,Germany ,France ,U.K ,Saudi Arabia ,Japan and international agencies such as ADB, IDB, IMF, WHO, EEC, IBRD, and UNDP. Other major donors for Nepal are China and India. Up to 1961/62 all foreign assistance was completely in the form of grant, and it was only since 1961/62 foreign loan started to enter in the country (Gyanwali 2004: 4).Nepal receives the most concessional loan from more than 50 major donors with an average maturity period of 40 yrs, a grace period of 10 yrs and a per annum interest rate of less than one percent. Foreign aid is classified into several forms on the basis of its natures, conditions and sources.

4.2 Trend and Structure of Foreign aid

Foreign aid to Nepal commenced since 1951 and was in the form of grant from 1951 to 1961 and thereafter it consisted of the loan as well. The number of donors markedly

increased after 1956 including China, UK, USSR, Germany, Japan and many more other countries. Expanded international relations, introduction of development plan, bonus, effect of the cold war and the feeling of competition among some donors, etc are responsible factors for the remarkable increase in inflow of foreign aid.

The trend of annual inflow of aid from the FY 1992/93 to 2011/12 is as shown in the table 4.2 below.

Table 4.2
Trend in Foreign aid in Nepal (Rs. in Million)

Fiscal Year	Average Aid Inflow	Average Grant	Average Percentage of grant	Average Loan	Average Percentage of Loan
1992/93 – 93/94	10396.4	2833.8	27.3	7562.7	72.7
1994/95 - 95/96	12769.2	4381.1	34.3	8388.1	65.7
1996/97 - 97/98	15744.5	5695.5	36.2	10049.05	63.8
1998/99 - 99/00	16856.5	5024.2	29.8	11832.3	70.2
2000/01 – 01/02	16591.1	6719.8	40.5	9871.3	59.5
2002/03 - 03/04	17399	11311.3	65.01	6087.7	35
2004/05 - 05/06	22849.6	14109.4	61.7	8740.2	38.3
2006/07 - 07/08	27577.5	18133.8	65.4	9516.7	34.6
2008/09 - 09/10	43060.3	32464.4	75.3	10596.2	24.7
2010/11 - 11/12	54945.6	43366.2	78.9	11579.4	21.1
TOTAL	238189.7	144039.2	60.4	94333.7	39.6

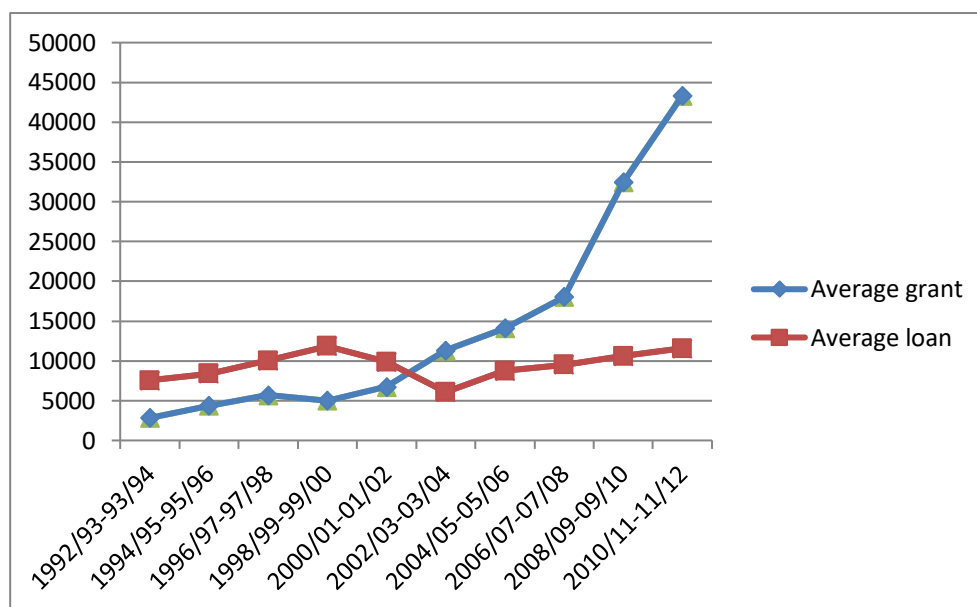
Source: Adopted and calculated from Appendix 1 taking 2 Fiscal years as average

The table 4.2 shows that the amount of foreign aid. The average of total foreign aid seems in increasing trends. The amount of grant is increasing from FY 1992/93 to 2011/12 and reached Rs.43366.2 millions. Similarly, amount of loan is fluctuating and average percentage of loan is decreasing from FY 2001/2002.

The increasing trends of foreign aid represents that the burden of foreign debt is increasing day by day. Nepal has been receiving assistance from different sources.

Because of low revenue foreign aid is one of the major sources of financing the government expenditure.

Figure:4.2
Total Aid inflow (Rs. in Million)



4.3 Source of Foreign Aid

The major donors to Nepal in the early fifties were the USA and India. Later on, a number of other countries including the socialist's countries provided aid to Nepal. Nowadays, Nepal has been receiving aid from the three sources bilateral, multilateral and international non-government organization (INGOs). The bilateral sources include foreign government and their aid agencies in Nepal, such as Japan's JICA, Germany's GTZ, Norway's NOK, Denmark's DANIDA, United State's USAID, the government of India, the USA, the China, France, Norway, Australia, Netherlands, Kuwait, Saudi Arabia etc. Multilateral refers the international agencies like Asian Development Bank (ADB), International Monetary Fund (IMF), World Bank (WB), UN, UNDP, FAO etc and international non-government organizations such as Help Nepal, Care Nepal etc.

The volume of aid from bilateral and multilateral sources during the review period is as shown in the table 4.3 below

Table 4.3
Bilateral and Multilateral Aid in Nepal (Rs. In Millions)

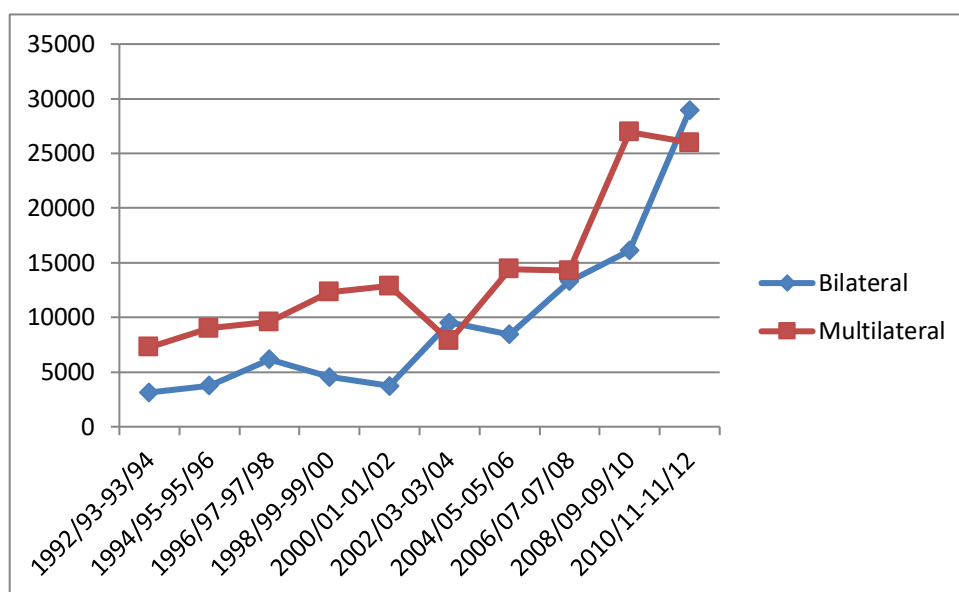
Fiscal Year	Bilateral Aid	Multilateral Aid	Total	Percentage of Bilateral Aid	Percentage of Multilateral Aid
1992/93 -93/94	3132.8	7263.6	10396.4	30.1	69.9
1994/95 -95/96	3761.0	9008.2	12769.2	29.5	70.5
1999/97 -97/98	6155.2	9589.3	15744.5	39.1	60.9
1998/99 -99/00	4548.4	12308.1	16856.5	27.0	73.0
2000/01 -01/02	3723.3	12867.9	16591.2	22.4	77.6
2002/03 -03/04	9528.8	7870.3	17399.1	54.8	45.2
2004/05 -05/06	8444.6	14405	22849.6	37.0	63.0
2006/07 -07/08	13307.0	14270.3	27577.4	48.2	51.8
2008/09 -09/10	16117.3	26943.3	43060.6	37.4	62.6
2010/11 -11/12	28969.05	25976.5	54945.6	52.7	47.3
Total	97687.5	140502.5	238190	41.0	59.0

Source: Adopted and calculated from Appendix 2 taking 2 Fiscal years an average.

The table 4.3 shows that the amount of bilateral and multilateral aid .Bilateral aid depends upon the mutual co-operation between countries. Sometimes, it helps the donor countries to fulfill their own political interest. Nepal has received the first bilateral aid from USA under the point four programs. The average share of bilateral aid during FY 2000/01 to 01/02 is Rs. 3723.3 millions (22.4%) which is the least percentage during the review period. The share amounts of both bilateral and multilateral are increasing during study period. The average amount of multilateral aid is comparatively greater than the amount of bilateral aid in each class interval of study year. It shows that donor countries are showing less interest.

Figure 4.3

Share of bilateral and multilateral aid (Rs. In Million)



4.4 Sectoral Distribution of Foreign Aid

The sector wise distribution of foreign aid shows the amount of aid allocation in different sectors and identifies sector that has given priorities.

The sectoral distribution of foreign aid has depending on the basis of strategic interest of donor's countries .The sector priority is each development plans reveal that more than 30% of the resources were invested in transport, communication and power generation projects. Furthermore, most of these projects were virtually implemented through the donor's assistance. However, important road projects were implemented not only with the interest of Nepal but also with the strategic interest of India and China. Other donor's with strategic and political interest in Nepal provided aid for institution building. The emphasis on different sectors of the economy might have resulted from the need of Nepal and policy shift in international area. It includes infrastructure development, community development, industrialization, integrated rural development, fulfillment of basic needs, poverty alleviation, etc. Sectoral allocation of foreign aid has been presented in the table 4.4 below.

Table 4.4
Sectoral Allocation of Foreign Aid (Rs. In Million)

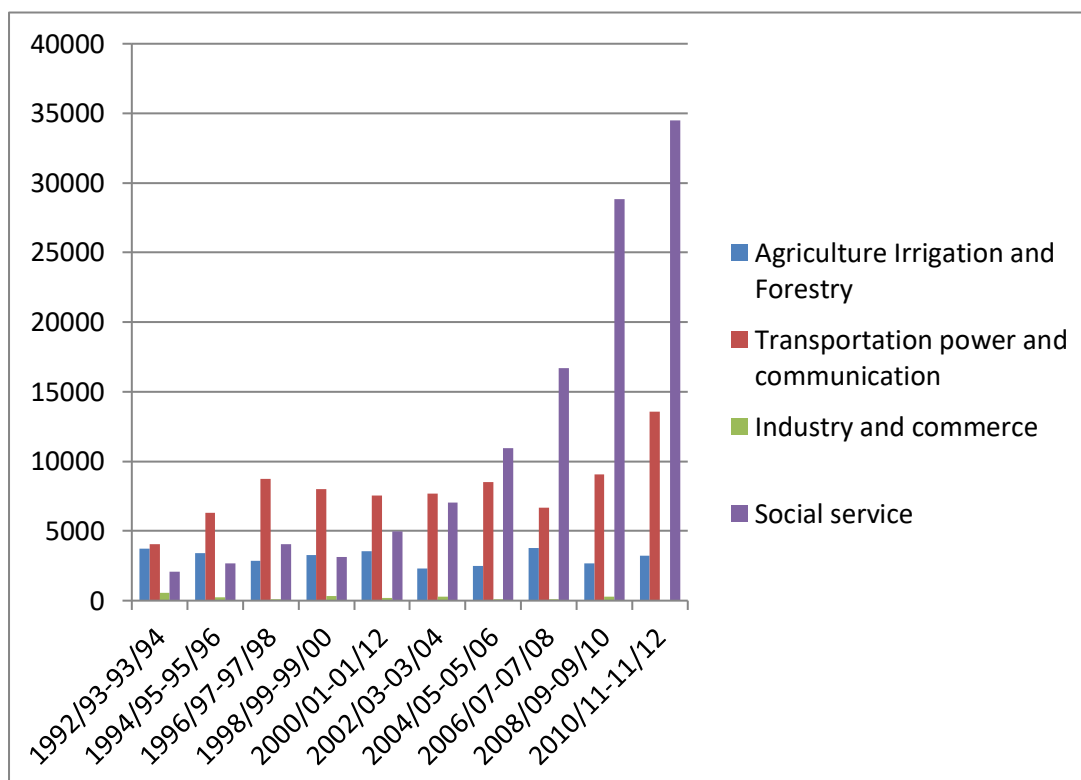
Fiscal year	Agriculture Irrigation and Forestry	Transportation Power and Communication	Industry And Commerce	Social Service	Total
1992/93-93/94	3723.3(35.85)	4054.6(39.04)	543.1(5.23)	2063.1(19.86)	10384
1994/95-95/96	3431.3(27.12)	6313.8(49.90)	248.1(1.96)	2658.2(21.01)	12651.1
1996/97-97/98	2839.8(18.47)	8747.05(56.89)	110.8(0.72)	4039.7(26.27)	15373.4
1998/99-99/00	3296.9(22.28)	8025.8(54.24)	351.6(2.37)	3120.2(21.09)	14794.5
2000/01-01/02	3530.3(21.70)	7570.4(46.54)	194.3(1.19)	4969.8(30.55)	16264.8
2002/03-03/04	2303.8(13.33)	7672.5(44.41)	274(1.58)	7025.6(40.66)	17275.9
2004/05-05/06	2496(11.31)	8501.3(38.52)	114.6(0.51)	10954.5(49.64)	22066.4
2006/07-07/08	3790.4(13.90)	6685.7(24.52)	97.8(0.35)	16687.05(61.2)	27261
2008/09-09/10	2686.05(6.57)	9045.5(22.13)	270.4(0.66)	28860.5(70.62)	40862.5
2010/11-11/12	3243.6(6.32)	13572.9(26.46)	-	34476.8(67.21)	51293.3
Total	31341.2(13.71)	80189.5(35.07)	2204.7(0.96)	114855.5(50.2)	228591

Sources: Adopted and Calculated from Appendix 3

The table 4.4 shows that the amount of aid received by social service is maximum and aid is continuously increasing. In the beginning period the amount allocated to industry and commerce was more and in latter it is gradually decreasing. The aid allocated to agriculture, irrigation and forestry is in fluctuating trend. During the FY 2010/11-11/12, the average aid allocated to social service is about 2.5 times than that of transportation power and communication, about 10 times than that of agriculture, irrigation and forestry. Similarly, about 15 times than that of industry and commerce.

Since last 20 years, a sectoral distribution of foreign aid is increasing gradually in the social services except FY 1998/99-99/00. It clearly shows that that the donor's are more interested in helping to build infrastructure than in directly productive sectors development.

Figure No. 4.4
Sectoral Distribution of Foreign Aid



4.5 Foreign Aid Commitment and Disbursement

Aid commitment shows the expression of the donor's to provide financial support of the specified amount under agreed terms and conditions for specific purpose to the recipient country whereas disbursement shows the time lag. Aid for many projects are committed in one year and committed aid is disbursed in subsequent years. The amount of aid disbursement in comparison of commitment is quite low in Nepal due to low administrative capacity, political instability and other factors. The lack of efficient administrative, effective law for perfect implementation, corruption and poor management of project, absence of institutionalization in development administration are continuing as constraint in increase in aid disbursement.

Table 4.5
Foreign Aid Commitment and Disbursement (Rs. In Million)

Fiscal year	Commitment	Disbursement	Disbursement as % of commitment
1992/93-93/94	16849.5	10396.4	61.7
1994/95-95/96	14707.05	12769.2	86.8
1996/97-97/98	35832.6	15744.5	43.9
1998/99-99/00	19400.3	16856.5	86.9
2000/01-01/02	32257.4	16591.1	51.4
2002/03-03/04	33470.4	17399	51.9
2004/05-05/06	29538.3	22849.6	77.4
2006/07-07/08	43104.6	27577.5	63.9
2008/09-09/10	72292.1	43060.6	59.6
2010/11-11/12	102139.7	54945.6	53.8
Total	399592	238190	59.6

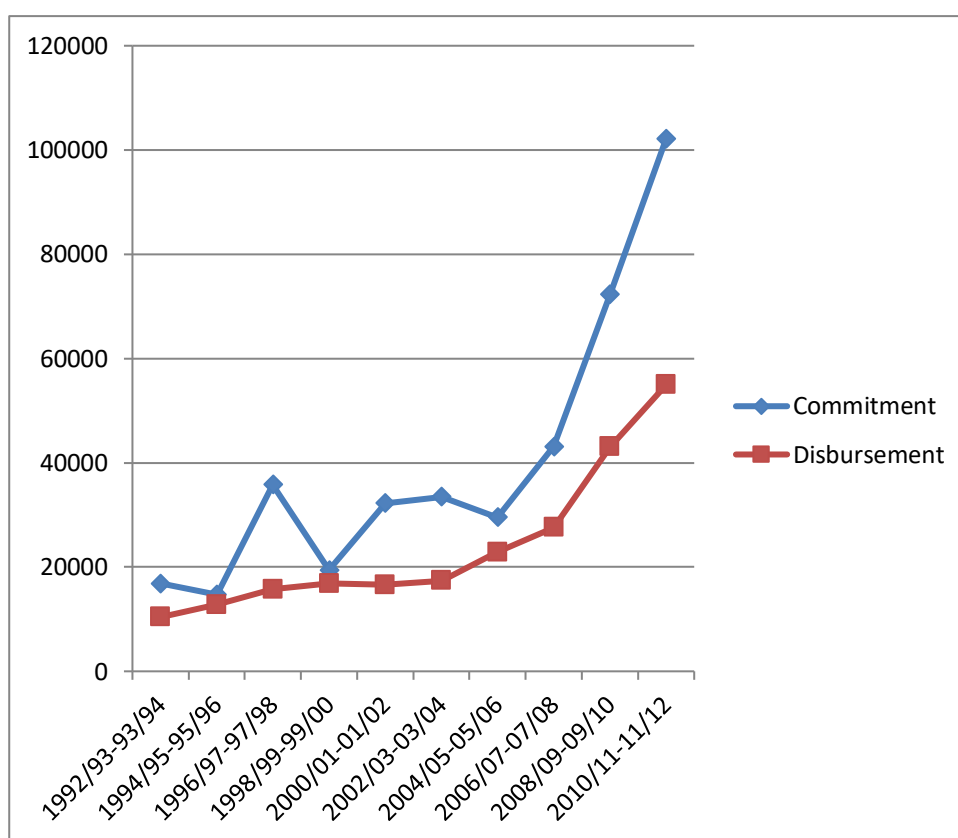
Source: Adopted and calculated from Appendix 4

During the review period, aid commitments have always exceeded disbursement. The portion of disbursement to commitments over the last 21 years is usually quite low and erratic. The ratio of disbursement to commitment is more during 1998/99-99/00 and minimum during 2000/01-01/02.

The greater fluctuation in commitment to disbursement shows poor performance in the foreign aid absorption. The absorptive capacity of Nepal is found to be quite erratic for the increase in percentage of aid disbursement. Donor's seek to provide the assistance in their own priority on installation basis and they also observe the performance in implementing the project in different sectors. If they do not find any good performance of foreign aid utilization, they will not disburse the committed aid so that the commitment has always been exceeded disbursements. There is no disbursement of foreign aid according to the commitment by the donor's countries

because of the fluid political condition of Nepal. There is no assurance of the effective utilization due to it for them. That's why they disburse phase wise and they need to evaluate it. The main reason is the country is how in transitional period. Everything needs to be done with consensus but the culture of consensus among the political parties is also deteriorating and it has affected the belief of donor's countries in Nepal's ability to ensure the use of their aid effectively.

Figure: 4.5
Foreign Aid commitment and disbursement (Rs. in Million)



4.6 Resource Gap in Nepalese Economy

In simple words, the resource gap is defined on the budgetary expenses minus the resources mobilized internally. Resources gap creeps in when a country spends more on investment and expenditures than its internal resources. If this gap is not bridged timely then it invites serious problems like unfavorable balance of payment and foreign exchange gap. The one way to fill the gap is to manage the resources by

means of rising foreign aid. We can see the problem of resource gap in the regular and development finance of Nepal

Nepal faces the problem of the resource gap that is increasing over time. It is mainly due to,

- a) A traditional nature of the tax administration.
- b) A centralized system of government.
- c) The existence of donor's interest in aid supply.
- d) A less generous economy and a slow change in the traditional structure.
- e) Increasing tendency of government's regular expenditure.

Table 4.6 Resource Gap in Nepalese Economy in Rs. Million

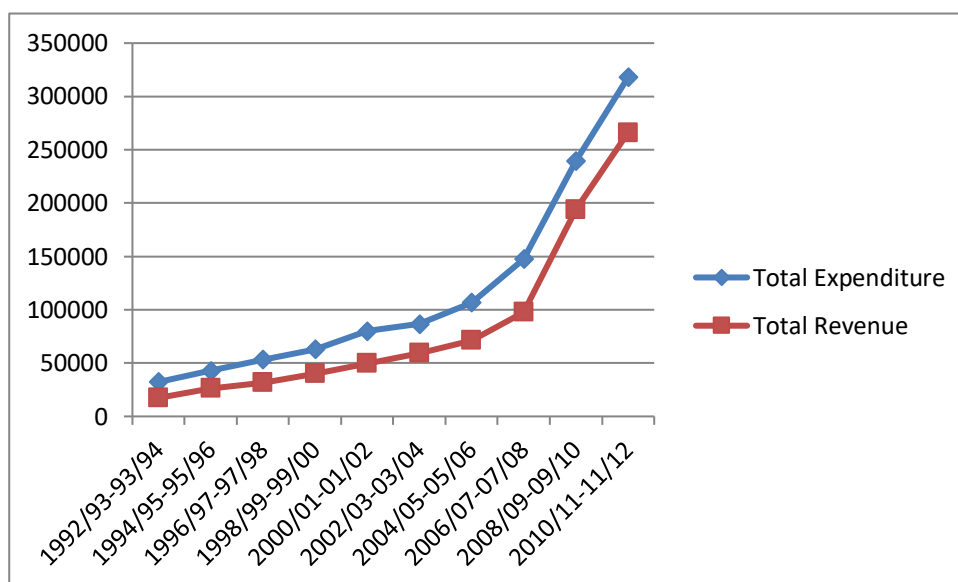
Fiscal Year	Total Expenditure (TE)	Total Revenue (TR)	Resource Gap TE-TR
1992/93-93/94	32247.6	17364.6	14883
1994/95-95/96	42801.2	26234.2	16567
1996/97-97/98	53421	31655.7	21765.3
1998/99-99/00	62925.3	40072.4	22852.9
2000/01-01/02	79953.7	49669.6	30284.1
2002/03-03/04	86724.3	59280.4	27443.9
2004/05-05/06	106724.8	71202.4	35522.4
2006/07-07/08	147477.3	97666.4	49810.9
2008/09-09/10	239675.5	194174.5	45501
2010/11-11/12	318036.6	266198.3	51838.3
Total	1555987	8535185	702468.8

Source: Adopted and calculated from Appendix 5

The table 4.6 shows that resources gap has been growing every year. During FY 1992/93-93/94, the resource gap was Rs 14883 million and is continuously increasing till FY 2000/01-01/02 and is again decreasing and increasing till 2010/11-11/12. It means the resource gap is increasing day by day.

The trend of increasing resource gap depicts the alarming financial situation in Nepal. Therefore, the role of foreign aid will be of Paramount importance in the process of bridging this resource gap. The resource gap in Nepal till the review period from FY 1992/93 seems to be Rs. 702468.8 million.

Figure 4.6
Resource Gap in Foreign aid in Nepal (Rs. in Million)



4.7 Trend and Structure of Danish Aid to Nepal

Denmark is one of the members of European Union. Denmark provides assistance to twenty programmed countries that are chosen based on their level of economic and social development as well as their specific needs and absorptive capacity. Especially through the EU, Denmark played an active role and made the difference in those international contexts that are of particular importance for the developing countries. Danish development co-operation programs are based on the strategy of Denmark's development policy adopted in 1994. The main objectives of the strategy are to assist developing countries in their living standard through socially balanced economic growth. And it was also to promote equal and free opportunities for the individual in accordance with the aims and the principle of UN charter. The strategy confirms the principle of poverty alleviation as a basic objective of the Danish development. It also lies down their cross cutting themes to be pursued at all levels within the Danish development assistance: women in development, environment conservation, and

democratization and human rights. Danish development assistance receiving countries in Asia are Nepal, Bangladesh, Bhutan and Vietnam.

The diplomatic relationship was established between Nepal and Denmark on 15th December 1967. Denmark has started providing development assistance to Nepal since 1973, starting with a loan assistance of Danish Kroner 20 million for the Dairy Development Schemes and establishment of the slaughterhouse in the country.

In 1980, the Danish government converted all outstanding loan amounts into grants. In 1989, when Nepal was included in Denmark's program countries then Denmark has been constantly showing keen interest in Nepal's economic development. Denmark has been contributing according to the priority given by government over the last thirty years. Denmark's co-operation has aimed at stimulating the process of development in tune with her priorities. Denmark has been providing three types of assistance. Among them grant assistance is more important because out of total assistance provided by Denmark to Nepal, this occupies first position. There are different projects launched by Denmark in the different districts. Denmark is one of the donors among other donor countries in education and forestry sectors. Among them basic and primary education project has been implemented in more than 38 Districts of the country. Likewise community forest project has been implemented in more than 37 Districts. Other projects are Tree Improvement and Minor Projects. Denmark has provided different type of co-operation through her NGOs to Nepal as well.

4.7.1 Objectives of Danish Aid

Nepal became a program country for Danish bilateral development assistance in 1989 against the background of an emerging democratization process at the time and the widespread poverty. Nepal was – and still is- the process country in South Asia. Danish Development Cooperation Program is based on a general strategy “Denmark Development Partnership 2000”. The overriding objective of Danish Development Policy is poverty reduction. Denmark contributes to reducing poverty in the world through long term and binding partnership with developing countries. The main aim of Danish development assistance is poverty reduction in consideration of cross

cutting issues such as gender issues, environment, good governance, democracy and human rights. In June 2006, in light of the reinstatement of democracy the Danish Minister for development cooperation approved an interim strategy for Nepal. The interim strategy outlines a framework for Danish development assistance to Nepal in a situation in which a difficult peace process is being implemented including the establishment of a constitutional assembly.

Denmark has been providing significant amount of economic assistance in important sectors such as dairy sector, education, environment and natural resources, administration, human rights, democracy and good governance. During FY 1973-91, it was estimated that total aid flow of Danish assistance exceeded US dollar 54.7 million. This amounted for 4.9% of the total aid received by Nepal during the same period.

4.7.2 Danish Development Policy:

Poverty reduction remains the fundamental challenge for Danish development cooperation. At the same time, Danish development policy is recognized as a central and integral part of Danish foreign and security policy.

Danish development assistance takes the most urgent problems in the developing countries as its starting point, and at the same time it reflects the values underlying Denmark's international behavior.

Since 2001, the Danish Government has worked consistently to reorient and reprioritize Denmark's development assistance in order for it to carefully reflect the current global development challenges, threats, and opportunities and with a view to ensuring maximum impact and sustainability of the development initiatives.

The promotion of sustainable development through poverty oriented economic growth is the fundamental challenge for Danish development cooperation. At the same time, Danish development policy is a central and integral part of Danish foreign and security policy.

Denmark's development assistance is focused on a selected number of developing countries that work with efficient, long term national strategies for the poverty reduction. Additionally, the assistance is focused on a selected number of multilateral organizations. Africa south of Sahara remains the main recipient of Danish aid. The aid flow to Africa annually accounts for around 60% of the Danish bilateral assistance to the Danish program countries.

The government constantly works to ensure that Danish assistance fulfils its original goal of helping the poor by providing critical investments in education and health, infrastructure plus support for the development of a private sector as an engine for growth.

The special emphasis is put on the effort to promote the respect for the human rights and poverty reduction for women and their participation in the development process.

As a key element of the long term strategy to meet the threat of terrorism, the Government has enhanced the development effort to prevent and manage the violent conflicts, to stabilize and consolidate peace, and to promote reform and modernization in developing countries which appear particularly vulnerable to political radicalism and religious extremism.

In the coming years, Denmark will continue to strengthen its foreign and security policy by focusing Danish development assistance on five areas.

- a) Social and economic development
- b) Human rights, democratization and good governance
- c) Stability, security and the fight against terrorism
- d) Environment
- e) Refugees, humanitarian assistance and regions of origin

The administration of Danish development assistance to the program countries was decentralized in 2003. Accordingly, capacity has been transferred from Copenhagen to the mission in the Danish program countries.

4.7.3 Position of Danish Aid to Nepal

Because of friendly relationship between Denmark and Nepal, Denmark has been one of the major suppliers of the aid to Nepal. We find the unforgettable assistance for the different sectors of Nepal from Denmark. Danish aid started in Nepal since 1973, with the loan assistance of Danish kroner 20 million for the dairy development schemes and the establishment of the slaughter house in the country. Beginning in 1973, the quantum of Danish aid expanded steadily after FY 1992/93. The trend of Danish aid to Nepal is at increasing rate but is fluctuating. It can be clearly seen from the table 4.7 as below

Table 4.7

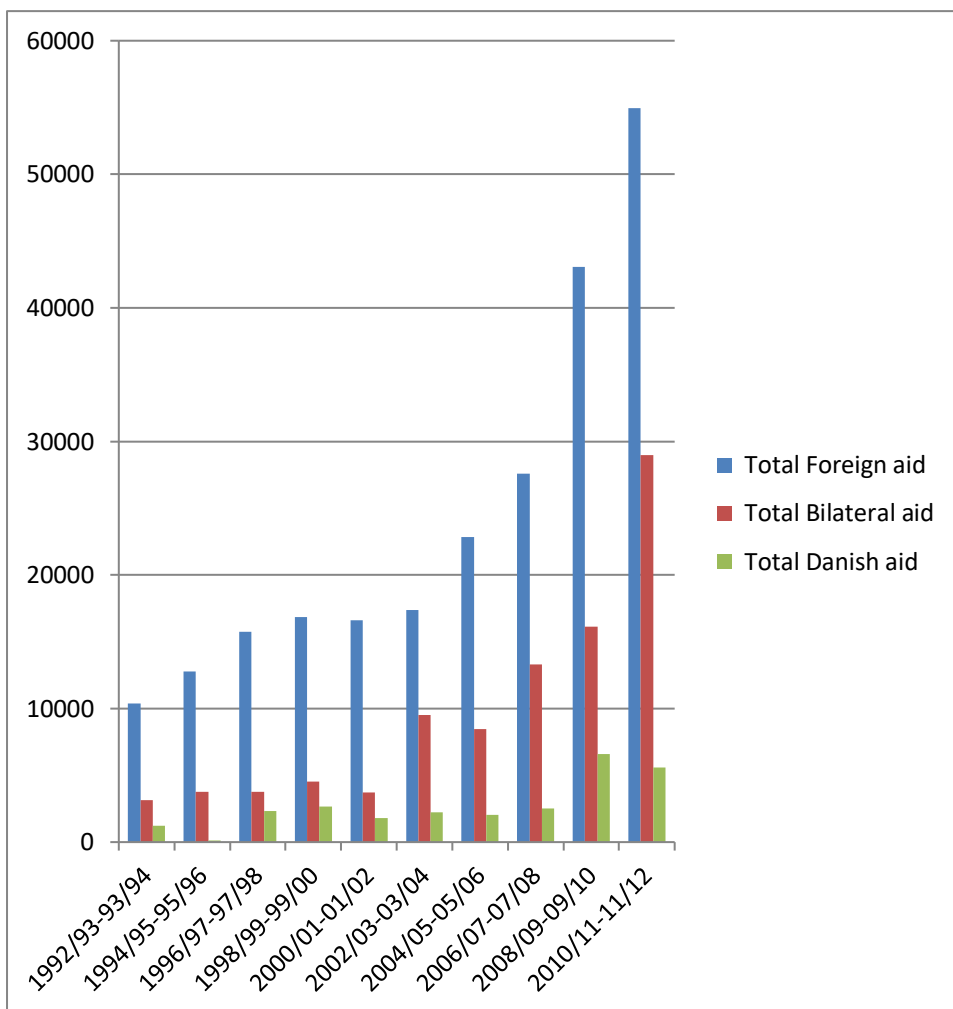
Position of Total Danish Aid, Total bilateral Aid, Total Foreign Grant and Total Danish Aid to Nepal

Fiscal Year	Total Foreign Aid	Total Bilateral Aid	Total Grant Aid	Total Danish Aid	Share of Danish Aid in Bilateral Aid (%)	Share of Danish Aid in total Foreign Aid (%)
1992/93-93/94	10396.4	3132.8	2833.8	1238.6	39.53	11.91
1994/95-95/96	12769.2	3761	4381.1	141.8	3.77	1.11
1996/97-97/98	15744.5	6159.7	5695.5	2338.05	37.95	14.84
1998/99-99/00	16856.5	4548.4	5024.2	2680.7	58.93	15.90
2000/01-01/02	16591.1	3723.2	6719.8	1793.7	48.17	10.81
2002/03-03/04	17399.0	9528.8	11331.3	2229.9	23.40	12.81
2004/05-05/06	22849.60	8444.6	14109.4	2025.7	23.98	8.86
2006/07-07/08	27577.50	13307.05	18133.4	2534.6	19.04	9.19
2008/09-09/10	43060.30	16117.3	32464.4	6580.5	40.08	15.28
2010/11-11/12	54945.60	28969.05	43366.3	5605.6	19.35	10.20
Total	238189.7	97691.9	144039.2	27169.2	27.81	11.40

Sources: Adopted and calculated from Appendix 5

The table 4.7 shows that the increasing trend of Danish aid over the period of 20 years with a total of Rs. 27169.15 million. Danish aid was regular only after the restoration of democracy in Nepal which can be clearly observed in the table 4.7. The Danish economic cooperation becomes more significant to Nepalese economy only after FY 1998/99 which accounted for 58.93% of the total bilateral aid. Similarly the lowest amount was Rs. 141.8 million in FY 1994/95, which was 3.77% of the total bilateral aid. Also the total Share of Danish aid to total foreign aid is found to be 11.40% till FY 2010/11 to 2011/12.

Figure: 4.7 Position of Danish Aid to Nepal



4.7.4 Sector Wise Distribution of Danish Aid to Nepal (2010/11 and 2011/12)

The sector wise distribution means the amounts of Danish aid disbursed in different sectors and also identifies the sector that has been giving priority. The data presented in the table 4.8 shows the comparisons of sector wise distribution of Danish aid to Nepal for the FY 2010/11 and 2011/12.

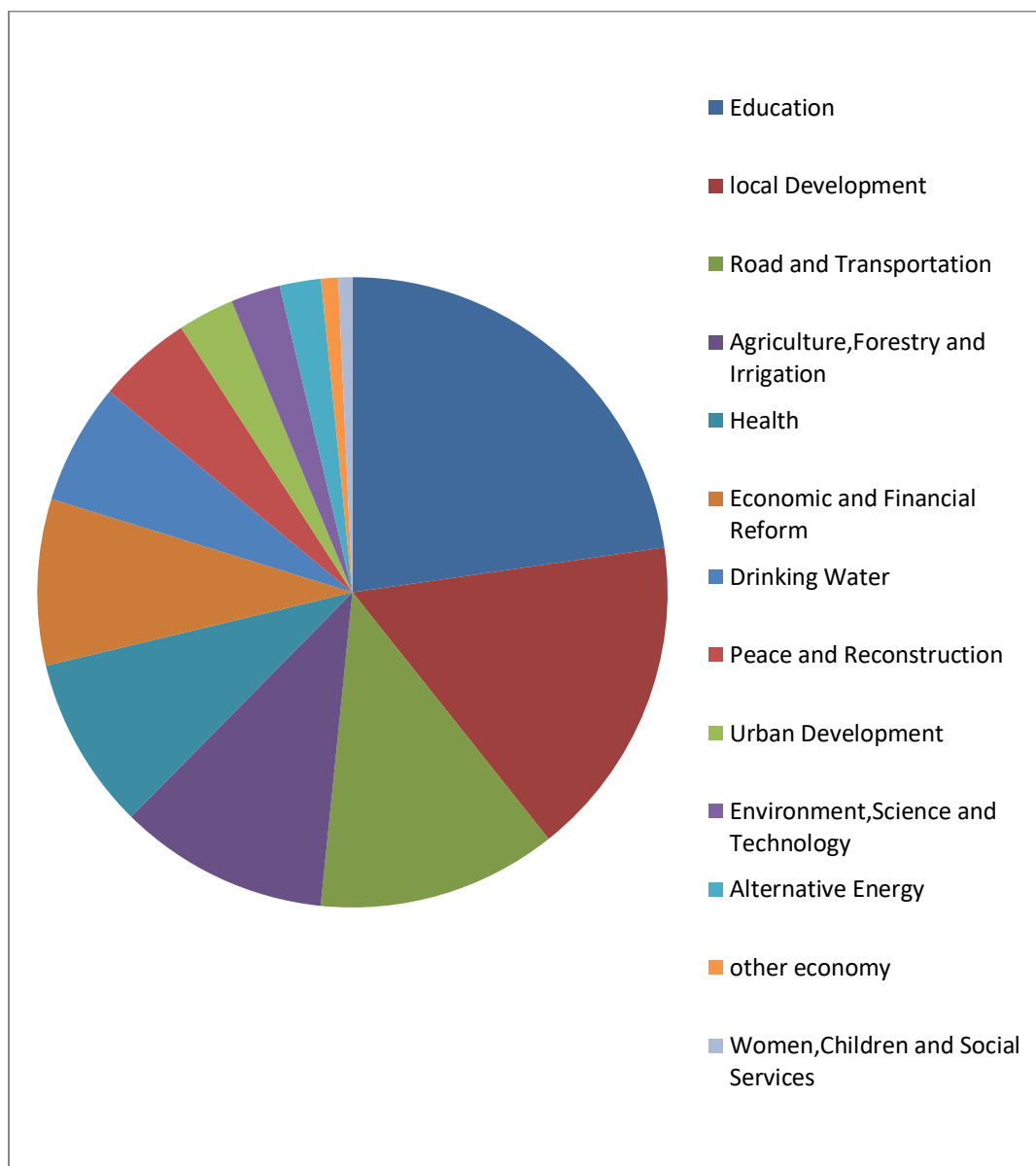
Table 4.7.4

Table 4.8 Distribution of Danish Aid to Nepal by major sectors in Rs thousands

Sectors	Amount in Rs thousand	Percentage
Education	145152.66	20.14
Local Development	105909.59	14.70
Road/Transportation	78591.85	10.91
Agriculture, Forestry and irrigation	68835.37	9.79
Health	56687.11	7.87
Economic and financial reform	54488.44	7.56
Drinking Water	39548.26	5.48
Peace And Reconstitution	31118.10	4.32
Commerce, industry and energy	22479.85	3.10
Urban Development	18436.29	2.56
Environment Science and Technology	16311.07	2.26
Alternative Energy	13503.10	1.87
Other Economy	5561.88	0.77
Women, Children and Social Service	4621.47	0.64
Total	720590.85	100

Sources: Adopted and calculated from Appendix 7

Figure: 4.7.4 Sector wise distribution of Danish aid to Nepal



As shown in figure 4.8, in FY 2010/11- 11/12 Danish grant assistance has highly concentrated in education, local development, Road/transportation, Health and Economic reforms, agriculture and so on. Education has got highest share of Danish assistance.

The total amount of grant assistance by Denmark is Rs 720590.85 million in FY 2010/11 to 2011/12. Accordingly 20% to Education, 14.7% to Local development, 10.91% to Road, 9.79% to Agriculture, Forestry and Irrigation, 7.87% to Health, 7.56

to Economic and Financial reform, and so on. So, Danish aid is better in education and then to local development through above data. It is obvious that Danish has been providing assistance to Nepal to develop various sectors of Nepalese economy and the trend of aid has been increasing with the passage of the time.

4.7.5 Areas of Danish Assistance:

Denmark is a major donor country of Nepal and its contribution to various sectors of Nepalese economy is significant. It has been one of the most important donors for Nepal since the establishment of diplomatic relations between two nations in 1967. Denmark has been giving aid as grant assistance period of 1980 to 1988 due to the information. Since 1989, all Danish development assistance has been provided in the form of grant. Denmark has been providing significant amount of economic assistance in important sectors as education, energy, natural resources management, human rights and good governance, anti corruption, peace process, business to business program, public private partnership program etc.

Danish development cooperation targeted to the poor and the disadvantaged population in Nepal with an emphasis on various sectors. The major sectors of the Danish aid are as follows:

a. Education Progress area 2009- 2013

Denmark has been a leading supporter of the education sector in Nepal since 1992. About 90% of the Denmark Aid support to the government School Sector Reform Program (SSRP) is channelized through the Government of Nepal budget based on a Joint Financial Arrangement (JFA) between the Government of Nepal and nine development partners. The remaining part of the Danish Support is allocated to capacity development, technical assistance and monitoring and evaluation. Danish assistance to SSRP will be phased out by the end of 2013 and the fund commitments of DKK 125 million covers the exit phase during 2012 -2013.

b. National Rural Renewable Energy Program 2012 – 2017:

The Danish aid to the energy sector in Nepal happen in the rule 1990s. Since then, more than 1 million rural, households, equivalent to about 5 million people have

received support to renewable rural emphasis technologies. This has helped many women and children to better health, it has created green jobs, and it has mobilized billions of rupees of local investment in the renewable energy sector. At the same time the alternative energy promotions center has become a driver of change in developing the renewable energy sector in Nepal.

Denmark is continuing its lead role in renewable energy in Nepal. This is done through the support to a New National Rural and Renewable Energy Program from 2012, where Denmark is the lead donor. The Government's new program have ambitious goal aiming at improving rural access to renewable energy solutions for one million families in the next five years. The technologies include improved cooking stoves, biogas, solar panels to households and micro hydropower installation in areas where there is no access to the national electric power station. Denmark contributes with DKK 205 million from 2012- 2017 to the program.

c. Human Rights and Good Governance Program 2009- 2013

Denmark has supported human rights and good governance in Nepal since the only 1990s and from 1998 through a program until the end of 2013 and has three components: 1) support for the democratization of political institutions and promoting public debate on democracy. 2) Human rights and legal protection. 3) Support for the local governance. The budget is DKK 170 million for five various fields such as cooperation with civil society is based on long term strategic partnerships with national institutions such as Election Commission, National Human Rights Commission and the office of the Attorney General.

d. Peace Support Program 2008- 2013

Denmark's support to the peace process in Nepal has been provided to a variety of sectors at national and local level Including the Nepal Peace Trust Fund (NPTF) , the UN Peace Fund for Nepal (UNPFN), NGOs and INGOs such as Search for common Ground International Alert and safer world. The ongoing phase 3 of the program has a budget of DKK 70 million and designed to respond to the demand in Nepal through two strands; namely the strengthening of public security and progress in key enabling aspects of the wider peace process.

4.7.6 Analysis of Danish Aid on GDP

Foreign aid is said to have effects on economic growth and overall welfare of the country. Larger amount of foreign aid becomes necessary for further growth of the economy. In recent years, Denmark has been the largest bilateral development partner of Nepal and the economic supremacy of Denmark has been reflected in its high level of assistance. The role of Danish aid becomes very important after 1989 when Nepal became one of the Denmark's program countries. The impact of Danish aid in Nepalese economy and society has been found very significant. But foreign aid should be utilized only for those sectors and projects which are more vital for the socio economic upliftment of the society from which the majority of the population, the poor section in particular may be benefited.

This chapter makes an attempt to analyze the effect of Danish aid to the gross domestic product (GDP) of Nepal. Thus the basic starting point is the examination of a direct relationship between the GDP and the amount of Danish aid. For this correlation between Danish aid and GDP is observed. The value r_{xy} is found 0.45. (Appendix 8)

The closer the value of r is to 1, the closer the relationship between the variables (Shrestha and kanasakar). Here the correlation coefficient is found 0.45. Hence the effect of Danish aid is found to be positive with the GDP.

4.7.8 Major Findings

Foreign aid plays an important role in economic development. Capital is considered a crucial factor in economic development. But capital is scarce in under developed countries. Foreign aid helps development by meeting this requirement. It also helps the underdeveloped countries in their endeavor for the development by providing the necessary modern technology.

In the context of the Nepalese economy, which is characterized by structural bottlenecks, large fiscal and external deficits and significant imbalances between

savings and investment ratios, the role of foreign aid is particularly significant. The major findings arrived from the analysis of the available data are listed below.

- The total foreign aid up to FY 2011/12 is found to be Rs.476379.7 million. Out of which total grant is 287932.5 and Rs.188446.4 million is total loan .
- The trend of bilateral and multilateral aid seem to be fluctuated
- Nepal has been experiencing a serious and growing resources gap in her regular as well as development expenditure to low level of per capita income. The low rate of income created low rate of capital formation, which has become one of the barrier to economic development. The only alternative to meet such gap is external assistance.
- The Sectoral distribution of assistance from FY 1992/93 to 2011/12
 - Social service and others 50.24%
 - Transportation, power and communication 35.07%.
 - Agriculture, irrigations and forestry 13.70%
 - Industry and commerce 0.97%
- The effect of foreign aid on development is shown generally positive. Some negative effects were also observed. Lesson can be drawn from past experience both to increase the efficiency of aid Nepal is already getting and to increase the ratio of utilization of foreign aid.
- In Nepal, Danish aid has extended its assistance to many projects. This has helped in the sustainability of various projects. The extension of Danish aid in the project and program has helped in maintaining the project or program.
- The resource gap is increasing in each year and the amount of difference between the expenditure and revenue in FY 1992/93 to 93/94 is Rs 14883 million .The total amount of foreign aid in FY 1992/93 to 93/94 is Rs 10396.4 million, which is 69.85% out of resource gap in this year. Similarly, in FY 2010/11 to 11/12, the resource gap is Rs 51838.3 million. The total amount of foreign aid in FY 2010/11 to 11/12 is Rs 54945.6 million, which is 105.99% out of the total resource gap.

- The contribution of Danish loan in the Nepalese economy has been relatively higher than the contribution of grant during the study period. During the review period 1992/93 to 2011/12, the total foreign aid is Rs 476379.7 million out of which Rs.54349.18 million is Danish aid that is 11.40% of the total aid received by Nepal. The highest share of Danish aid inflow in the FY 2008/09 to 09/10, which is Rs 6580.5 million out of foreign aid Rs 43060.55 million. The least share of the Danish aid inflow is in 1994/95 to 95/96, which is Rs.141.8 million out of foreign aid Rs.22608.6 million.
- Aid disbursements have been much lower than the commitments by huge proportions except in FY 1991/92 where disbursement is higher than commitment.
- Danish grant assistance has highly concentrated in Education, Local Development, Road/Transportation, Agriculture, Forestry and Irrigation Health, and Economic and Financial reform. Out of which education got the highest share that is 20.14%. It means that Danish aid has given emphasis for the infrastructural development.
- Denmark has been constantly showing the keen interest in Nepal's economic development when Nepal became one of the Denmark's program countries in 1990. After 1980, Danish aid to Nepal is in the form of only grant and assistance. In 1984, Denmark was the 2nd top most donor country of Nepal. Since 1995; Denmark has cancelled outstanding ODA funded debts with developing countries.
- Different projects under Danish assistance have been operated in different districts, such as Secondary Education Support Program (SESP), which is one of the major projects of education sector.
- Danish development assistance has highly concentrated in poverty alleviation, education, environment, human rights good governance, democracy and decentralization.

- The total share of Danish Aid to total bilateral aid is found to be 27.81% and the share of Danish aid in total foreign aid is found to be 11.40% at the FY 2010/11 to 2011/12.

- Empirical Analysis has clearly shown that the impact of Danish assistance in Nepal's growth has positive and significant effect.

CHAPTER 5

SUMMARY, CONCLUSION AND SUGGESTION

5.1 Summary

Foreign aid is widely accepted means for the development of various sectors in the developing nations. In the developing nations like Nepal, due to the deficiency of capital, the adequate mobilization of internal resources could not have been made without foreign aid in order to accelerate the economic development and growth. If utilized efficiency, foreign aid can play vital role in the overall development efforts of the country like Nepal. The purposed of aid to development efforts of the country rate of economic growth can be achieved. So, function of aid for a development program should not be to raise standard of living in the recipient countries directly but to enable them to make the transition from economic stagnation to self sustaining economic growth. Foreign aid aiming at the following developmental works will have effective results.

Utilize the internal resources to the maximum intent possible.

- To invest in capital formation.
- To invest the aid in private and public sectors for maximum social and economic progress.

Nepal has received foreign aid in a wide range from different countries in different time periods. Nepal has received the first bilateral aid from USA under the point four programs .Nepal joined Colombo plan in 1952 and after joining the Colombo plan, Nepal got many opportunities to have aid from USSR, China, UK, France , Germany ,Canada, etc. which contribute considerable amounts of aid for various projects in Nepal. After the late 1970s, Nepal has been receiving foreign aid mostly from Nepal aid group Japan, Canada, France, Denmark, Italy, Germany, and Netherland, Norway. UK, USA, Sweden, Belgium, Saudi Arabia and eight multilateral donors. Besides these Nepal has received foreign aid from other bilateral donors as well as multilateral agencies.

Foreign aid has been playing an important role. It may be observed that foreign aid has been instrumental in bringing about substantial improvements in the areas like agriculture, irrigation, forestry, transportation, power and communication, industry, commerce and social services in Nepal. According to data, trend of foreign aid shows that since the very beginning, the transportation, power, and communication services have the biggest recipient of foreign aid. The industry and commerce sector has declined in priority successively, possibly due to the government adaptation of a privatization policy. The social sector has also reminded an important sector from the prospective of aid recipient. This sector is provided with grant assistance mainly. The capacity to utilize the committed amount of aid productively continues to remain as a crucial problem for the Nepalese government ever since it began to receive aid. It becomes clear if one goes into gap between the commitment and disbursement of aid, as disbursement is simply an expenditure statistics. This does not say anything whether this money has or has not been productively utilized. If the disbursement is considered in real prices and in terms of efficient use, only 25% of the aid is efficiently absorbed (Neupane, 2002). This type of absorptive capacity is the outcome of the political instability, lack of commitment of ruling authorities, bureaucratic delay, corruption and lack of proper management of developing projects.

Danish importance in these respects grew with time and it become one of the most powerful elements in the scheme of aid to Nepal. Since 1992/93 to 2011/12, the amount of total foreign aid received by Nepal is Rs 476369.9 million out of which Rs.287932.5 million is total grant aid and Rs.188446.4 million is total loan aid. Foreign aid to Nepal has mostly focused on social services sectors i.e. 67.3% out of total aid disbursement has been aided to this sector.25.4% of total aid has been disbursed to transportation, power and communication sector and 7.3% has been disbursed to agriculture, irrigation and forestry and industry and commerce sector has not been disbursed in the FY 2011/12, it shows that this sector has declined in priority successively possibly due to the government adaptation of a privatization policy. Though it is clearly visual that foreign aid has not been fully utilized according to the percentage of the commitment. The disbursement as percentage of commitment from the FY 1992/93 to 2011/12 is 52.86%.Out of total foreign aid Rs 476369.9 million, Danish aid contributed Rs. 54349.08 million which is about 11.40% of the total aid.

The value of GDP is increasing ratio. The national GDP of country is proportionately related with the foreign aid. In the FY 1992/93 the total volume of GDP was Rs. 171474 million and in the FY 2011/12 it is Rs.1536000 million. Comparing these volumes of GDP the volume of GDP of FY 2011/12 is about 9 times than that of the volume of GDP of FY 1992/93.

Both the government and donors should be accountable to their respective constituents regarding the proper use of the foreign aid. It is evident that under the existing environment, such accountability on the part of the both government and donors are sorely missing. It is important to generate public awareness so that the pressure groups in both the donor countries and recipient government can be effectively and efficiently use of foreign aid and ensure accountability. Without complete transparency, unrestricted access to information and consistent and correct statistics, it is impossible to ensure efficient utilization of aid resources into those sectors where aid funds can benefit both the countries development and the people for whom development is initiated in the first place.

The role of Danish aid has become important after 1989. Denmark has given different type of co-operation to Nepal which has been flowing continuously since 1989/90. Though Denmark began to have economic co- operation with Nepal by providing loan assistance, nowadays it has provided only in the form of grant and technical assistance to Nepal. Danish aid to Nepal covers the sectors such as education, communication, energy, natural resources management, human rights , good governance, democracy and environmental preservation etc.

Every developing country cannot be able to utilize in increasing internal aid effectively. In Nepal, Economists and policy makers have realized the problem of foreign aid indigestion during the past few years. Foreign aid inflow to Nepal has been increasing from various countries through the bilateral process and other international organizations through the multilateral process in the form of grant, loan and technical assistances.

5.2 Conclusion

The current study shows positive effects of foreign aid on the economic development of our country but due to political instability and the policies of the nation foreign aid has not been fully utilized with the interest of donor countries. During the review of the period, total foreign aid is Rs.476379.7 million out of which the total grant is Rs.287932.5 million and total loan is Rs.188446.4 million which is in the increasing trend. Similarly, multilateral aid seems to be about double than that of bilateral aid which is Rs.281004.9 million and Rs.195374.8 million respectively.

Similarly, Danish aid is Rs.54349.18 million which is about 11.40% out of the total foreign aid. Denmark has focused its aid mainly on education, local development, health, agriculture, irrigation transportation, energy, peace process and women, children and social services.

With the policy of liberalization, donors are gradually pushing Nepal to replace grants by concessional loans, concessional loans by commercial loans. Most of the foreign aid projects have been launched in the urban areas. Foreign aid in Nepal appears to be effective on focusing on the need of majority of the people and also maintain accountability. It has been unable to address the specific problems of equity and justice to ensure propriety in the process of aid utilization.

The policies are also important in the effectiveness of foreign aid, as the aid has more positive impact on the economic growth with good fiscal, monetary and trade policies. In the presence of poor policies, on the other hand, aid has no positive effect on economic growth. Accordingly, there is a need of not only good policies but also the implementation of these policies as well as proper monitoring of the aid utilizing projects are necessary in order to avoid the misutilization and the mismanagement of the foreign capital resources.

Foreign aid has helped in boosting the GDP growth through structural transformation of the economy, laid foundations of the industrial and agriculture sectors, provided technical assistance, policy advice and modern technology, assisted in overcoming

the budget deficits and BOP deficits and has also funded the projects for the social sector development projects. As correlation analysis of the GDP and the ODA (Official Development Assistance) confirms the positive effect of ODA on GDP. GDP increases as the flow of the foreign capital increases. Thus, the overall impact of the aid on the economic development is positive.

5.3 Suggestions

Although the foreign aid did not substantially contribute to the economic and social development of Nepal, the role and importance of foreign aid cannot be denied. The foreign assistance is still important in Nepalese economy because the domestic resources mobilization of Nepal is very low to fulfill the investment requirement. In this respect, new visions and ways of aid utilizations have urgently required for the both donors and recipient countries. Specially, recipient countries have to analyze foreign aid resources by considering aid not as a free lunch.

On the basis of the findings and conclusion of this study the following suggestions are suggested to remove problem and to get fully positive impact on Nepal's growth regarding foreign aid and especially to Danish aid.

- Government must pay proper attention towards the efficient and effective utilization of foreign aid in order to win the heart of donors.
- Most of the Danish aids projects are based on the capital intensive technique, which gives less benefit to the local people at the employment point of view and large portion of funds return back to her through the salaries of experts and heavy capital equipments.
- Select the projects according to the priority list of government with full commitment which should be implemented so that it can generate sufficient resources to pay back the aid.
- The administrative and institutional structure should be improved for the development through decentralization.
- Long term loan should be given to grant rather than loans and used only for the productive sectors.

- For the success of foreign aid funded projects, primary stakeholders need to be empowered.
- Long term loan should be taken at low interest rate with long maturity period.
- The problem of inflation is created due to the unproductive utilization of foreign aid. Hence the government should control the unproductive use of foreign aid.
- Proper mobilization and efficient utilization of domestic resources.
- Effectiveness of foreign aid should be enhanced by coordinating the heavy dependence on foreign aid should be reduced by better donor's interest with the national policies and priorities.
- Foreign aid utilization should be enhanced through improvement management, operational procedure and system simplification.
- Promotion of indigenous skill, efficiency and technology should be the conditions of foreign aid acceptance.
- Denmark has been providing more aid in human rights and good governance sector and education sector. This assistance should be extended to infrastructure development sector.
- All the required data and information on Danish Aid are not organized systematically and are not available in foreign aid division of Ministry of Finance, Nepal which creates problems for research work and monitoring system of government. This should be resolved.
- Danish assistance include high salaried Danish experts which causes the high cost project, in appropriate to Nepalese context and reduces the possible employment opportunity for the local people. Government should consider seriously in this matter.
- Under Danish assistance, major projects are in different urban areas. Only minor projects are in remote and backward areas, so these major projects should also be expanded in rural and remote areas.

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Appendix 1

Trend in Foreign Aid in Nepal (Rs. in Million)

Fiscal Year	Total Aid inflow	Grant	% of grant	Loan	Percentage of Loan
1992/93	9235.6	3273.9	35.4	5961.7	64.5
1993/94	11557.2	2393.6	20.7	9163.6	79.2
1994/95	11249.4	3937.1	34.8	7312.3	65
1995/96	14289	4825.1	33.7	9463.9	66.2
1996/97	15031.9	5958.3	39.8	9043.6	60.1
1997/98	16457.1	5402.6	32.8	11054.5	67.1
1998/99	16189.0	4336.6	26.7	11852.4	73.2
1999/00	17523.9	5711.7	32.6	11812.2	67.4
2000/01	18797.4	6753.4	35.9	12044	64.0
2001/02	14384.8	6686.2	46.4	7698.6	53.6
2002/03	15885.5	11339.1	71.3	4546.4	28.6
2003/04	18912.4	11283.4	59.6	7629.0	40.3
2004/05	23657.3	14391.2	60.8	9266.1	39.2
2005/06	22041.8	13827.5	62.7	8214.3	37.3
2006/07	25854.3	15800.8	61.6	10053.5	38.9
2007/08	29300.6	20320.7	69.3	18979.8	30.7
2008/09	36351.1	26382.8	72.6	9968.9	27.4
2009/10	49769.5	38546	77.4	11223.4	22.6
2010/11	57997.8	45922.1	79.1	12075.6	20.9
2011/12	51893.4	40810.3	78.7	11083.1	21.3
Total	476379.9	287932.5	60.4	18446.4	39.55

Source: Various issues of Economic survey, MOF/GON

Appendix 2

Bilateral and Multilateral Aid inflow in Nepal (Rs. in Million)

Fiscal year	Bilateral Aid	Multilateral Aid	Total	% of Bilateral Aid	% of Multilateral Aid
1992/93	3638.5	5597.1	9235.6	39.4	60.6
1993/94	2627.1	8930.1	11557.2	22.7	77.3
1994/95	3988.7	7260.7	11249.4	35.4	64.6
1995/96	3533.3	10755.7	14289.0	27.4	75.3
1996/97	6012.7	9019.2	15031.9	40.0	60.0
1997/98	6297.7	10159.4	16457.1	38.3	61.7
1998/99	4167.7	12021.4	16189.0	25.7	74.3
1999/00	4929.1	12594.8	17523.9	28.1	71.9
2000/01	2771.2	16026.2	18797.4	14.7	85.3
2001/02	4675.3	9709.5	14384.8	32.5	67.5
2002/03	10044.4	5841.4	15885.8	63.2	36.8
2003/04	9013.2	9899.2	18912.4	47.7	52.3
2004/05	9230.8	14426.5	23657.3	30.0	61.0
2005/06	7658.4	14383.4	22041.8	34.7	65.3
2006/07	16406.4	9447.9	25854.3	64.2	35.8
2007/08	10207.7	19092.9	29300.6	34.8	65.2
2008/09	9333.1	27018.6	36351.7	25.7	74.3
2009/10	22901.5	26867.9	49769.4	46.0	54.0
2010/11	25850.4	32147.3	57997.8	44.6	55.4
2011/12	32087.7	19805.7	51893.4	61.8	38.2
Total	195374.8	281004.9	476379.7	40.1	58.98

Sources: Various issues of Economic Survey , MOF/GON

Appendix 3

Sectoral Allocations of Foreign Aid in Nepal (Rs.in Million)

Fiscal Year	Agriculture Irrigation and Forestry	Transportation Power and Communication	Industry and Commerce	Social service	Total
1992/93	1927.4(20.8)	3939.6(42.6)	696.9(7.5)	2667.6(28.8)	9235.6
1993/94	5519.1(47.7)	4169.4(36.0)	389.3(3.4)	1458.6(12.7)	11557.2
1994/95	3462.4(30.7)	4574.9(40.6)	480.3(4.3)	2680.1(23.3)	11249.4
1995/96	3399.6(23.7)	8052.7(56.64)	15.9(0.1)	2636.2(18.4)	14289.4
1996/97	2827.5(18.8)	8504.5(56.5)	23.4(0.1)	3662.0(24.5)	15031.9
1997/98	2852.1(17.3)	8989.6(54.6)	198.1(1.2)	4417.3(26.8)	16457.1
1998/99	3383.9(20.9)	7892.2(48.7)	404.7(2.5)	446.4(27.84)	16189.0
1999/00	3209.8(18.3)	8159.3(46.5)	298.5(1.7)	5794.0(33.4)	17523.9
2000/01	3774.8(20.6)	9235.1(50.4)	19.9(0.1)	5253.7(28.7)	18797.4
2001/02	3285.8(22.8)	5905.7(41.0)	368.7(2.5)	4685.8(32.5)	14384.8
2002/03	2177.9(13.7)	7774.1(48.0)	401.2(2.5)	5321.0(33.4)	14384.8
2003/04	2429.6(12.8)	7570.8(40.0)	146.8(0.7)	8730.1(46.1)	18912.4
2004/05	2595.7(10.9)	9860.0(41.6)	123.9(0.5)	10746.8(45.4)	23657.3
2005/06	2396.3(10.8)	7142.5(32.3)	105.3(0.4)	11162.2(50.5)	22041.8
2006/07	3721.5(14.3)	6661.9(25.9)	116.8(0.4)	15181.0(58.7)	25854.3
2007/08	3859.3(13.3)	6709.5(25.9)	78.72(0.2)	18193.1(62.0)	29300.6
2008/09	2291.2(6.0)	6297.7(18.8)	160.7(0.5)	24695.7(73.8)	33445.3
2009/10	3080.9(6.4)	11793.2(24.4)	380.0(0.8)	33025.3(68.4)	48279.4
2010/11	2941.7(5.4)	14832.3(27.4)	–	36402.9(67.2)	54176.9
2011/12	3545.4(7.3)	12313.4(25.4)	–	32550.7(67.3)	48409.5
Total	62681.9(13.5)	160378.4(34.77)	–	233722.01(50.6)	461207.9

Sources: Various issues of Economic Survey, MOF/GON.

Appendix 4

Foreign Aid Commitment and Disbursement (Rs. In Million)

Fiscal year	Commitment	Disbursement	Disbursement as % of Commitment
1992/93	20526.7	9235.6	45.0
1993/94	13172.2	11557.2	87.7
1994/95	12876.8	11249.4	87.4
1995/96	16537.3	14289.0	86.4
1996/97	39643.0	15031.9	37.9
1997/98	32022.1	16457.1	51.4
1998/99	18352.5	16189.0	88.2
1999/00	20448.0	17523.9	85.7
2000/01	31287.0	18797.4	60.1
2001/02	33227.7	14384.8	43.3
2002/03	43202.7	15885.5	36.8
2003/04	23738.0	18912.4	70.8
2004/05	38152.3	23657.3	62.0
2005/06	20924.2	22041.8	105.3
2006/07	37022.9	25854.3	69.8
2007/08	49186.2	29300.6	59.6
2008/09	47975.2	36351.7	75.8
2009/10	96609.0	49769.4	51.6
2010/11	106100.7	57997.8	54.7
2011/12	98178.7	51893.4	52.86
Total	799183.2	476379.5	59.60

Source: Various issues of Economic Survey, MOF/GON

Appendix 5

Resource Gap in Nepalese Economy (Rs. in Million)

Fiscal Year	Total Expenditure (TE)	Total Revenue (TR)	Resource Gap TE-TR
1992/93	30897.7	15148.4	15749.3
1993/94	33597.4	19580.8	14016.6
1994/95	39060.0	24575.2	14484.8
1995/96	46542.4	27893.1	18649.3
1996/97	50723.7	30373.5	20350.2
1997/98	56118.3	32937.9	23180.4
1998/99	59778.3	37251.0	22327.8
1999/00	66272.5	42893.8	23378.7
2000/01	79835.1	48893.6	30941.5
2001/02	80072.2	50445.5	29626.7
2002/03	84006.0	56229.8	27776.2
2003/04	89442.6	62331.0	27111.6
2004/05	102560.4	70122.7	32437.7
2005/06	110889.2	72282.1	38607.1
2006/07	133604.5	87712.2	45892.3
2007/08	161350.0	107620.5	53729.5
2008/09	219661.9	169857.3	49804.6
2009/10	259689.1	218491.7	41197.4
2010/11	296905.2	247025.1	49880.1
2011/12	339168.0	285371.4	53796.6
Total	2339975.0	1707036.6	632938.4

Appendix 6

Position of Danish Aid to Nepal from FY 1992/93 to 2011/12 (Rs. In Million)

Fiscal Year	Total Bilateral Aid	Total Foreign Aid	Total Danish Aid	Share of Danish aid to Bilateral Aid(%)	Share of Danish aid to Foreign Aid (%)
1992/93	3638.5	9235.6	873.95	24.02	9.46
1993/94	2627.1	11547.2	1603.31	61.03	13.88
1994/95	3988.7	11249.4	14.29	0.36	0.12
1995/96	3533.3	14289.0	269.30	7.62	1.88
1996/97	6012.7	15031.9	623.10	10.36	4.14
1997/98	6297.7	16457.1	4053.00	64.36	24.62
1998	4167.6	16189.0	4033.77	96.79	24.91
1999/00	4929.1	17523.9	1327.56	26.93	7.57
2000/01	2771.2	18797.4	1731.80	62.49	9.21
2001/02	4675.3	14384.8	1855.50	39.69	12.89
2002/03	10044.4	15885.5	1979.20	19.70	12.45
2003/04	9013.2	18912.4	2480.50	27.52	13.11
2004/05	9230.8	23657.3	1996.50	21.63	8.43
2005/06	7658.4	22041.8	2059.40	26.89	9.34
2006/07	16406.4	25854.3	2961.20	18.05	11.45
2007/08	10207.7	29300.6	2114.50	20.72	7.21
2008/09	9333.1	36351.1	6178.00	66.20	16.99
2009/10	22901.5	49769.5	6983.00	30.50	14.03
2010/11	25850.4	57997.8	5111.20	19.78	8.81
2011/12	32087.7	51893.4	6100.00	19.02	11.75
Total	195374.8	476379.7	54349.18	27.81	11.40

Sources: 1. Various issues of Economic Survey,MOF/GON

2. www.ambkathmandu.um.dk ,Danish Embassy

**Appendix 7 Sector wise Distribution of Danish Aid to Nepal
FY 2010/11 to 2011/12**

Sectors	Amount in Rs thousand	Percenta ge
Education	145152.66	20.14
Local Development	105909.59	14.70
Road/Transportation	78591.85	10.91
Agriculture, Forestry and irrigation	68835.37	9.79
Health	56687.11	7.87
Economic and financial reform	54488.44	7.56
Drinking Water	39548.26	5.48
Peace And Reconstitution	31118.10	4.32
Commerce, industry and energy	22479.85	3.10
Urban Development	18436.29	2.56
Environment Science and Technology	16311.07	2.26
Alternative Energy	13503.10	1.87
Other Economy	5561.88	0.77
Women, Children and Social Service	4621.47	0.64
Total	720590.85	100

Source: Ministry of Finance, GON

Appendix 8

Total Danish Aid and GDP of Nepal

Fiscal Year	GDP in Rs. Million (x)	Danish Aid (Y)
1992/93	171474	873.95
1993/94	199272	1603.31
1994/95	219175	14.29
1995/96	248913	269.30
1996/97	280513	623.10
1997/98	300845	4053.1
1998/99	342036	4033.77
1999/00	379488	1327.56
2000/01	413428	1731.8
2001/02	430396	1855.5
2002/03	492230	1979.2
2003/04	536710	2480.5
2004/05	589410	1996.5
2005/06	654080	2059.4
2006/07	727830	2961.2
2007/08	815660	2114.5
2008/09	988050	6178.0
2009/10	1171900	6983.0
2010/11	1346810	5111.2
2011/12	153600.0	6100.0
Total	ΣX= 11844220	ΣY= 54349.18

Calculation:

From Table:

$$\Sigma X = 11844220$$

$$\Sigma Y = 54349.18$$

$$\bar{X} = 592211$$

$$\bar{Y} = 2717.5$$

$$\Sigma X^2 = 998.62 \times 10^{10}$$

$$\Sigma Y^2 = 2264.85 \times 10^5$$

$$(\bar{X})^2 = 35 \times 10^{10}$$

$$(\bar{Y})^2 = 73.8 \times 10^5$$

$$\Sigma XY = 445.22 \times 10^8$$

$$\text{We have, } r_{XY} = \frac{\Sigma XY - n(\bar{X}\bar{Y})}{\sqrt{\Sigma X^2 - n(\bar{X})^2} \times \sqrt{\Sigma Y^2 - n(\bar{Y})^2}}$$

$$= \frac{445.22 \times 10^8 - 20 \times (592211 \times 2717.5)}{\sqrt{998.62 \times 10^{10} - 20 \times 3.5 \times 10^{11}} \times \sqrt{2264.85 \times 10^5 - 20 \times 7.38 \times 10^6}} = 0.45$$