

**ROLE OF FOREIGN AID ON AGRICULTURE DEVELOPMENT
IN NEAL**

A Thesis

**Submitted to the Central Department of Economics,
Tribhuvan University, Kirtipur, Kathmandu, Nepal**

in Partial Fulfilments of the Requirements

for the Degree of

MASTERS OF ARTS

in

ECONOMICS

By

UTTAM RAI

Roll Number 376/2067

Registration No. 6.1.7.905.2004

Central Department of Economics

Kathmandu, Nepal

September 2019



Tribhuvan University
Faculty of Humanities and Social Sciences
University Campus

CENTRAL DEPARTMENT OF ECONOMICS

Office of the Head of the Department

Kirtipur, Kathmandu, Nepal

Ref. No.:

RECOMMENDATION LETTER

The thesis entailed “**Role of Foreign Aid on Agriculture Development in Nepal**” has been prepared by Uttam Rai in partial fulfilment of the requirements for the degree of Master of Arts in Economics under my Supervision and guidance. I forward it with recommendation for approval.

.....

Asst. Prof. Khagendra Katwal

Thesis Supervisor

Central Département of Economics

Tribhuvan University, Kirtipur

Kathmandu, Nepal

Date: September 2019



Tribhuvan University
Faculty of Humanities and Social Sciences
University Campus
CENTRAL DEPARTMENT OF ECONOMICS
Office of the Head of the Department
Kirtipur, Kathmandu, Nepal

Ref. No.:

APPROVAL LETTER

This thesis entitled “**Role of Foreign Aid on Agriculture Development in Nepal**” submitted by Uttam Rai to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfilment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as part of the degree.

Therefore, we accept this thesis as a part of the said,

Thesis Committee

Prof. Dr. Kushum Shakya

Head of Economics Department

Assistant Prof. Dr. Rashmee Rajkarnikar

External Examiner

Asst. Prof. Khagendra Katwal

Thesis Supervisor

Date: September 2019

ACKNOWLEDGEMENTS

I express my sincere appreciate to all those who support me in this thesis writing. First of all, with a deep sense of gratitude i wish to express my sincere thanks to both my supervisors, Assistance Professor Mr. Khagendra Katwal and Dr. Rashmee Rajkarnikar for their immense help in planning and executing in time. Honestly, I am grateful to my supervisors with their company, motivation and assurance during period of frustration will be remembered for life. Their profound knowledge of the research topic and methodology and their feedback and guidelines made it possible to complete thesis.

I would like to express my gratefulness to Prof. Dr. Kushum Shakya, Head of Central Department of Economics, who provided opportunity to write this thesis. As well as i would like to appreciate to all my respected teachers and personal of Central Department of Economics who provided me with their important time and kind support during completion of my thesis writing.

Many institutions and individuals contributed directly or indirectly in completing write up this thesis. I express my sincere appreciation to the concerned officials of Agricultural and Livestock Development (MoLD), Ministry of Finance (MoF), National Planning Commission (NPC) for providing the required data and information. I acknowledge to my intimate friend Mr. Nirmal Tiwari for his experience and knowledge.

Uttam Rai

DECLARATION

I hereby declare that the work reported in this thesis entitled “Role of Foreign Aid on Agriculture Development in Nepal” submitted to the Central Department of Economics, Tribhuvan university is my original research work done in the form of fulfillment of the requirement for the degree of Master of Arts in Economics, under the supervision of Khagendra Katwal of Central Department of Economics, Tribhuvan University.

.....

Uttam Rai

Researcher

Date: September 2019

TABLE OF CONTENTS

	Page Number
RECOMMENDATION LETTER	i
APPROVAL LETTER	ii
ACKNOWLEDGEMENTS	iii
DECLARATION	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
LIST OF FIGURES	viii
ABBREVIATIONS AND ACRONYMS	ix
CHAPTER I : INTRODUCTION	1
1.1 Background	1
1.1.1 History of Foreign Aid in Nepal	2
1.2 Statement of the Problem	4
1.3 Objectives of the Study	6
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
1.6 Organization of the Study	8
CHAPTER II : REVIEW OF LITERATURE	9
2.1 Review of International Context	9
2.2 Review on Nepalese Context	11
2.3 Review of Agricultural Development Strategy, ADS (2072-2092BS)	16
2.4 Review of Development Cooperation Policy, 2014	17
2.5 Review of Fourteenth Plan (2016/17-2018/19)	20
2.6 Research Gap	21
CHAPTER III : RESEARCH METHODOLOGY	23
3.1 Conceptual Framework	23
3.2 Research Design	24
3.3 Sources of Data	24
3.4 Tools and Methods of Data Analysis	25
3.4.1 Regression Analysis	25
3.4.2 Model Specification	25

CHAPTER IV : PRESENTATION AND ANALYSIS OF DATA	27
4.1 Trend of Foreign Aid and Agricultural Development of Nepal.	27
4.2 Resource Gap between Savings and Investment in Nepalese Economy:	29
4.2.1 Key Macroeconomic Indicators	30
4.2.2 Table of Resource Gap between Saving and Investment	31
4.3 Total Aid Inflow	32
4.4 Sources of Foreign Aid	35
4.5 Commitment and Disbursement of Foreign Aid in Nepal	38
4.6 Sectorial Allocation of Foreign Aid	41
4.7 Foreign Aid Inflow to the Agriculture Sector	44
4.8 Impact of Foreign Aid on Agricultural Sector.	46
4.9 Empirical analysis of Total Foreign Aid Inflow on Total GDP and Amount of Foreign Aid Received in Agricultural Sector	48
CHAPTER V : SUMMARY, CONCLUSION AND RECOMMENDATION	51
5.1 Summary	51
5.2 Conclusion	53
5.3 Recommendations	54
5.3.1 Recommendation for Government	54
5.3.2 Recommendations for Donors	55
REFERENCES	56
APPENDICES	59

LIST OF TABLES

	Page Number
Table 4.1 Fund Commitment by External Sources	28
Table 4.2.1 : Key Macroeconomic Indicators	30
Table 4.2.2 : Table of Resource Gap between Saving and Investment	31
Table 4.3 : Table of Average Aid Inflow in Nepal	33
Table 4.4 : Foreign Aid from Bilateral and Multilateral Sources	36
Table 4.5: Status of Foreign Aid of Commitment and Disbursement of Foreign Aid in Nepal	39
Table 4.6 : Sectorial Allocation of Foreign Aid in Nepal	42
Table 4.7 : Ratio of Agriculture Aid to Agriculture GDP	45
Table 4.9.1 : Analyzing the Impact of Total Foreign Aid Inflow on GDP	49
Table 4.9.2 : Analyzing the Impact of Total Foreign Aid Inflow in AGDP Growth	50

LIST OF FIGURES

	Page Number
Figure 4.3: Average of Loan & Grant Inflow in Nepal	34
Figure 4.4 : Trend of Foreign Aid inflow as a source of Bilateral and Multilateral	37

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AGDP	Agricultural Gross Domestic Product
ADS	Agricultural Development Strategy
AIC	Agricultural Input Corporation
AMP	Aid Management Platform
App	Agricultural Perspective Plan
ARD	Agriculture and Rural Development
CBS	Central Bureau of Statistics
DANIDA	Danish International Development Agency
FAO	Food and Agriculture Organization
FINNIDA	Finland International Development Agency
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GON	Government of Nepal
GTZ	German Technical Cooperation Agency
HDI	Human Development Index
HDR	Human Development Report
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
INGOs	International Non-Governmental Organization
JICA	Japan International Cooperation Agency
LDCs	Least Developed Countries
MOF	Ministry of Finance
MOLD	Ministry of Agricultural and Livestock Development
NGOs	Non-Government Organization
NIDC	Nepal Industrial Development Cooperation
NLSS	National Living Standard Survey

NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
ODA	Official Development Assistance
OPEC	Organization of Petroleum Exporting Countries
PMAMP	Prime Minister Agriculture Modernization Project
SDC	Switzerland Cooperation
SDG	Sustainable Development Goals
SPSS	Statistical Package for Social Science
TU	Tribhuvan University
UNDP	United Nation Development Program
UNESCO	United Nations Education, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNHCR	United Nation High Commissioner For Refugees
USAID	United States Agency for International Development
UNV	United Nations Volunteers
WB	World Bank
WDR	World Development Report
WHO	World Health Organization
WWW	World Wide Wave

CHAPTER I

INTRODUCTION

1.1 Background

Foreign aid takes many forms as financial loan, grants, technical assistance etc. Literally, refers to required resources are voluntarily transferred from developed countries and international organizations to support or uplift the economic sociological and political condition of the developing countries. For a doubling of worldwide aid flows as a moral obligation of rich countries that will send 'forth mighty current of hope' and lead to 'the end of poverty' the very optimistic view of foreign aid is exemplified by Sachs (Sachs, 2005).

Foreign aid enables the developing economy to achieve the objective of technological up-gradation and innovations and helps to meet the gap between investment needed and saving. As well as it links not only capital deficiency and technological backwardness but also supplies skilled personnel, organizational experience, market information advanced production techniques, innovations etc.

In general, perspective of foreign aid is transferred with zero cost but is not always a free resources transfer and often arrives with economic and political conditions. In many cases, official donors require that recipient countries pursue reforms or policies that the donors feel should promote economic growth or development and aid may also be tied which reduces its effectiveness, with respect to the multilateral development finance institutions, such as the IMF and World Bank.

Some scholars have argued that very policy reforms suggested by these institutions have been counterproductive and caused economic and social decline rather than growth.

Except this argument, foreign aid is the positive acceleratory factor in enhancing economic development in developing countries. It is extremely fruitful for all developing countries including Nepal. Nepal has been a recipient country. Due to its limited resources to invest in socio-economic development. Infrastructure projects require huge investment that the government is incapable of. "Successful development

requires public investment, but government in impoverished countries are often too cash strapped and too indebted to finance the requisite investment. When the government is unable to build the roads, power grid and other basic infrastructure the private sector languishes the result in a fiscal policy trap in which poverty leads to low public investment and low economic development failures in the poorest countries". (Sachs 2008)

In Nepal, private sector is reluctant to investment in infrastructure because of the long gestation period bound by the risk of political instability. This leaves the country's economic development in the hands of foreign investment. All the development activities in Nepal, small or big, have largely been influenced by foreign aid. Aid in the form of grant played an important role in the construction of infrastructure projects and in the establishment of some key basic industries in the beginning. (Dhungel, 2015)

1.1.1 History of Foreign Aid in Nepal

Right after the Rana regime, the first official budget was announced in 2008BS. The government felt that to have resources planning to enter into a new era of formal financial and economic sector development. The project management tools such as expenditure procedures, reporting, disbursement and accounting of the funds were first introduced along with the introduction of budgetary system in the country. The resources gap between the budgetary spending and revenue was first realized and then it was considered as one of the prime issues to be plugged in through the injection of external resources than the regular resources supply through the budgetary framework.

Realizing the gap between budgetary spending and revenue, Nepal joined Colombo Plan in 1952AD and later started to receive the grant in human capital development through the scholarship program offered by different countries especially for the studies in the professional and technical areas. Remarkably this was considered a first ever multilateral development support for Nepal.

Nepal has been a recipient of foreign aid for agriculture development since 1951. In the earlier days, aid used to be almost in the form of grants. And aid packages had larger technical support components, and less financial assistance. The bulk of

assistance used to be directed toward developing manpower, establishing farms/stations, and introducing and testing of technologies.

Two major development programs implemented after the restoration of democracy in 1951 were Tribhuvan Rural Development Program and Rapti Dun Integrated Development Plan in cooperation with USAID.

The main objective of Tribhuvan Rural Development Program was to implement an agriculture expansion program in the rural areas. It was the first step taken for organized development of villages. Learning from the experiences of other countries, Nepal started agriculture extension program and a collective development system. It implemented various farm-related programs in different parts of the country.

The Rapti Dun Development Department was established in 1957 with the objectives of alleviating the food shortage in Kathmandu, establishing cooperative demonstration farms and implementing resettlement program.

Major development partners during the 1950s were USA, India and Japan. Until the mid-1960s, Nepal relied on foreign grants for its development projects, most of which were delivered through bilateral assistance. India supported horticulture development programs during the 1960s. In the 1970s, multilateral assistance programs started to play an important role in Nepal's development planning and accounted for more than 70 percent of funding for development expenditures.

By the end of the 1980s, the majority of foreign assistance received from multilateral institutions such as the World Bank and Asian Development Bank was mostly in the form of loan assistance.

Many foreign aided projects are in implementation at present. The main development partners are USAID, ADB, IFAD, JICA, SDC, and World Bank. Among them, the World Bank, Asian Development Bank and USAID are the main development partners involved in agriculture development of Nepal.

Regarding on-going project, Prime minister Agriculture Modernization Project has been conducted in FY 2016/17. For executing this project the Government has selected the area to be developed as Super Zones and Zones in order to boost

agricultural productivity in the country. MoAD has envisaged Pocket, Block, Zones and Super Zones for agriculture products to address the fragmentation of arable land, which is considered to be a major barrier for agriculture commercialization and mechanization in the country. The government has envisioned of being self-reliant in agriculture products that can be produced within the country as the import of agriculture products has been surging every passing year. In addition, the government has aimed to tame inflation caused by spike in food prices; due to supply-side constraints in the country by boosting domestic productivity.

The Prime Minister Agriculture Modernization Project (PMAMP) has been allocated for the project of premium of animal and crop insurance, tea, establishment of industry, grant in public-private partnership at local industry, chemical and compost fertilizer, hybrid seeds, irrigation equipment, organic certification, garden management, construction of pond for fishery, youth targeted programme, promotion of vegetables/mushroom, bee-farming, construction of agriculture market infrastructure etc.

Although agriculture is a prioritized sector in the policy document and many donors are involved in its development, it is in the seventh position to receive foreign aid. Technical Assistance (TA) component comprises 9 percent of the total commitment in this sector.

1.2 Statement of the Problem

Agriculture is the main stay of Nepal's economy. It comprises one third of the nation's GDP and provides employment for two thirds of the population. Nepal's altitude ranges from just 59 meters of Kechankalan in Jhapa district to 8848 meters at Mt. Everest, the world's highest point. The country also shares open border with five adjoining Indian states comprising approximately 350 million people, are directly benefited with a huge duty free market for agricultural products.

Despite being a major contributor to the nation's economy, Nepal's agriculture sector depends heavily on monsoon rains. The contribution of agricultural sector (agriculture, forest and fisheries) in total Gross Domestic Product (GDP) is estimated to be 27.6 percent in FY 2017/18 which was 28.8 percent in FY 2016/17. The annual

growth rate of agriculture in the basic price level is estimated to be 2.7 percent in FY 2017/18. Population growth rate is 1.35%, put the pressure on productivity. One result of this pressure has been decreased of the average size of land holding from 1.1 hector to 0.7 hectares (Population monograph of Nepal 2014).

Though development partners are providing millions of dollars as assistance in agriculture development every year, effectiveness of aid has been an issue for both the recipient and development partners. Both donors and government are equally responsible for the poor performance of the aid.

In order to insure its effectiveness, donors should be transparent on providing their assistance, eliminating unnecessary conditionality to the recipient government. However, conditionality on cross-cutting issues such as governance, inclusion, accountability, transparency, political stability should be welcomed by the government.

Furthermore, there is seemingly a mismatch of priorities between the development partners and government in planning and implementation. For example, infrastructure development is the government's priority, but the donor agencies are interested in those projects which give outputs in short term.

The Agriculture Perspective Plan (APP), which was also prepared by the ADB, was the priority of the government, but it failed to attract investment due to a decline in donor support to the agricultural sector from the mid-1990s in the name of economic liberalization. Donor support to agriculture started to decline from the mid-1990s following economic liberalization which coincided with the government discontinuing farm subsidies. The agriculture sector used to receive 17-18 percent of the official development assistance (ODA) until the Seventh Five-Year Plan (1985-90) which has plunged to 3.8 percent now.

This contradiction has created resource gaps and caused overlapping and duplication. Thus to make effective disbursement of foreign aid in prioritized sectors, political, economic, socio-cultural and technological (PEST) analysis should be made mandatory for all projects. The government must also be working responsibly.

As mentioned in foreign aid policy, broader objectives of any agriculture projects should have a component of poverty reduction by ways of utilizing foreign aid effectively through high inclusive and sustainable agriculture growth with distribution equity, focusing on productive employment and income generation. These objectives have remained limited to paper.

Massive corruption, unaccountable and non-transparent government mechanism are major constraints that often hinder effectiveness of foreign aid in agriculture. Accountability is a precondition to ensure aid effectiveness. And accountability can be ensured when transparency is maintained in the way aid is managed and used. In this regard, this study mainly attempts to address the following research questions as:

- i) How structure and patterns is designed in Nepalese agriculture development?
- ii) What are the relation with foreign aid and agriculture growth?

1.3 Objectives of the Study

The purpose of this study is to examine the role and impact of foreign aid in the development process of Nepal by examining its effect on GDP growth with special reference to keeping in view the above stated problem, the study attempts to following objectives.

- i) To analyse the trend, structure and pattern of foreign aid in Nepal.
- ii) To examine the relationship between foreign aid in agriculture and agriculture growth.

1.4 Significance of the Study

Foreign aid/assistant is an important sources of finance for least developed countries, including Nepal. There are many reasons for giving role of foreign aid, the most notable argument is to bridge the gap between domestic saving and domestic investment and therefore, to accelerate growth. Economic survey 2017/18 has shown that the gap between total investment and gross domestic saving has remained at 36.7 percent of GDP respectively. Nepal's quest to become a middle-income country and achieve the SDGs by 2030 demands a huge amount of resources including foreign

assistance. Nepal's federalization, with 753 local government units, requires resources for both capacity building and infrastructure development, among others. Nepal needs to sustain an annual economic growth rate more than 8 percent for meeting public aspiration from the new system. The share of foreign aid in the national budget was about 22 percent in FY 2017/18.

Drawing the picture of trend, structure and pattern of foreign aid in agricultural sector and impact on agriculture development using data of foreign aid (total commitment of aid and real disbursement aid) shows the relationship between foreign aid in agricultural sector and growth of it. Hence, this research work will be useful to those who are interested in this field. It helps to select the type of aid as loan or grant and bilateral or multilateral and tied or soft loan which will definitely help to improve the macroeconomic variables of the Nepalese economy.

This study may be equally important to the planners, researchers as it may provide guidelines to the planners to decide whether to collect more aid of given attention for its proper utilization. This study clearly shows the impact of foreign aid in the process of agriculture and economic development. So if its impact is positive then the government should not hesitate to sign for more aid. Instead, if the net impacts are negative, then it is better not to acquire more aid.

1.5 Limitations of the Study

All the research works are bounded by some limitations. This study is also bounded with limitation. The major limitations of this study are:

- i) This study has not covered the effects of foreign aid on political and social sectors as well as the existing fiscal policy.
- ii) This study is based on the secondary data only; the reliability of raw data are provided by the concerned institutions as Ministry of Finance of Nepal (MoF), Ministry of Agriculture and Livestock Development (MoAD).
- iii) This study has only included the data of Foreign aid in Agricultural sector, and Agriculture GDP from fiscal year 1990/91 to 2017/18 respectively.

1.6 Organization of the Study

The study is divided into five chapters. The first chapter mainly deals with the subject matter, objectives, statement of the problem, limitations and organization of the study. Second chapter includes a brief review of previous research works on the foreign aid and effectiveness to the agriculture sector. Third chapter represents research methodology, research design, nature and sources of data, tools and techniques of data collection. Chapter four describes the data and trends of foreign aid in agriculture, share of foreign aid and contribute to GDP. It further, describes the source, structure and composition of foreign aid and agricultural aid to Nepal. The chapter five is including chapter where summary, conclusion and recommendation of this study are presented.

CHAPTER II

REVIEW OF LITERATURE

This literature review discusses empirical literature on foreign aid and agriculture growth of Nepal. Finally, on the basis of existing literature review, it presents importance of conducting this type of study in context of Agriculture growth of Nepal.

There is a large amount of research done on aid-economic growth relationship both at country specific and cross-country levels. However, empirical studies reviewed in this section are chosen due to their relevance to this study. Particularly, most studies reviewed are done in developing countries; hence, they could bring out proxies of variables and methodologies that are vital to this study.

2.1 Review of International Context

Papanek (1973), in across-country regression analysis of 34 countries in the 1950s and 51 countries in 1960s, treating foreign aid, foreign investment, other flows and domestic savings as explanatory variables, finds that foreign aid has a substantially great effect on growth than on the other variables.

Easterly (2003), focused on the financing gap because foreign aid is believed to increase investment which in turn increases economic growth. When testing 88 aid recipient countries for the years 1965 to 1995, he finds that only six countries had increases in investment and four countries had a positive relationship between growth and investment. In sum, the relationship between aid and growth is unclear.

Rajan and Subramanian (2005) suggested that aid has detrimental long-term effects on economic growth of developing countries through a decrease in employment. In a study of 40 countries for the period 1980-1989 and 28 countries for 1990-1999, they examine whether labor-intensive industries have a relatively slower growth rate in countries with high aid inflows by controlling for within-country effects. Controlling for differentials in industries within countries, they assume that aid giving is driven by trade and exchange rate policies. They find that aid inflows undermine the competitiveness of a country's exporting sectors because aid causes an overvalued

exchange rate that has adverse consequences on the growth of traded goods sector in the recipient country. Reduced competitiveness in the traded good sector decreases employment growth. Decrease in employment growth can trigger the country's future dependency on aid. As a result, there will be an increase in the level of aid that the country receives.

Kabete (2008) examined the impact of foreign aid on economic growth in Tanzania. It was interested in the analysis of this relationship because the country receives a considerable amount of foreign aid but still experiences very low economic growth and high poverty levels. The period under study is from 1990 to 2004 and used data from the World Bank, World Development Indicators 2006 and the former Ministry of Planning, Economy and Empowerment (Tanzania). The analysis of the contribution of foreign aid to economic growth has combined other variables which are net national savings, export growth (annual percentage growth), and total debt service. Except the export growth, other variables were measured as percent of Tanzania's Gross National Income (GNI) for the period under study.

Hossain (2014) estimates 33 years data on foreign aid for 1980-2012 periods and analyzes the effects of foreign aid on the economic growth of Bangladesh. To examine the effects of aid more precisely, this study estimates eight separate models including three for the last three decades (1980-1990, 1991- 2001, 2002-2012), four for the four different government period namely, Military government (1982-1990), BNP (Bangladesh Nationalist Party) government (1991- 1995, 2002-2006) , BAL (Bangladesh Awami League) government (1996-2001, 2009- 2012) and the Whole Democratic government period (1991-2012) and one for the entire period (1980-2012). This research finds that, foreign aid has positive effect on the economic growth of Bangladesh and it is statistically significant in two models out of eight models. This paper also reveals that the aid generates decreasing returns in Bangladesh because of capacity constraint of Bangladeshi institutions to utilize the foreign aid effectively.

Jeffrey (2015) by employing OLS estimation found that bilateral and multilateral aid yields mixed and interesting results. For middle and low income countries, a 1 percentage point increase in inflation on average causes the effect of bilateral aid on growth decrease by 1.516 percentage points and increases the effect of bilateral aid on

growth by 2.162 percentage points on average. Further he stated that for multilateral aid, the signs for these two interaction terms (Inflation and Polity2 scores) are opposite to what they are for the bilateral interaction terms. Multilateral aid interacted with inflation yields a positive value, meaning that as inflation increases one percentage point, multilateral aid's effect on growth increases 2.217 percentage points, polity2 (measure of a country's political regime) scores interacted with multilateral aid are negative, meaning a point increase in a country's polity2 score results in a decline of 4.557 percentage points.

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

2.2 Review on Nepalese Context

Poudyal (1982) found positive association between foreign aid and saving by using correlation and regression analysis. The study was based on the secondary data. The main findings of the study were (a) foreign aid was being concentrated on infrastructure and neglected other sectors, (b) positive effect of foreign aid was more on saving than on consumption, (c) the GDP, domestic saving and consumption were highly stable function of foreign aid, (d) elasticity between GDP and domestic saving was higher than that of between GDP and foreign aid.

Further he concluded that if aid was utilized in road construction, maximum benefits from roads can be obtained only if in areas opened up by roads complementary development programs were lunched simultaneously like agriculture and industry etc. The study showed that there was positive association between foreign aid and saving. Foreign aid was contributing to increase national efficiency through positive effect on

income, saving and consumption. The level of GDP was also positively related to the inflow of foreign aid.

Poudyal (1988) performed regression analysis by using data from 1964 to 1982, between foreign aid and economic growth and aid and domestic saving. He found that foreign aid had a significant positive effect on the level of GDP. The result showed a reasonably well overall fit the model. He has concluded that foreign aid in Nepal positively contributed to the country's GDP growth but substituted domestic saving. He also estimated the model using five years lag of aid. For that one and two years lag, the coefficients were found smaller and negative. But for the four and five year lag, the coefficients were positive and larger. Thus, he claimed that the long running aid funded projects did not contribute to the economy in short run. The negative short run relationship between aid and growth was attributed to the use of domestic resources to support these long run running foreign financed projects.

However, its descriptive data analysis showed that there was more than 50 percent contribution of foreign aid to financing the development plans. The existed gap between foreign aid commitment and disbursement and aid utilization capacity of Nepalese economy was the main problem. His data analysis also found noticeable shifts of foreign aid from transport and industry towards agriculture, power and social services.

Khadka (1991) stated that Nepal relied heavily on foreign aid and donors coordinate development policy through the Nepal development forum; whose members include donor countries, international financial institutions and international governmental organizations. Its reliance on aid increased 45 percent development expenditure in 1975 to about 56 percent in 1986 and aid GDP ratio increased from 2.6 percent to 6.9 percent during the same period.

According to this study, aid had not been effective in alleviation poverty in Nepal. On the contrary aid had created dualisms between urban and rural areas in terms of consumption, and it further widened gaps between haves and haves not and social disparities was still growing. Aid neither helped to attain the goals nor to establish institutional political machineries. Hence aid failed to alleviate poverty of the country because it was unable to grasp the majority of population who live in rural areas. He

stated that the economic condition had not improved in Nepal despite the priority of aid because an increase in the basic needs to the poor and rural development. Further, he stated that aid contributed to creation of physical capacity but this failed to create the necessary condition for breaking the barriers of development. It is stated that as a matter of fact declined in real terms by the 1970s and aid endorsed by international organizations and bodies remained unfulfilled. Finally he added that learning from crisis was better than becoming chronically dependent on aid.

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

Bhattarai (2008) by employing co-integration test found that per capita development expenditure was positively associated with both per capita aid and per capita GDP in the long run. The long run aid coefficient was significant at the 5 percent level, but the elasticity of per capita development expenditure with respect to per capita aid is quite low (0.11). Further he stated that the elasticity of per capita non-development expenditure with respect to per capita aid is found to be relatively larger (0.61) than that for development expenditure. In other words, one percent increase in per capita aid led to approximately 0.6 percent increase in the per capita non-development expenditure, whereas it led to only a 0.11 percent increase in per capita development expenditure.

Karna (2007) states that foreign aid holds critical importance in Nepal. Even though its economic importance lies in the fact that it provides resources not only for the national budget; rather it also helps bridge the gap between national saving and investment. It also helps to meet the gap between excess of import and exports of goods and services. The very critical issue about foreign aid is that it should be used properly at appropriate place. Nepal has been receiving foreign aid since early 1951 which seeks to meet the resource for annual budget, to help and provide resource for various periodic plans, to accelerate the pace of economic development in proper way, to utilize the untapped natural resources, to meet the millennium development goals,

to escape from vicious circle of poverty, to modernize agriculture, to industrialize and for the proper and balanced sector wise development.

He further argues the fact that, the need to fill saving investment and export import gap aid is important source of development finance in the capital poor economies. It has helped considerably to finance the growing import needs required by the development process. The technical assistance has helped to bridge the technology gap constraining the planning and execution of development projects. It has significantly contributed in removing transport and communication bottlenecks, industrial viciousness and agricultural backwardness. To become specific almost all the highways and communication networks, most public industrial enterprises, agricultural and rural development projects and development projects and development institutions are undertaking foreign aid.

From the recipient point of view, the broad goal of seeking aid in Nepal is to promote economic development. He shows 49.9 percent foreign aid as development expenditure from first to ninth periodic plan, yet some of the sectors remain untouched by these assistances. This is due to miscalculation of actual problems. Despite of some critical lines, he establishes foreign aid as the crux of Nepalese economy and spender in its development efforts.

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

Gross domestic saving as percent of the GDP declined from a level of 16.2 percent in FY 1997/98 to 15.2 percent during FY 2003/04 whereas total investment during the same period grew from 24.8 percent of GDP to 26.4 percent. The resource gap has thus widened over the years due to increasing fiscal deficit. The fiscal deficit of NRs. 15.83 billion in 2003/04 increased by 14 percent and escalated to NRs. 18.05 in FY 2004/05 indicating the widening gap between government expenditure and revenue.

Sigdel (2010) by adopting non-linear regression model found that there is a significant relationship between resource gap and foreign aid. He found that one billion increments in resource gap are met by more than one billion increment in foreign aid during the period of FY 1981/82 to 2001/02. The flow of foreign aid is found to be faster than the increment in resource gap (1.023477, lag coefficient).

The role of foreign aid to bridge the resource gap in Nepal has been crucial, which is estimated to be more than 60 percent of total resource gap. The remaining part is met by remittances and foreign currencies earned by the tourism sector. The magnitude of remittances including unrecorded flows increased to \$ 820 million, which is nearly 14 percent of GDP in FY 2003 from about \$ 750 million in FY 2002 and exceeded the size of exports equal to \$ 642.8 million. He further states that foreign aid to Nepal commenced in 1950/51 with NRs. 1.01 million worth. Up to 1970, foreign aid flow to Nepal confined to a diminutive size. During the period 1950-70 bilateral grants played a predominant role in the structure of foreign aid in Nepal. Foreign aid to Nepal increased substantially in each succeeding decade, which levelled NRs. 186,334.9 million in 2000/01, of which, grants went up to NRs. 63,680.5 million and the loan equal to NRs. 122,636.3 million. The ratio of ODA to GDP was 3.8 percent in Nepal during the period of 1970s and 7.8 percent in 1980/81 is much higher in comparison of other south Asian countries such as Bangladesh, Sri-Lanka and Pakistan. Over the long span of last five decades, the magnitude of foreign aid to Nepal is 57.5 percent of total development expenditure. During the first plan (1956-1961), Nepal's development expenditure (NRs. 382.9 million) was fully funded by foreign aid. In subsequent plan periods from the second to the ninth plan (1962-2002) the extent of foreign aid was as high as 52 percent of development expenditure in Nepal. This is indicative of Nepal's heavy dependence on foreign aid, which ballooned to the level of NRs. 215,145.4 million during the ninth plan (1997-2002) from a diminutive sum of NRs. 382.9 million in the first plan. In the tenth plan Nepal received NRs. 134,620 million worth foreign aid which is 57.5 percent of development expenditure. In addition, he concluded that foreign aid has become a foundation of North-South relations.

Basnet (2013) examines the effectiveness of foreign aid on growth and domestic saving using a simultaneous equation system. He found that foreign aid has a positive and significant impact on growth in five south Asian countries. The result reveals a

negative relationship between foreign aid and domestic savings and there is no ambiguity that foreign aid adversely affects domestic savings in south Asian countries during the period of 1980-2008. His result brings up a very important policy issue that is the positive effects of aid on growth might be offset by the negative effect on domestic saving.

Dhungel (2015) discussed the role of foreign aid in case of Nepalese economy. The newspaper article explained that in 1970s the amount of foreign aid was 1.7 US billion and it reached to 17.9 US billion in 1980. Further, foreign aid climbed to 68.5 US billion and 181.2 US billion in 1990s and 2000s respectively. The article claimed that foreign aid has influential impacts both on economic growth and development in Nepal.

Karkee and Comfort (2016) discussed the role of foreign aid in the development of Nepalese economy. The paper explained that inflow of foreign aid was continuously increasing in Nepal and it was channelled to development activities. Even though it was utilized in development activities, the economy was underdeveloped. The reason behind of being under developed was explained due to lack of aid rather than aid efficiency. The paper concluded that there is need of more aid for growth and development.

2.3 Review of Agricultural Development Strategy, ADS (2072-2092BS)

The Agricultural Development Strategy (2072-2092BS) with a ten year action plan has been developed after the completion of the long-term Agricultural Perspective Plan, (2051-2071BS) for the overall development of agriculture sector.

The vision of the ADS has been stated as self-reliant, sustainable, competitive, and inclusive agricultural sector that drives economic growth and contributes to improved livelihoods and food and nutrition security leading to food sovereignty.

This strategy has been prepared based on the concept of Total Factor Productivity which advocated Open Market Economy. This strategy emphasizes on agricultural transformation by providing services to the communities dependent on agriculture transferring their skills in industrial sectors which will generate greater income.

This strategy was jointly devised by the donor group allied consultants led by Asian Development Bank as well as by the Nepal Farmer's Coalition, sister organization of the major political parties of the country and Ministry of Agriculture and Livestock Development (MoAD). ADS is quite inclusive as compared to other existing national policies due to widely discussion on various dimension of Nepali agricultural development at the public level and most of the concerns of the governmental and donor participated in national as well as regional workshop.

With analysing numerous weaknesses responsible for the unsuccessful implementation of the preceding agricultural planning citing the lack of coordination and policy level failure as the major of weakness, it has suggested some agricultural shifts keeping in consideration the well-being of small framers. Additionally, it has also devised some provisions such as classifying the farmers and formation of high level commission for farmer's right; establishment of community-based agricultural service centres to provide technical help for the farmers in crops and animal production at local level and the formation of Agricultural Development Fund for the implementation of the strategy. Further, it has positively proposed the regulation of Foreign Direct Investment and ban on genetically modified seeds.

2.4 Review of Development Cooperation Policy, 2014

The Government of Nepal launched new Development Cooperation Policy, 2014. This is the amended policy of Foreign Aid Policy, 2002. As per the demand of time and the need of formulate new policy in the context of changed of national and international scenarios.

Aftermath, successfully conducted the second Constituent Assembly election in 2013 has paved the way for promulgation of new constitution. In the context of moving from transition towards stability, the Government of Nepal has given higher priority for economic development agenda, as well as has taken up-grading from "Least Developed Country" to 'Developing Country" status by 2022AD and also to gradually reduce the dependency of foreign aid and build a self-reliant economy. It is necessary to mobilize development cooperation more effectively in order to achieve those goals and agendas respectively.

The long-term vision of this policy will be to build a self-reliant economy through an effective mobilization of development cooperation and help transform Nepal into a prosperous democratic country.

The main mission of this policy will be to help achieve national goals through mobilization development cooperation in a way that enhances the country's capacity to be able to realize maximum advantages.

The objectives of this policy are:-

- a) To help achieve development goals stated in the periodic development plans through the mobilization of external resources.
- b) To help transform Nepal from status of 'Least Developed Country' to 'Developing Country' by 2022 through effective utilization of development cooperation.
- c) To achieve development effectiveness through achieving 'Best Value for Money', and
- d) To help build a self-reliant economy through gradually reducing dependency of aid.

Strategies of this policy are:

- a) Mobilizing development cooperation in line with the national policy and priority in a way to achieve a broad-based, inclusive, and sustainable economic growth, generating employment, reducing poverty, and yielding maximum returns,
- b) Helping to achieve country's development goals through mobilization of development cooperation in priority areas in a selective way,
- c) Contributing to Nepal's socio economic development through increasing investments in infrastructure development such as hydropower and roads, agricultural modernization, tourism, industry and trade,
- d) Ensuring sustainability of the achievements made so far in Social Development and Human Development Index and the achievements made in Millennium Development Goals and mobilizing resources required for post 2015 development agenda and sustainable development agenda,

- e) Achieving a rapid economic growth by creating a conducive environment for private investment and trade in productive sectors through effective utilization of development cooperation,
- f) Channelling development cooperation in accordance with the high level global commitments for development effectiveness, including the Paris Declaration, the Accra Agenda for Action, the Busan Commitment, and the Mexico High Level Meeting,
- g) Ensuring development cooperation's contribution to national capacity development and the transfer of knowledge and technology; and utilizing development cooperation through using the country system in a transparent way,
- h) Introducing a minimum threshold of development cooperation to reduce aid fragmentation and high transaction costs,
- i) Mobilizing development cooperation in a way that helps reduce regional imbalances,
- j) Utilizing development cooperation in activities that contribute to increase the internal revenue and build a self-sustained economy,
- k) Strengthening Aid Management Platform, enhancing transparency of development cooperation, and disseminating the aid information to the wider public.

Major Points of Departure:

- A. Threshold introduced to control fragmentation,
- B. Preferred aid modalities-general budgetary support, sector budget support,
- C. Alignment with national plan, priority and need,
- D. Loan in larger infrastructure projects,
- E. Use of country system, aid on-budget and treasury,
- F. No aid undermining national integrity, sovereignty, religious, ethnic and social harmony and security.
- G. Partnership with INGOs and NGOs with transparency and accountability measures,
- H. Shift from software to hardware,
- I. South-south and Triangular Cooperation,

- J. Clarity on tax and visa related provisions
- K. Domestic resources mobilization, aid for trade.

Preferred Aid Modality:

- A. General budgetary support,
- B. Sector budget support,
- C. Aligned projects-minimum costs, maximum elements of innovation and sustainability,
- D. Division of labour based on comparative advantage and untied,
- E. Use of country system, on-budget, on-treasury, International consultancy only when expertise is not available locally.

Direct Implementation:-

- A. High priority medium and large scale projects including hydropower, transmission line, highway construction, strategic road network, bridges, railway, airport, large irrigation, dry port, and special economic zones,
- B. On-budget and regular reporting of financial details to concerned Ministry, Aid Management Platform (AMP) of the Ministry of Finance (MoF).
- C. Implementation directed by the Government led steering committee.

Central Focal Point for Coordination:-

- A. Ministry of Finance is responsible for exploring and formalizing and coordinating development cooperation.
- B. Development partners should direct their communication regarding development coordination mobilization only through MoF.
- C. Approval of National Planning Commission to propose projects.

2.5 Review of Fourteenth Plan (2016/17-2018/19)

It is the first periodic plan launched by the constitution of Nepal 2015 with Federal System of Governance. It is also called the people choice periodic plan. The vision of

the fourteenth plan is to develop independent, prosperous and socialism-oriented economy with fluent Nepal people.

The goal of it is to develop a public welfare state with social justice and attain a level of middle- income countries. The plan has designed to achieve the sustainable development Goal by 2030. Plan has been formulated with the view to graduate Nepal from low income to medium income countries by the year 2030.

The agricultural development vision of this plan is to ensure the food sovereignty and food & nutrition security.

It also aims to make agricultural sector competitive and oriented towards self-reliance through sustained and commercial development. The plan assessed that monsoon dependent subsistence agricultural sector is gradually transforming to commercial one with creating employment opportunities and supplying industrial raw materials. This may attract additional foreign investment for industrialization, which will contribute to high sustained and broad-based economic growth of the country.

It is estimated that the average overall annual economic growth rate in fourteenth plan (FP) period would be 7.2 percent, with growth rates in the agricultural and non-agricultural sectors maintained at 4.7 percent, and 8.4 percent respectively. The estimated public resource allocation (at price of 2915/16) is 95442 crore. Out of this amount 14.70 percent is allocated to agricultural sector, 54 percent to service sector, 31.3 percent in industrial sector and 1 percent in other sector.

This plan has targeted to reduce the population living below poverty line from 21.6 percent in 2015/16 to 17 percent by 2018/19 and improve the Human Development Index from 0.54 percent based year, 2016 to 0.57 percent by 2018/19. (NPC, 2018)

2.6 Research Gap

There is a large amount of research done on foreign assistance and economic growth relationship both at country specific and cross-country levels. However, empirical studies are chosen due to their relevance to this study. Particularly, most studies reviewed are done in developing countries; hence they could bring out proxies of variables and methodologies that are vital to this study.

During this study most of the related subjects and empirical studies are reviewed and found that total or as a bunch of foreign assistance are taken as a accelerator of the economic growth and did write of the chunk of assistance received by agricultural sector and it's contribution to the of economic growth.

CHAPTER III

RESEARCH METHODOLOGY

This study is designed to analyze the trend, structure and pattern of foreign aid in Nepal and to examine the role of foreign aid on agriculture development of Nepal as well as to show the contribution of foreign assistant to GDP of Nepal. The study used both of descriptive and analytical methods of data analysis. Deductive method is used to analyze the simple regression analysis. The study only used secondary data. The tools of data analysis are tables, graphs, percent, ration, and other simple statistical tools like average, correlation coefficient, coefficient of determinations, Durbin-Watson test (D-W test), F-test are used to analyse the data in accordance with the objectives of the study.

3.1 Conceptual Framework

Objective of Foreign aid is to fill the immediate resources gap required for Socio-Economic development. Foreign aid has been recognised as the most crucial factor in enhancing economic development in many countries. No doubt, it is extremely advanced for developing countries such as Nepal. Which lack of enough capital and technological resources necessary for higher investment and developments. The four point programme agreement signed between Nepal and US in 1951 heralded Nepal's first experience of foreign aid assistance. The US government provided assistance of Rs.22000.00 under four point programmes. Nepal received foreign assistance mainly in the form of grants and loan. In 1960s, and 70s, Nepal received foreign aid mainly through grants. Grants made up almost 70 percent of total foreign aid. (Sigdel, 2004).

Present scenario shows that amount of loan is increasing and amount of grant is decreasing. In Nepalese economic context, loans are mainly from multilateral sources like IMF, WB, ADB and UN agencies, while grants are from bilateral sources. During period of 1950-70s bilateral grants played a predominant role in the structure of foreign aid in Nepal. During 1980s and 1990s assistance was rapidly increased which was provided by the multilateral financial institutions like ADB, IDA, and other UN agencies.

The current picture of foreign grants and loan from multilateral is remaining in increasing trends while assistance from bilateral sources is decreasing level in last decade. In fiscal year 2017/18 totalled committed foreign aid is Rs.250244.6 million, including grant and loans from bilateral is Rs.146192.4 million as well as from multilateral sources is Rs.101281.40. The share of foreign aid from multilateral is 41.58 percent while the share of aid from bilateral is 58.42 percent of the total foreign aid. Such a ratio was 54 percent and 46 percent in the previous fiscal year respectively. However, the composition of aid changed significantly in FY 2017/18, of foreign aid commitment, the ratio of foreign grant is 41 percent and ratio of foreign loan is 59 percent respectively. (Economic Survey 2017/18)

3.2 Research Design

The main attempt of this study is to analyse the role, contribution and effectiveness of foreign aid in agriculture sector and consequently in Nepalese economy. This study is analytical as well as descriptive in nature. The collected data are processed according to the need of the chapters, as finding total, averages, percentages, ratios, growth etc. Ordinary Least Square (OLS) is used to find out the exact impact of foreign aid on total GDP and the agriculture GDP. It focuses on trend, magnitude, structure, impact and role of Foreign Aid in Nepal. The descriptive, quantitative and analytical research tools are used for the study.

3.3 Sources of Data

This study is based on secondary data, which are gathered from the concerned institutions as National Planning Commission (NPC), Economic Survey of various Fiscal Years of Ministry of Finance (MOE), World Development report published by World Bank (WB) and Nepal Rastra Bank. The required data are available in the form of published and unpublished documents, survey of related fields and journals. Likewise different publications such as Budget Speech, Plan & Strategies Documents have been used for the completion of this study. The collected data are arranged systematically in tabular form according to the need of the study.

3.4 Tools and Methods of Data Analysis

In the process of data analysis, the available required data from various sources are collected, classified and tabulated to fulfil the requirements of the study. Data are presented in percentage when required. Tables and graphs are used according to situation and requirement of the study. The foreign aid has been compared with total foreign aid inflow in Nepal. The required raw data are taken from 1990s to 2017/18 fiscal years. When government of Nepal accepted democratic political principle and committed to be a member of the regional and international financial institutions and cooperative organisations. Aftermath, Rana regime government of Nepal designed open economic policy and gave priority to private sector. When Nepal became the members of the regional and international levels of institutions, organizations then introduced its actual conditions of social and economic and requested some foreign assistance to grow up economic situations, to build up infrastructures and uplift the conditions of people who are living into the vicious poverty line.

3.4.1 Regression Analysis

The study attempts to show the relationship between foreign aid and agriculture growth in Nepal. To measure the contribution of foreign aid in agriculture sector regression analysis has been used. Regression analysis calculates equation that provides value of dependent variables (Agriculture GDP and Total GDP in this study) for given values of independent variables (Flow of foreign aid in agriculture and total flow of foreign aid, in this study). The primary objective of the regression analysis is to show the relationship between foreign aid and agricultural GDP. For instance, after deriving regression equation one can able to find out the effect of foreign aid on Agriculture GDP.

3.4.2 Model Specification

The study used the simple regression model to find out the role of foreign aid on GDP of Nepal as $GDP = f(FA)$

The simple linear equation of total foreign aid to national GDP as,

$$GDP = \alpha + \beta F_t + \mu_t$$

Regression equation of Y_{ag} on foreign aid (F_{ag}):

$$Y_{ag} = a + b F_{ag} + \mu_t$$

Where Y_{ag} = Agricultural output (GDP)

F_{ag} = Foreign aid in agriculture

Paudel (1988), has used a regression analysis adopting data from 1964/65 to 1981/82, found that positive effects of foreign aid on level of GDP. After almost four decades later, Mihaly (2002) maintains that aid has not been effective in Nepal due mainly to the lack of administrative capacity and strong political will.

Georg W. Norton & J. Ortiz, P.G. Pardey (1992), examined the impact of foreign assistance on agricultural growth, using newly constructed data set for 98 less developed countries from 1970 to 1985. Using ordinary least square model, Found that such aid since 1970, has improved agricultural productivity in Asia and to lesser extent in Sub-Saharan Africa. Aid in the aggregate, doesn't appear to have increased agricultural productivity in the Middle East or Latin America. This study also indicated that aid has been less effectiveness in the countries with high level of external debt of sizeable fiscal deficits.

Khadka (1997), has used a simple regression analysis for the period 1960-90, found that aid had a positive impact on the growth of GDP. In this study, he used only bilateral disbursements for aid data and excluded multilateral disbursements.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Trend of Foreign Aid and Agricultural Development of Nepal.

Foreign aid for these least developing countries like Nepal is not only the requirements but also the compulsion. It is not possible only through the internal sources to invest on basic infrastructure for their 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.

First ever Nepal has received Human Capital Development assistance through the scholarship program offered by different countries especially for the studies in the professional and technical areas through Colombo Plan. Until mid 1960s, Nepal was totally dependent on foreign grants for all its development projects. Most of these grants were on a bilateral basis. Japan, India, China, United Kingdom, USA, and Russia are the most of the bilateral donors. They helped in infrastructure development programs such as road, hospital, irrigation and agricultural development program and human capital development programs etc. By the end of the 1980s, the great majority of foreign aid was in the form of multilateral assistance programs. The major sources of loan and grants for these programs were the international development association of WB and Asian Development Bank (ADB), IMF etc. However the composition of foreign aid has been changed significantly. During the first eight month of FY 2017/18 foreign aid commitment totals up Rs.150880.00millions including foreign loans Rs.88330.00 million and grants Rs.62550.00millions. In this period, of foreign aid commitment, the ratio of foreign grant and loans is 41 percent and 59 percent respectively. Such ratio was 22 percent and 78 percent in the corresponding period of previous fiscal year.

Being self-dependent in food and nutrition, and intending to transform the Nepalese agriculture in to business enterprise from its present position, friendly countries and international agencies have offered assistance in the form of technical equipment, management system, money and other related assistance respectively. The following

table depicts the funds devoted for being competitive and sustainable development of agricultural products:

Table 4.1 Fund Commitment by External Sources

(US\$ in '000')

	Bilateral	Multilateral	Total
Knowledge based Integrated.	20414	-	20414
Reducing Vulnerability and Increasing Adaptive Capacity for Sustainable livelihood in Agriculture sector in Nepal.	-	2689	2689
Local Crop Project.	-	2640	2640
Sindhuli Road corridor commercial agriculture promotion project.	500	-	500
Agriculture sector development program	-	900	900
Total	20914	6229	27143

(Source: Finance Ministry, 2018)

The table has been drawn from the publication of the finance ministry 'Statement of Technical and other Assistance F/Y 2017/18', from bilateral and multilateral sources. Knowledge based Integrated received highest amount of USD 20414 thousands committed by bilateral agencies. No amount was available from multilateral agencies.

Nepal is an active member of the global initiative for sustainable development and has been closely observing the negotiations concerning the Sustainable Development Goal (SDGs). To achieve the SDGs II, (End hunger, achieve food security and improved nutrition and promote sustainable agriculture), she asked to multilateral agencies with the program of 'Reducing Vulnerability and Increasing Adaptive Capacity for Sustainable livelihood in Agriculture sector in Nepal' has been attracted USD 2689 thousands from multilateral agencies. No amount was available for bilateral sources. Here is the least of fund USD 500 thousands has been offered to Sindhuli Road corridor commercial agriculture promotion project from bilateral sources. The total foreign assistance is USD 27143 thousands has been committed from bilateral and multilateral agencies. The ratio foreign assistance from bilateral is 77 percent while the ratio of multilateral is 23 percent respectively.

More than two third of the people are engaged in agricultural sector, government also believes that agriculture is an important sector to contribute to economic development and poverty reduction as well as to manage the increasing rate of unemployment in Nepal. Given more priority to this sector, government of Nepal has been implementing different types of project and plan to sustain the growth of agricultural sector. The contribution of agricultural sector (Agriculture, forest and fisheries) in total GDP is estimated to be 27.6 percent in F/Y 2017/18, which was 28.8 percent in previous fiscal year. The annual growth rate of agriculture in the basic price level is estimated to be 2.7 percent in the current fiscal year. (Economic Survey, 2017/18)

Doing so multilateral and bilateral agencies have to follow the government's priority areas policies enhancing the sector. The approach paper of fourteenth plan emphasizes on ensuring the food sovereignty and security of food and nutrition with aim of making competitive and self-dependent of agricultural sector through sustainable development and commercialization of this sector.

4.2 Resource Gap between Savings and Investment in Nepalese Economy:

Economic growth of a country primarily depends upon the investment that is possible only through saving which generates by optimal allocation of internal resources. The gap between level of investment and saving is so wide that is not possible for Nepal to achieve desire rate of growth if it is entirely dependent on its own saving. In this context foreign aid seems to be almost an indispensable condition for development and it is expected to fill the two gaps: saving investment gap and foreign exchange gap. When these two gaps improve, economic growth is sure to occur which could then be self-sustained.

Economic Survey, 2017/18 has shown that the availability of national saving that can be mobilised to fulfil the needs of investment is getting low. The ratio of gross national saving to GDP remains 43.9 percent in this fiscal year, which was 45.4 percent in the corresponding period of previous fiscal year respectively. And another part the investment to GDP ratio is estimated to remain at 51.8 percent in FY 2017/18. The gap between gross national saving to GDP and gross investment to GDP is expected to widen by 7.8 percent (negative) in this fiscal year.

Table 4.2.1 : Key Macroeconomic Indicators

Indicators	F/Y 2016-17	F/Y 2017-18
GDP growth	7.4%	5.89%
GDP	Rs.2642.59 bn	Rs.3007.24 bn
Per capita income	Rs. 92,031/-	Rs. 103,005/-
Gross national saving	Rs.1198.54 bn (45.4% of GDP)	Rs.1321.36 bn (43.95 of GDP)
Gross capital formation/investment	Rs1208.67 bn	Rs.1556.43 bn.
Gross Invest of GDP in percentage	45.7% of GDP	51.8% of GDP

Source: Economic Survey 2017/18

Nepalis' saving habit has not been improved, still ratio of consumes remaining 85 percent of their GDP and 15 percent of their income left to the saving account merely. The gap between gross domestic saving and gross investment has been widening for many years due to low savings in household, private and government sectors. In the first eight months of this fiscal year national current account deficit widened to Rs.153.96 billion. With this economic situation the foreign assistance is the only way to fulfil the needed economic resources in order to attain sustainable economic growth.

Table 4.2.2: Table of Resource Gap between Saving and Investment

Fiscal Year	Gross National Savings	Gross Capital Formation	At Current Prices
			Resource Gap Lending(+) / Borrowing(-)
1990/91	13879	25074	-11195
1991/92	19407	31619	-12212
1992/93	26984	39653	-12669
1993/94	33578	44644	-11066
1994/95	38101	55231	-17130
1995/96	38892	68017	-29125
1996/97	44831	71084	-26253
1997/98	48621	74728	-26107
1998/99	58648	70061	-11413
1999/00	70702	92272	-21570
2000/01	118798	98649	20149
2001/02	111181	93020	18161
2002/03	116998	105384	11614
2003/04	146268	131670	14598
2004/05	167451	155907	11544
2005/06	189858	175633	14225
2006/07	207876	208779	-903
2007/08	270952	247272	23680
2008/09	354466	313029	41437
2009/10	428354	456489	-28135
2010/11	506332	519268	-12936
2011/12	602868	526889	75979
2012/13	689662	632601	57061
2013/14	898479	808758	89721
2014/15	940302	831983	108319
2015/16	903800	763400	140418
2016/17	119854	120876	-1022
2017/18	132136	156543	-24407

Sources: Compiled from various issues of Economic Survey.

Since 1990 to 2000 the required national gross national saving has continuously been decreasing. The gap between saving and investment is positive since FY 2000/01 to FY 2005/06. But this trend does not go on continue in FY 2006/07 domestic saving have negative behind investment as well as continuously in two fiscal years in 2009/10 to the current fiscal year, the table shows that the domestic saving rate is increasing but at decreasing rate. This result definitely shows the dependency of our economy in the foreign aid either in the form of grant or in the form of loan.

4.3 Total Aid Inflow

Nepal first experience of foreign aid heralded by the Point Four Program agreement signed on 23 January 1951. The American Government's assistance of Rs 22,000.00 provided under President Harry Truman's Point Four Programme was soon followed by formal economic assistance from India in October in the same year. Thrust into prominence by its strategic position in the Himalayas fastness separating India and China, Nepal has attracted unusual attention from aid donors.

Appendix 1 shows the grants and loans received in different fiscal years from 1990 to 2018. During the pre-plan, first and plan holiday year (i.e. from FY 1950/51 to 1962/63) all assistance was entirely in the form of grants. It is only after the advent of the second plan, the loan component started to inflow in the country. Nepal started to receive loans from 60's initiated by United States of America and West Germany, to strengthen the Nepal Industrial Development Corporation (NIDC), which was set up to nourish private industries. Government of Nepal did not have any loan obligation to the international community in the early decades of its development process. Since second national plan, GoN has been increasing amount of loan, both in absolute amount and in its share in total aid, has been permanent phenomenon in Nepal.

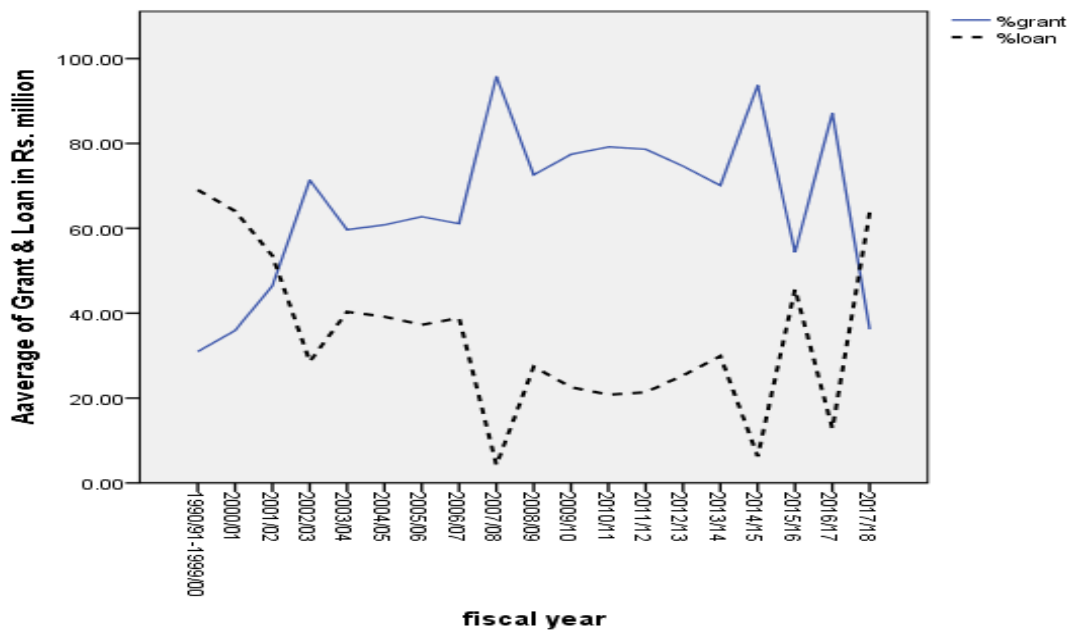
Table 4.3: Table of Average Aid Inflow in Nepal

Rs. in million

Year	Grant	Loan	Total	% Grant	% Loan
1990/91	1629.90	4360.00	5989.90	27.21	72.79
1991/92	1531.00	6269.40	7800.40	19.63	80.37
1992/93	3273.90	5961.70	9235.60	35.45	64.55
1993/94	2393.60	9163.60	11557.20	20.71	79.29
1994/95	3937.10	7312.30	11249.40	35.00	65.00
1995/96	4825.10	9463.90	14289.00	33.77	66.23
1996/97	5988.30	9043.60	15031.90	39.84	60.16
1997/98	5402.60	11054.50	16457.10	32.83	67.17
1998/99	4336.60	11852.40	16189.00	26.79	73.21
1999/00	5711.70	11812.20	17523.90	32.59	67.41
2000/01	6753.40	12044.00	18797.40	35.93	64.07
2001/02	6686.20	7698.60	14384.80	46.48	53.52
2002/03	11339.10	4546.40	15885.50	71.38	28.62
2003/04	11283.40	7629.00	18912.40	59.66	40.34
2004/05	14391.17	9266.13	23657.30	60.83	39.17
2005/06	13827.50	8214.31	22041.81	62.73	37.27
2006/07	15800.80	10053.50	25854.30	61.11	38.89
2007/08	20320.70	897.99	21218.69	95.77	4.23
2008/09	26382.80	9968.90	36351.70	72.58	27.42
2009/10	38546.00	11223.40	49769.40	77.45	22.55
2010/11	45922.20	12075.00	57997.20	79.18	20.82
2011/12	40810.30	11083.10	51893.40	78.64	21.36
2012/13	35229.80	11969.40	47199.20	74.64	25.36
2013/14	42205.80	17998.80	60204.60	70.10	29.90
2014/15	38291.40	2565.60	40857.00	93.72	6.28
2015/16	39544.00	33228.30	72772.30	54.34	45.66
2016/17	400819.30	59022.20	459841.50	87.16	12.84
2017/18	19913.00	35090.50	55003.50	36.20	63.80

Source: Economic Survey from FY 1990/91 to 2017/18.

Figure 4.3: Average of Loan & Grant Inflow in Nepal



Above table and Figure show that the trend of foreign aid as a composition of loan and grants inflow in various fiscal years. Share of loan is higher than the share of grant that goes up to fiscal year 1999/2000, But after FY 2001/02 the ratio of grant again outstrips to the loan. Above graph line explains that trend of foreign grant is increasing at increasing rate. Grant inflows in the country has been increasing and being huge gap between grant and loan up to fiscal year 2015/16 respectively.

Since FY 2008/09 change in political environment, peace agreement between Maoist and Government of Nepal, there was significant increase in total aid inflow in the country in various sectors of economy. After being optimistic environment in social, in economic and in political sector the foreign grant and loan increased. In FY 2014/15 the proportion of foreign grant is 94 times more than the proportion of loan due to in 25 April 2015 Nepal faced devastating earth-quake after that all political parties committed on stable government as well as Nepal government appealed to rebuild and reconstruct Nepal, and successfully hosted International Conference on Nepal's Reconstruction.

4.4 Sources of Foreign Aid

Prior to 1955, due to the several reasons are mainly political scenario, social and education backwardness and weakness of diplomatic powers, donors to Nepal were very few. India and USA occupied the first and second rank respectively and remained predominant in aid scenario. Membership in Colombo plan (1952), Non-Aligned movement (1955) and United Nation of Organisation (1955) widened the number of donor countries and agencies. Nepal began to receive aid from quite a few other sources, both bilateral and multilateral since the early sixties.

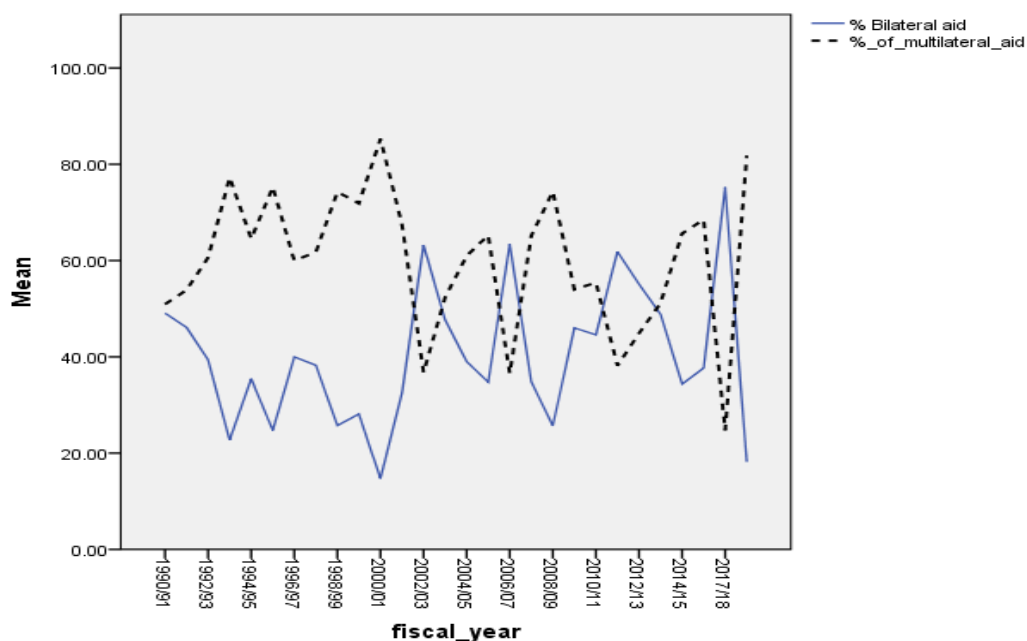
The bilateral donors refers to government of the donor countries or their representatives in Nepal as USAID of USA, GTZ of Germany, FINIDA of Finland, SDC of Switzerland, DANIDA of Denmark , JICA of Japan, governments of UK, INDIA, Peoples' Republic of China, Belgium etc. Multilateral donors include the international agencies like world Bank (WB) Asian Development Bank (ADB), International Monetary Fund (IMF) and the UN agencies like UNDP, FAO, WHO, UNESCO, UNFPA, UNHCR, UNV etc. There exist one more sources of foreign aid namely International non-government organization as CARE, UMN, OXFAM, HELVETAS, and International Nepal Fellowship. The following table shows the foreign aid from bilateral and multilateral sources.

Table 4.4 : Foreign Aid from Bilateral and Multilateral Sources

FY	Rs. In Million				
	Bilateral aid	Multilateral aid	Total aid	% of Bilateral aid to total aid	% of Multilateral aid to total aid
1990/91	2939.90	3050.10	5990.00	49.08	50.92
1991/92	3597.30	4203.10	7800.40	46.12	53.88
1992/93	3638.50	5597.10	9235.60	39.40	60.60
1993/94	2627.10	8930.10	11557.20	22.73	77.27
1994/95	3988.70	7260.70	11249.40	35.46	64.54
1995/96	3533.30	10755.70	14289.00	24.73	75.27
1996/97	6012.70	9019.20	15031.90	40.00	60.00
1997/98	6297.70	10159.40	16457.10	38.27	61.73
1998/99	4167.60	12021.40	16189.00	25.74	74.26
1999/00	4929.10	12594.80	17523.90	28.13	71.87
2000/01	2771.20	16026.20	18797.40	14.74	85.26
2001/02	4675.30	9709.50	14384.80	32.50	67.50
2002/03	10044.40	5841.10	15885.50	63.23	36.77
2003/04	9013.20	9899.20	18912.40	47.66	52.34
2004/05	9230.80	14426.50	23657.30	39.02	60.98
2005/06	7658.40	14383.40	22041.80	34.74	65.26
2006/07	16406.40	9447.90	25854.30	63.46	36.54
2007/08	10207.70	19092.90	29300.60	34.84	65.16
2008/09	9333.10	27018.60	36351.70	25.67	74.33
2009/10	22901.50	26867.90	49769.40	46.02	53.98
2010/11	25850.40	32147.30	57997.70	44.57	55.43
2011/12	32087.70	19805.70	51893.40	61.83	38.17
2012/13	26009.70	21189.60	47199.30	55.11	44.89
2013/14	29407.20	30797.40	60204.60	48.85	51.15
2014/15	21953.10	41953.90	63907.00	34.35	65.65
2015/16	20904.60	45442.80	66347.40	37.68	68.49
2016/17	16560.00	74485.50	91045.50	18.19	81.81
2017/18	17762.40	5844.80	23607.20	75.24	24.76

Source: Economic Survey, (FY 1990/91 to 2017/18).

Figure 4.4 : Trend of Foreign Aid inflow as a source of Bilateral and Multilateral



Above table and graph shed lights on the trend of sources of aid as a form of bilateral and multilateral. Graph explained that the major source of foreign aid of GoN is multilateral. Since fiscal year, 1990/91 Nepal entered into democratic country, then connected with the national, regional and international level of institutions and started to become as a member of their. Nepal has committed rule of law, system of good governance, ensured that value and right of private property. Government has liberalised all the economic activities as well as communication, transportation, education. By ensuring these mechanisms and playing as regulator, the multilateral grant has in flowed at increasing rate. But growing up multilateral aid did not goes to long term due to transitional phase of political environment, unstable of GON as well as leaders and top levels of bureaucratic persons could not play good political and economic policy. Under the unfavourable economic, political-social situation the multilateral aid is highly fluctuated since fiscal year 2003/04 until in FY 2013/14. After this fiscal year, the multilateral aid started at increasing rate and bilateral aid is vice versa.

Before fiscal year 2000/01, there was sustainable GON, national expenses on social sector and on public health sector as well as on environment sector have been increasing. At that time, moist party's civil war was in initial phase, that did not obstacle on GoN's activities totally. Government of Nepal got huge chunk of

multilateral grant by implementing sustainable development project, implementing of good governance programme as well as alleviation of poverty and protecting environment etc. After FY 2002/03 inflow of multilateral grant is in ups and down trend.

4.5 Commitment and Disbursement of Foreign Aid in Nepal

The constant is shortfall in disbursement against commitment in one of the feature of foreign aid in Nepal. Aid commitment shows the expression of the donors to provide financial support of specified purpose to the recipient country. On the other hand, aid disbursement is the actual transfer of financial resources from donor to recipient country.

Aid commitments and disbursement have never matched perfectly in case of Nepal. It is only the FY 1990/91, in which disbursement overflowed commitments. Except 1990/91, disbursement never fulfilled cent percent commitments. It may be due to delay in timely implementation of the foreign aided projects. i.e. they have low absorption capacity of foreign aid . The main reason behind the shortfalls in disbursement is the time lag because aid for the many project are committed to one year and the committed aid is being disbursed in the subsequent year. The capacity problem for the Nepali government to disburse the committed aid is ever since it began to receive foreign aid. The absorptive capacity of foreign aid is found to be during the period of 1976 to 2007. What this implies is that Nepal should ask for more assistance about % more than is required in order to complete the project run by foreign aid.

Table 4.5 : Status of Foreign Aid of Commitment and Disbursement of Foreign Aid in Nepal

Rs. in Million

Fiscal Year	Total Commitment	Annual % Change	Total Disbursement	Annual % Change	Disbursement as % of Commitment
1989/90	15830.00	0.00	6427.10	0.00	40.60
1990/91	5665.40	-179.42	5990.00	-7.30	105.73
1991/92	21084.10	73.13	7800.40	23.21	37.00
1992/93	20526.70	-2.72	9235.60	15.54	44.99
1993/94	13172.20	-55.83	11557.20	20.09	87.74
1994/95	12876.90	-2.29	11249.40	-2.74	87.36
1995/96	16537.30	22.13	14289.00	21.27	86.40
1996/97	39643.00	58.28	15031.90	4.94	37.92
1997/98	32022.10	-23.80	16457.10	8.66	51.39
1998/99	18352.50	-74.48	16189.00	-1.66	88.21
1999/00	20448.00	10.25	17523.90	7.62	85.70
2000/01	31287.00	34.64	18797.40	6.77	60.08
2001/02	33227.70	5.84	14384.80	-30.68	43.29
2002/03	43202.70	23.09	15885.50	9.45	36.77
2003/04	23738.00	-82.00	18912.40	16.00	79.67
2004/05	38152.30	37.78	23657.30	20.06	62.01
2005/06	20924.20	-82.34	22041.80	-7.33	105.34
2006/07	37022.90	43.48	25854.30	14.75	69.83
2007/08	49186.20	24.73	12200.60	-111.91	24.80
2008/09	47975.70	-2.52	36351.70	66.44	75.77
2009/10	96609.00	50.34	49769.40	26.96	51.52
2010/11	106096.70	8.94	57997.70	14.19	54.66
2011/12	98178.70	-8.06	51893.40	-11.76	52.86
2012/13	115156.80	14.74	47199.30	-9.95	40.99
2013/14	133445.00	13.70	60204.60	21.60	45.12
2014/15	225819.30	40.91	63907.00	5.79	28.30
2015/16	195598.70	-15.45	31972.30	-99.88	16.35
2016/17	250244.60	21.84	99841.50	67.98	39.90
2017/18	150879.70	-65.86	55003.50	-81.52	36.46

Source: Economic Survey, (FY 1989/90 to 2017/18).

The above table illustrates data of the total commitment of aid, total disbursement of foreign aid and disbursement as percentage of commitment. In FY 1989/90, the total commitment of grant was Rs.15830 million. Comparing with total commitment of grant only Rs.42710 million was disbursed which is 40.6% of committed amount. In 1990s, GoN accepted democratic political system, ensured rule of law and committed to build constitutions. GoN started to connect with regional and international level institutions. Being a member of those institutions GoN accepted huge amount of foreign grant and loan.

In accordance with above table shows that in each fiscal year total commitment aid is greater than the total disbursement aid. In FY 1990/91, total commitment amount is Rs.5665.40 million and total disbursement is Rs.5990 million, which is 106 % of disbursement as well as in fiscal year 2005/06 total disbursement share is 105.43%. In 2005 peace talk was successfully done between GoN and Maoist party, committed to make constitutions of Nepal.

Whereas change in governance system, people got their basic right and implementing liberalization system and accepting democracy rule and law GoN could not disbursed foreign grant totally. From table 4.4 we can conclude that foreign grant commitment is increasing at increasing rate but disbursement amount is decreasing steadily

In FY 2007/08 Rs.12200.46 million was disbursed including bilateral and multilateral grant and loan. In this fiscal year total foreign commitment aid was increased by 32.85 per cent but the total disbursement was decreased by 52.81percent. In the fiscal year 2009/10 the total commitment of the foreign aid was dramatically increased by 101.37 per cent. But the total disbursement was only 51.52 per cent. The following traditions represent that commitment aid was increased at increasing rate but the disbursement could not increase as we expect on.

The fluctuation of aid commitment and disbursement shows the poor performance in the foreign aid absorption capacity of Nepal. Thus the problem in their respect basically lies with utilization rather than with mobilization of external assistance. Committed amount are not disbursing due to the weak institution arrangement for project implementation, highly centralized decision making process, rigidity in terms

of financial rules and regulation, delays in hiring staffs including consultant, weak negotiating power, political instability.

4.6 Sectorial Allocation of Foreign Aid

The flow of foreign aid depends upon the priority of the receiving country if the aid is to attach with strings. Nevertheless, the strategic interests of the donor countries sometimes play the dominant role for sectoral composition of foreign aid. The sectoral priority attached by the Nepalese government in each successive development plan shows that more than 30% of the resources estimated were invested in transport, communication and power generation projects. In addition, virtually most of these projects were implemented through the financial and technical assistance from donor agencies. However, in the case of neighbouring countries such as India and China, certain road projects having strategic importance were proposed by them and accepted by Nepal. Other donors which have no strategic interests in Nepal, however political, inconspicuously provided aid for institution building and agriculture sector.

Table 4.6 : Sectorial Allocation of Foreign Aid in Nepal

Rs. in Million

Fiscal Year	Total Aid Disbursement	Agriculture, Irrigation and environmental protection	Transport , power & energy, Communication	Industry and Commerce	Public Service	Others
1990/91	5990.00	1253.20	2575.60	1390.90	667.90	102.40
1991/92	7800.40	1945.40	2485.10	2174.30	1191.60	4.00
1992/93	9235.60	2927.40	2939.60	696.90	2667.60	4.10
1993/94	11557.20	5519.10	4169.40	389.90	1468.60	10.20
1994/95	11249.40	3462.40	4574.90	480.30	2680.10	51.70
1995/96	14289.00	3399.60	8052.70	15.90	2636.20	184.60
1996/97	13079.50	3927.50	4504.50	234.10	4298.00	115.40
1997/98	16457.10	2852.10	8989.60	198.10	4417.30	0.00
1998/99	16189.00	3383.90	7892.20	404.70	4446.40	61.80
1999/00	17523.90	3209.80	8159.30	298.50	5794.00	62.30
2000/01	18797.40	3774.80	9235.10	19.90	5585.80	181.80
2001/02	14384.80	3285.80	5905.70	368.70	4685.80	138.80
2002/03	15885.50	2177.90	7774.10	401.20	5321.00	211.30
2003/04	18912.40	2429.60	7570.80	146.80	8730.10	35.10
2004/05	23657.30	2595.70	9860.00	123.90	10746.80	330.90
2005/06	22041.80	2396.30	7142.50	105.30	11102.10	1295.60
2006/07	25854.30	3721.50	6661.90	116.80	15181.00	173.10
2007/08	29300.50	3859.20	6709.50	78.70	18193.10	460.00
2008/09	36351.70	2291.20	6297.70	160.70	24695.70	2906.40
2009/10	49769.40	3080.90	11793.20	380.00	33025.30	1490.00
2010/11	45918.00	2941.50	11041.60	5172.10	24382.60	2804.50
2011/12	43510.30	3545.40	6217.10	2701.10	29143.50	2925.20
2012/13	35230.00	3472	5449.80	2576.30	22384.40	2095.60
2013/14	42188.30	6571.3	8663.10	1939.30	23823.20	2478.40
2014/15	38124.30	6474.30	8230.50	4006.80	18823.60	1638.20
2015/16	24830.800	8171.60	6183.00	3760.40	7045.30	763.10
2016/17	28032.500	9628.30	7912.80	8000.50	4943.70	644.50
2017/18*	39875.200	4207.80	1083.70	32983.50	2828.40	575.70

Source: Economic Survey, (FY 1990/91 to 2017/18).

The table 4.6 shows the year -to-year fluctuation in sectorial distribution of foreign aid in different sectors. In FY 1990/91 GoN got total disburseable grant Rs.5990.00 million. GoN disbursed Rs.1253 million on agriculture, irrigation and environment protection sector i.e. 21 percent of the total disburseable grant. Likewise transportation, energy and communication sector received largest chunk of grant as Rs.2575.60 million i.e. 45 percent of the total disburseable grant as well as foreign grant disbursed on industry and commerce sector Rs.1390.90 million i.e. 23.22 percent of the total grant. Social service sector and other remaining sector received 667.90 million and 103.40 million respectively. Foreign aid has disbursed on each sector at constant level from fiscal year 1990/91 to 2004/05, share of aid for all sectors have been increasing at increasing rate up to FY 2004/05 after this fiscal year GoN gave prioritisation on social service sector (education, health, etc) and transportation, energy and communication sectors. The largest chunk of disburseable grant disbursed on this two multiple sectors and the share of agriculture and commerce has been decreasing at constant rate respectively.

From table 4.6 described that large chunk of total foreign aid has disbursed of social service and transport power and communication sectors. So, far as agriculture sector is concerned, slowly moving up to 48% in 1993/94 (as the government gave more priority to improve agriculture sector), the share of aid received by agriculture sector began to fall and reached to just 5.80% in 2011/12, i.e. this sector only obtained Rs.2517 million respectively. .

From FY 2010/11 Government of Nepal used new format to publish the sector wise annual aid disbursed and presents the actual amount of disbursed. The data shows that Economic Affairs got 46.32% of the total disburseable grant, Education sector received 18.55%, General Public service 14.22% and other sectors got 14.18%. In FY 2014/15, FY 2015/16 shows that Economic Affair, Environmental Protection sector, Health and Education sectors are receiving highest percentage as compared to the others sectors. (Economic Survey of Nepal 2015/16).

The sector wise annual aid disbursement indicates that the percentage share of agriculture in the seventies was very little as compared to transportation and communication even social services sector for some years. Only when the condition

of food shortage occurred had then Government of Nepal shifted its development priority from infrastructure on agricultural sector (around 17% of the disbursed aid in the late seventies to 89% by the early eighties). As the development strategy was shifted from heavy projects to agriculture sector because of the slogan of food self-sufficiency, the share of transport and communication was taken over by the agriculture sector. However, the increase in the share of agriculture sector was not impressive. The volume of aid in agriculture sector went up from Rs. 125.1 million (which is 24% of total aid) in 1976 to 599.2 million (which is 29% of total) in 1993. (Journal of food sufficiency, (2002). Ministry of Agriculture and Development of Nepal. The massive increase was in the agriculture and irrigation. The share of agriculture has increased further in the subsequent years because of the possible imbalance between population growth and food production and also due to the sectorial imbalance between infrastructure and agricultural sectors.

4.7 Foreign Aid Inflow to the Agriculture Sector

Like other south East Asian countries, agriculture by almost every measure, is the pre-dominant industry in Nepal. It is the backbone of the Nepalese economy occupying a place of pride in the field of national income, livelihood, employment, industrial development and international trade. Due to these facts Nepal has given top priority for the development of agriculture sector since 1980. But highest assistance had disbursed to the transport, power and communication. Nepal's aid procurement policy is guided by the five year plans priorities and there is no hard and fast rule as such which restricts many areas for aid procurement. The objectives of donor countries and aid receiving country usually conflicts to each other, more precisely, the objectives of the donors and their priorities differ from those of Nepal because each donor has its own objectives and priorities.

The following table shows the ratio of total inflow of foreign aid to total GDP and ratio between agriculture aid to agriculture GDP.

Table 4.7: Ratio of Agriculture Aid to Agriculture GDP

Rs. in million

Fiscal Year	Foreign Aid	GDP at PP	Foreign Aid to GDP ratio	Agriculture Aid	Share of Agriculture to GDP	Ratio of Agriculture aid to GDP
1990/91	8421.5	120370.3	7.00	1253.2	55386	2.26
1991/92	8460.7	149487.1	5.66	1945.4	65156	2.99
1992/93	10714.2	171473.9	6.25	1927.4	70090	2.75
1993/94	11557.2	199272	5.80	5519.1	80589	6.85
1994/95	11249.4	219175	5.13	3462.4	85569	4.05
1995/96	14289	248913	5.74	3399.6	96896	3.51
1996/97	15031.9	280513	5.36	2827.5	108785	2.60
1997/98	16457.1	300845	5.47	2852.1	112495	2.54
1998/99	16189	342036	4.73	3383.9	132373	2.56
1999/00	17523.9	379488	4.62	3209.8	145131	2.21
2000/01	18797.5	441518	4.26	3774.8	151059	2.50
2001/02	14384.8	459443	3.13	3285.8	160144	2.05
2002/03	15885.6	492230	3.23	2177.9	171104	1.27
2003/04	18912.4	536749	3.52	2429.6	183357	1.33
2004/05	23657.3	589412	4.01	2595.7	199368	1.30
2005/06	22041.8	654054.5	3.37	2396.3	211704	1.13
2006/07	25854.3	727827	3.55	3721.5	226823	1.64
2007/08	29300.5	815658	3.59	3859.2	247191	1.56
2008/09	36351.7	988272	3.68	2291.2	309553	0.74
2009/10	49769.4	1192774	4.17	3080.90	395755	0.78
2010/11	57997.8	1366954	4.24	2941.50	478149	0.53
2011/12	51893.4	1527344	3.40	3545.40	506284	0.50
2012/13	47199.3	1695011	2.78	3472	534515	0.51
2013/14	60204.6	1964540	3.06	6571.3	594610	0.89
2014/15	63907	2130150	3.00	6474.30	625900	0.87
2015/16	72772.3	2253164	3.23	8171.60	656779	1.08
2016/17	99841.5	2642595	3.78	9628.30	693439	0.94
2017/18 *	55003.5	3007246	1.83	4207.80	750760	0.32

Source: Economic Survey, (FY 1990/91 to 2017/18).

The above table portrays that the ratio of total foreign aid inflow to GDP is increasing rate but the share of assistance to agricultural sector has been receiving at constant rate. Most of the fiscal year agricultural sector got less than 3 percent out of the total foreign assistance. Being the agrarian economy, Agriculture sector is being the most priority sector in the every periodic plan but due to different factors the contribution of agriculture sector in total GDP is decreasing each and every fiscal year.

4.8 Impact of Foreign Aid on Agricultural Sector.

Being an agrarian economy with 18.7% people living below poverty line, population engaged in agriculture profession is around two third of the total population. In FY 2017/18, the share of the agriculture sector in GDP stood at 27.6 percent, while that of non-agriculture sector was 72.4%. The share of agriculture sector in GDP has been in declining trend in the last 15 years. Such share was 34.30% on average during the period from FY 2002/03 to FY 2006/07 and declined to 34.1% in next consecutive five years (FY 2007/08 to FY 2011/12). It was declined further to 31.4% in subsequent five years period from FY 2012/13 to FY 2017/18 respectively. The size of GDP is small, growth rate is decelerating, and GNI per capital is conspicuously low. Nepal's small economy is excessively dependent on Indian economy. The major issue facing Nepalese economy is how to escape from poverty trap or low level equilibrium trap, and accelerate economy towards a great leap forward by attaining sustainable high economic growth rate.

Agriculture sector is the foundation of Nepalese economy. Geographically diversity is one of the major characteristics of Nepal, which has afforded a divers and immense potential in the agriculture sector. But it is to noted that agriculture so far practiced in Nepal remains primarily subsistence oriented.

Achievements made in agriculture development in the past have not been much satisfactory. Despite the top priority accorded to agriculture sector, it has not developed as expected. Analysis suggests that inadequate investment diffusion of investment within the agricultural sector in the absence of proper prioritisation and insufficient availability of production materials in the market due to weak sectoral policies related to agriculture have mainly been responsible for the failure of

significantly increase agricultural production and productivity. Since the growth rate of agriculture sector has slackened and moved forward only at par with the growth rate of population, the agriculture's share in the GDP has been enormous. An average annual economic growth rate of agriculture sector was estimated to be 3.3 percent as against the target of 4% during the period of the Ninth plan. The average growth rate of 4.1% per annum was the target of the tenth plan while the average growth rate of 5.56% per annum is targeted for The Three Year Interim Plan (2007-2010).

The main reasons behind the low economic growth rate in agriculture sector are less than expected investment in agriculture sector, lack of adequate policy drive to lessen undue interventions from public sector, lack of prioritisation and commercialisation, less attention in appropriate infrastructure and lack of credit. Nepal being capital deficient country and low saving ratio, to address the problem existing in agriculture sector, domestic resource mobilization is not sufficient enough and it needs foreign aid for its development and consequently development of overall economy. As Nepal's per capita income is one of the lowest in the world. However, if resources effectively mobilized and directed to productive invest, required level of development may not be substantially achieved. An additional foreign capital can be most beneficial when the combined utilization of domestic and external financial resources result in a high rate of investment.

The data exhibits that there is a significant gap between saving and investment in Nepal. A substantial portion of Nepal's development expenditure is met by foreign aid. The foreign aid policy of GoN is committed to improving disbursement of foreign aid through various ways. The policy has also emphasized that foreign aid would be considered as an additional to domestic resources to accelerate growth and poverty reduction. Nepal's various periodical plan absorbed the larger volume of foreign aid. The development expenditure in each periodic plan was heavily financed by foreign aid as high between 44.0 percent and 77.0 percent. The total aid to Nepal up to 2007/08 levelled to Rs. 344694.35 million.

The aid absorptive capacity of Nepal is found to be unpredictable. The volatile characteristics of absorptive capacity of foreign aid to Nepal suggest that this was due to delay in factors emanating from diverse channels. The complicated procedures in finalizing things, difficulty in timely procurement of equipments and components,

findings suitable contractors, internal disturbances and administrative inefficiency appear to be the major hurdles in the timely completion of the foreign aided projects. In addition, the priorities of donors, their interest and complexities have also been attributed to low absorptive capacity of aid in Nepal.

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 in GDP is positive and similarly role of agricultural aid to agriculture GDP is positive.

4.9 Empirical analysis of Total Foreign Aid Inflow on Total GDP and Amount of Foreign Aid Received in Agricultural Sector

This subtitle intends to analyze the role of total and impact of total Foreign Aid to the total gross domestic product (GDP) of Nepal and total amount received to the agricultural development. As well as we analyze the effectiveness of actual assistance allocated to the agricultural sector. All the data in the analysis are taken from various economic surveys, data reserved in AMP (Aid Management Platform) software in Foreign Aid Coordination Division, of Nepal. All regression lines in this chapter are conducted by using Eviews 10 Student Version.

Table 4.9.1 Analyzing the Impact of Total Foreign Aid Inflow on GDP

Dependent Variable: GDP_AT_CURRENT_PRICE
Method: Least Squares
Date: 08/28/19 Time: 12:52
Sample (adjusted): 2 28
Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TOTAL_FOREIGN_AID	1.674469	0.867563	1.930084	0.0655
C	-7726.152	13315.68	-0.580230	0.5672
GDP_AT_CURRENT_PRICE(-	1.058309	0.031831	33.24785	0.0000
R-squared	0.997196	Mean dependent var		863573.9
Adjusted R-squared	0.996963	S.D. dependent var		721799.8
S.E. of regression	39779.09	Akaike info criterion		24.12451
Sum squared resid	3.80E+10	Schwarz criterion		24.26849
Log likelihood	-322.6809	Hannan-Quinn criter.		24.16732
F-statistic	4268.231	Durbin-Watson stat		1.551852
Prob(F-statistic)	0.000000			

Interpretation of the result: the coefficient of total foreign aid bears the positive sign which is statistically significant at 10 percent level of significance. As shown in table above, 1 percent increases in foreign aid leads to 1.67 percent increase in GDP at current price. The coefficient of constant is negative (i.e, -7726.152) but it is statistically insignificant implies that though there are other variables which have negatively impacted on GDP at market price, but their effect are insignificant.

The F- statistics is statistically significant at less than 1 percent level of significance which indicates the models are good. R-squared is more than 99 percent and the adjusted R-squared is also more than 99 percent which shows that the model is best fitted.

For the efficient estimation, model should be free from serial autocorrelation. Basically, the serial correlation of D-W test shows that the condition of the acceptance of the null hypothesis means these models are free from serial correlation.

Table 4.9.2 Analyzing the Impact of Total Foreign Aid Inflow in AGDP Growth

Dependent Variable: SHARE_OF_AGRICULTURE_GDP_TO_GDP
 Method: Least Squares
 Date: 08/28/19 Time: 12:54
 Sample (adjusted): 2 28
 Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGRICULTURE_AID	-4.044852	2.865547	-1.411546	0.1709
C	16376.91	8858.531	1.848716	0.0769
SHARE_OF_AGRICULTURE_GDP_TO_	1.090292	0.023766	45.87636	0.0000
R-squared	0.993279	Mean dependent var		296456.3
Adjusted R-squared	0.992719	S.D. dependent var		221608.5
S.E. of regression	18909.32	Akaike info criterion		22.63714
Sum squared resid	8.58E+09	Schwarz criterion		22.78112
Log likelihood	-302.6013	Hannan-Quinn criter.		22.67995
F-statistic	1773.519	Durbin-Watson stat		1.203833
Prob(F-statistic)	0.000000			

Table 4.9.2 Implied that the coefficient of total foreign aid bears the negative sign which is statistically significant at 10 percent level of significance. Coefficient of total foreign aid to Agricultural sector is negative (i.e., -4 percent), Which implies that there is inverse relationship between foreign aid and growth of agricultural sector. Emperical evidence shown that if Foreign Aid increases at 1 percnet would decrease the agricultural production by 4 percent. However appearing inverse correlation between aid and growth of agricultural sector, the coefficient of constant variable is positive (i.e., 16376.91), it is statistically significant implies that others variable have positively influenced on agriculture production such as, Government of Nepal has launched long term plan and projects, GoN has been providing subsidies and facilities to the farmers. As well as being fovourable monsoon, Improved in Tecnology, developed of irrigation sources, available of Agricultural Credit facilities have also played positive role on increasing agricultral production.

The F- statistics is statistically significant at less than 1 percent level of significance which indicates the models are good. R-squared is more than 99 percent and the adjusted R-squared is also more than 99 percent which shows that the model is best fitted. For the efficient estimation, model should be free from serial autocorrelation. Basically, the serial correlation of D-W test shows that the condition of the acceptance of the null hypothesis means these models are free from serial correlation.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Foreign aid is considered a key factor in enhancing competitiveness of development projects and expediting economic activities especially in least development countries like Nepal. Economic growth depends on the investment that is possible through increasing in gross national saving which is generated by optimal allocation of internal resources. Looking at the economic scenario of Nepal the gap of gross national saving-investment remained 8 percent of the GDP (FY, 2017/18). This scarce of investment can be fulfilled by obtaining the foreign assistance. The share of foreign aid (Grant & Loan) is 22 percent of the total national budget. The public resources share of agricultural sector on total national budget is fluctuating over the years. In FY 2017/18 GoN has allocated 10 percent (i.e. Rs.81326.899 million) of the total national budget for enhancing agriculture, forestry, fishing and hunting sectors. Government has allocated Rs.81326.899 million from internal sources and remaining sources was leaved for external sources as form of foreign grant and loans. The deficit of the budget will be fulfilled from foreign grant and loan as Rs.5965.945 million, 12422.688 million respectively (Budget Speech, 2017/18). Capital is a crucial factor in these countries to develop the economy but this capital is scarce in the developing countries. Therefore foreign aid can helps in economic growth of those poor countries by meeting this requirement. It also helps the least developed countries in their endeavour for development by providing the necessary modern technology.

It is effort to present on empirical analysis of foreign assistance and its role on the growth of AGDP and impact on total GDP of Nepal. As mentioned in chapter three, the regression equations are used to find the relationship between dependent variable (as total GDP of Nepal and actual share of agricultural gross value added on GDP of Nepal) and independent variable (total foreign assistance inflow in form of grants and loans and actual foreign assistance received by Agricultural sector). The basic starting point is the examination of relationship between GDP and the total foreign aid inflow in Nepal. Then AGDP is regressed with agricultural aid, examine the relative

effectiveness and utilization of foreign aid in agriculture. For this objective, 28 fiscal years data has been taken between FY 1990/91 to 2017/18.

The empirical evidence of analysing the role of foreign aid in national GDP has been positively affected, which is statistically significant at 10 percent level of significance. As shown in table 4.9.1, 1 percent increases in foreign aid leads to 1.67 percent increase in GDP at current price. The coefficient of constant is negative (i.e. -7726.152) but it is statistically insignificant implies that though there are other variables which have negatively impacted on GDP at market price, but their effect are insignificant. The F- statistics is statistically significant at less than 1 percent level of significance which indicates the models are good. R-squared is more than 99 percent and the adjusted R-squared is also more than 99 percent which shows that the model is best fitted. For the efficient estimation, model should be free from serial autocorrelation. Basically, the serial correlation of D-W test shows that the condition of the acceptance of the null hypothesis means these models are free from serial correlation

Similarly this study tries to analyse the effectiveness of foreign assistance on AGDP growth. The research found that coefficient of total foreign aid to Agricultural sector is negative (i.e., -4 percent), Which implies that there is inverse relationship between foreign aid and AGP growth. Emperical evidence shown that if Foreign Aid increases at 1 percnet would decrease the agricultural production by 4 percent. However appearing inverse correlation between aid and AGDP growth the coefficient of constant variable is positive (i.e., 16376.91), it is statistically significant at 10 percent level of significance implies that other variables have positively influenced on agriculture production such as, Government of Nepal has launched long term plan and projects, GoN has been providing subsidies and facilities to the farmers. As well as being fovourable monsoon, Improved in Tecnology, developed of irrigation sources, available of Agricultural Credit facilities have also played positive role on increasing agricultral production.

The F- statistics is statistically significant at less than 1 percent level of significance which indicates the models are good. R-squared is more than 99 percent and the adjusted R-squared is also more than 99 percent which shows that the model is best fitted. For the efficient estimation, model should be free from serial autocorrelation.

Basically, the serial correlation of D-W test shows that the condition of the acceptance of the null hypothesis means these models are free from serial correlation.

5.2 Conclusion

Foreign assistance serves as an important source of fund for least developed and developing countries. We can get so many views and arguments as well as research report over the period on whether aid has been strictly utilized efficiently for the economic up-liftment and growth of the recipient countries. Nepal is one of the least developed countries. Its annual economic growth has remained 4.3 percent on an average in the last decade. According to economic survey 2017/18, the gap between gross national saving and gross investment of GDP expected to remain 8 percent. Nepalese economy is also called as agrarian based economy, more than two third of people are engaging into this sector but its contribution to GDP is insufficient (i.e. less than 4 percent). The role of agriculture and forestry is decreasing and other sectors as industry and services sectors have been contributing more than 45 percent respectively.

In 1951 Nepal signed in Point Four Program, was sponsored by USA with amount of Rs.22000.00 following this, China, USSR, Japan and other countries also appeared in foreign assistance program.

Being agrarian based economy, Nepal has been receiving foreign grant and loan for various types of projects such as construction of irrigation, to protect and expand the forest area, to commercialize the agricultural sectors, to connect the agricultural sector with road and market, as well as to develop new technology etc. Therefore, it is necessary to analyse the role of foreign aid in agriculture development of Nepal.

Using simple regression model (OLS), the effect of foreign aid on the agriculture development of Nepal has been examined. The empirical work has been performed taking time series data from FY 1990-2018. The result for the effectiveness of foreign aid in change in GDP of Nepalese economy has shown that the positive effect on GDP growth. But the result for the actual foreign assistance to the agricultural sector and changing in its production has beard negative effect. Aid effectiveness increases when the macroeconomic indicators show an improvement resulting in an enhanced economic situation. There is a negative impact of aid on agricultural GDP, which is

because of ineffective monitoring, problems related to aid management and aid conditionalities.

Existing fiscal policies, Agriculture Development Strategy (2072-2092BS) as well as Development Cooperation Policy, 2014 are the regulators mechanism and supportive on positive aid effective aid effectiveness. However, prevailing trade policy is negatively effectiveness of aid due to extremely increased trade deficit. The current status of higher trade deficit in the economy is impending foreign aid to be utilized in targeted sector.

The concluding remark, the current situation of low rate agricultural production and most of the foods productions are imported from India and other third countries that leads to higher trade deficit. Existing of higher trade deficit disrupts foreign aid to be utilized in the targeted sectors and programs and to achieve its designated goals. The policy have to be reviewed so that the existing size of ever-increasing trade deficit reduces. The trending of import of agricultural products from other countries should be replaced domestic products. Foreign aid should be monitored strictly in order that its goal and targeted is fulfilled.

5.3 Recommendations

Based on the findings of the study various recommendations have been mentioned below.

5.3.1 Recommendation for Government

- i. The empirical evidence of the annex III of the growth of agricultural GDP on the foreign assistance has shown inverse relationship (i.e. coefficient of foreign aid is negative while the coefficient of agricultural DGP is positive) that bears the allocated foreign assistance are mostly reached to the targeted group of the farmers. Thus the government should be strictly monitored and effectively mobilized the assistance in order to get its positive vibration on the GDP.
- ii. Provided foreign assistance should be alignment with the line of annual budgeting, the vision of Agriculture Development Strategy as well as the aim, target and vision of the national periodic plan.

- iii. Transparency, Financial Accountability, Good Governance and E-Governance are the pillars of the democracy. These mechanisms should be used while disbursed the foreign aid.
- iv. Government should enhance the efficient human resources for implementing the designed project and programme which are sponsored from the foreign aid.
- v. Local capacity building should be given topmost priority by giving preference to domestic rather than foreign consultants and contractors to strengthen national human resource.
- vi. Foreign assistance should be disbursed thus programs and project which could be enhanced to diminishing national level poverty, the increasing rate of unemployment and the extreme trade deficit.
- vii. Foreign aid which being accepted, if it push up the national macroeconomic as well as should be motivated towards long run benefit for the country and national own interest.

5.3.2 Recommendations for Donors

- i. Donors should reform the current trend of allocating aid towards addressing of existing Development Cooperation Policy 2014 and the others related national priority and interest.
- ii. Donors should initiate to formulate development programs prioritizing the need of target group. They should emphasize on participatory approach while implementing these programs for effecting result.
- iii. Donors should divert the aid from other non-productive sectors to agriculture as it is the major backbone of Nepalese economy.
- iv. Selected projects should be implemented with full commitment so that it can generate sufficient resources to pay back the loan.

REFERENCES

- Acharya, K.P (1998). *A review of foreign aid in Nepal*. Kathmandu, Nepal: Citizen's Poverty Watch Forum.
- Action Aid (2002). *A Brief Review of Foreign Aid in Nepal*, Citizens' Poverty Watch Forum (CPWF) and Action Nepal.
- Bhattarai, B. (2008). Foreign Aid and Growth in Nepal. An empirical Analysis. *The Journal of Developing Area*. Vol.42. 283-302.
- Easterly, W. (2003). Can Foreign Aid Buy Growth? *Journal of The Journal of Economic Perspectives* .Vol. 17, No. 3 pp. 23-48. Retrieved <https://www.jstor.org/stable/pdf/3216821>.
- Galiani, S., Knack, S., Xu, C.L. & Zou, B. (2016). *The Effect of Aid on Growth: Evedence from a Quasi-Experiment*. Retrieved <https://www.nber.org/papers/w22164>.
- George, W.N., Ortiz, J. and Pardey, P. G. (1992). The Impact of Foreign Assistance of Agricultural Growth. *Journal of Economic Development and Cultural Change*. Vol.41(4),775-786. Retrieved <http://www.jstor.org>
- Hossain, B. (2014). The Effect of Foreign Aid on The Economic Growth of Bangladesh. *Journal of Economics and Development Studies*. Vol.2(2), 93-105. Retrieved <http://jedsnet.com>.
- Kabete, N. C. (2008). *Foreign Aid and Economic Growth: The Case of Tanzania*. An Unpublished Master's Degree Submitted faculty of Arts in Development Studies.
- Karkee, R., Comfort, J. (2016). NGSs, Foreign Aid and Development in Nepal. *Journal of Frontier in Public Health*. Vol.4. 177, Retrieved, <https://dx.doi.org//10.3389/fpubh.2016.00177>
- Karna, S. (2007). An Inflow of Foreign Aid in Nepal. *Economic Journal of Nepal*. Vol.30(4), PP.201-214.
- Khadka, N. (1991). *Foreign Aid, Poverty and Stagnation in Nepal*. New Delhi: Vikash Publishing House.

- Khadka, N. (1997). Foreign Aid to Nepal: Donor Motivation in The Post-Cold Period. *Journal of Asian Survey*. Vol.37(11). 1044-1061, Retrieved <http://dx.doi.org/10.3207.2645740>.
- MOAD. (2072). *Agricultural Development Strategy, (2072-2092BS)*. Ministry of Agriculture Development, Singhadarbar, Kathmandu.
- MOF. (2002). *Foreign Aid Policy, 2014*. Ministry of Finance, Singhadarbar, Kathmandu
- MOF. *Various Economic Survey* from 1990/91 to 2017/2018. Ministry of Finance, Singhadarbar, Kathmandu.
- NPC, (2015/16 - 2018/2019). *The Forteenth Year Interim Plan*. Nepal Planning Commission, Singhadarbar, Kathmandu.
- Papanek, F. G. (1873). Aid, Foreign Private Investment, Saving and Groth in Less Developed Countries. *Journal of Political Economy*. Vol.81(1), 120-130.
- Paudyal, S. R. (1988). A Review of Foreign Aid in Nepal. *Citizen's Poverty Watc Forum*. Retrieved, <http://nks.org.np>.
- Poudyal, S. (1982). Foreign Aid in Nepal. Analysis of Structure, Motive and Impact. *The Journal of Development and Administrative Studies*. Vol.4(1)&(2). 179-214. CEDA Tribhuvan University.
- Pyakuryal, B., Adhikari, D. & Dhakal P.D. (Ed.)(2008). Is Foreign Aid Working? *An Analysis of Aid Effectiveness and Growth*. Kathmandu: Mandala Book Point. Vol.13(2), 405-410.
- Rajan, G. R. & Subramanian, A. (2005). Aid and Growth: What Does the Cross-Country Evidence Really Show? *IMF Working Paper*, No. 05/127 Retrieved <https://ssrn.com>.
- Sachs, J. (2005). *The End of Poverty: Economic Possibilities for Our Time*. New York: Penguin Press.
- Sachs, J. (2008). *Common Wealth: Economics for a Crowded Planet*. New York: Penguin Press.

Sachs, J. (2015). *The Age of Sustainable Development*. New York: Columbia University.

Sigdel, B. D. (2010). *Dimension of Nepalese Economy*. Nepal: Human Action for Rapid Development.

APPENDICES

Appendix - I

Total Aid Flow in Nepal

Year	Grant	Loan	Total	Percentage of Grant	Percentage of Loan
1990/91-1999/00	4,019.68	8,969.72	12989.4	30.95	69.05
2000/01	6,753.40	12,044.00	18797.4	35.93	64.07
2001/02	6,686.20	7,698.60	14384.8	46.48	53.52
2002/03	11,339.10	4,546.40	15885.5	71.38	28.62
2003/04	11,283.40	7,629.00	18912.4	59.66	40.34
2004/05	14391.17	9266.13	23657.3	60.83	39.17
2005/06	13827.5	8214.31	22041.81	62.73	37.27
2006/07	15800.8	10053.5	25854.3	61.11	38.89
2007/08	20320.7	897.99	21218.69	95.77	4.23
2008/09	26382.8	9968.9	36351.7	72.58	27.42
2009/10	38546	11223.4	49769.4	77.45	22.55
2010/11	45922.2	12075	57997.2	79.18	20.82
2011/12	40810.3	11083.1	51893.4	78.64	21.36
2012/13	35229.8	11969.4	47199.2	74.64	25.36
2013/14	42205.8	17998.8	60204.6	70.1	29.9
2014/15	38291.4	2565.6	40857	93.72	6.28
2015/16	39544	33228.3	72772.3	54.34	45.66
2016/17	400819.3	59022.2	459841.5	87.16	12.84
2017/18	19913	35090.5	55003.5	36.20	63.80

Economic Survey from FY 1990/91 to 2017/18.

Appendix II

Ratio of total Aid Inflow and Total GDP with Agriculture Aid and Agriculture GDP

Fiscal Year	Total Foreign Aid	GDP at current price	Agriculture Aid	Share of Agriculture GDP to GDP
1990/91	5990.0	116127	1253.2	55368
1991/92	7800.4	144933	1945.4	65156
1992/93	9235.6	165350	1927.4	70090
1993/94	11557.2	191596	5519.1	80589
1994/95	11249.4	209976	3462.4	85569
1995/96	14289	239388	3399.6	96896
1996/97	15031.9	269570	2827.5	108785
1997/98	16457.1	289798	2852.1	112495
1998/99	16189	330018	3383.9	132373
1999/00	17523.9	366251	3209.8	145131
2000/01	18797.5	413429	3774.8	155625
2001/02	14384.8	430397	3285.8	166090
2002/03	15885.6	460325	2177.9	172803
2003/04	18912.4	500699	2429.6	186125
2004/05	23657.3	548485	2595.7	199368
2005/06	22041.8	611118	2396.3	211704
2006/07	25854.3	675859	3721.5	226823
2007/08	29300.5	755262	3859.2	247191
2008/09	36351.7	909528	2291.2	309553
2009/10	49769.4	1083415	3081	391519
2010/11	57997.8	1248482	2941.5	478149
2011/12	51893.4	1387482	3545.4	506284
2012/13	47199.3	1525221	3472	534515
2013/14	60204.6	1758738	6571.3	594610
2014/15	63907	1899089	6474.1	625900
2015/16	72772.3	1993560	5571.6	656779
2016/17	99841.5	2307586	9628.3	693439
2017/18	55003.5	2600939	4207.8	750760

Economic Survey from FY 1990/91 to 2017/18

Appendix III

Empirical Evidence of Impact of Total Foreign Aid Inflow on Total GDP

Dependent Variable: GDP_AT_CURRENT_PRICE
 Method: Least Squares
 Date: 08/28/19 Time: 12:52
 Sample (adjusted): 2 28
 Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TOTAL_FOREIGN_AID	1.674469	0.867563	1.930084	0.0655
C	-7726.152	13315.68	-0.580230	0.5672
GDP_AT_CURRENT_PRICE(-	1.058309	0.031831	33.24785	0.0000
R-squared	0.997196	Mean dependent var		863573.9
Adjusted R-squared	0.996963	S.D. dependent var		721799.8
S.E. of regression	39779.09	Akaike info criterion		24.12451
Sum squared resid	3.80E+10	Schwarz criterion		24.26849
Log likelihood	-322.6809	Hannan-Quinn criter.		24.16732
F-statistic	4268.231	Durbin-Watson stat		1.551852
Prob(F-statistic)	0.000000			

Empirical Evidence Impact of Total Foreign Aid Inflow on Agricultural Sector

Dependent Variable: SHARE_OF_AGRICULTURE_GDP_TO_GDP
 Method: Least Squares
 Date: 08/28/19 Time: 12:54
 Sample (adjusted): 2 28
 Included observations: 27 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
AGRICULTURE_AID	-4.044852	2.865547	-1.411546	0.1709
C	16376.91	8858.531	1.848716	0.0769
SHARE_OF_AGRICULTURE_GDP_TO_	1.090292	0.023766	45.87636	0.0000
R-squared	0.993279	Mean dependent var		296456.3
Adjusted R-squared	0.992719	S.D. dependent var		221608.5
S.E. of regression	18909.32	Akaike info criterion		22.63714
Sum squared resid	8.58E+09	Schwarz criterion		22.78112
Log likelihood	-302.6013	Hannan-Quinn criter.		22.67995
F-statistic	1773.519	Durbin-Watson stat		1.203833
Prob(F-statistic)	0.000000			