

**TREND, COMPOSITION AND IMPACT OF US AID ON
ECONOMIC GROWTH OF NEPAL**

A Thesis

**Submitted to the Department of Economic
Faculty of Humanities and Social Science of Tribhuvan University
In Partial Fulfillment of the Requirements for the Degree of
Master of Arts in
Economics**

By

Bina Devi Sharma

T.U Registration no:9-2-48-508-2011

Tribhuvan University

Birendra Multiple Campus

Bharatpur, Chitwan

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DECLARATION

I hereby declare that this thesis entitled "Trend, Composition, and Impact of Us Aid on Economic Growth of Nepal submitted to the Department of Economic Birendra Birendra Multiple Campus, Bharatpur Chitwan Nepal is entirely my original work prepared under the guidance and supervision of my supervisor Associate professor Deepak Regmi. I have prepared this by getting all ideas and information borrowed from different sources. The results of this thesis have not been presented or submitted anywhere else for the award of any degree or for any other purpose. I assure you that no part of the content of this thesis has not been submitted to another institution for another purpose.

.....Bina.....

Bina Devi Sharma

Roll no: 34/ 072



त्रिभुवन विश्वविद्यालय
TRIBHUVAN UNIVERSITY

वीरेन्द्र बहुमुखी क्याम्पस

BIRENDRA MULTIPLE CAMPUS

(520253
:056) 520689
526159
Fax:056-520253

भरतपुर, चितवन
Bharatpur, Chitwan

पत्र संख्या:
च.न. (Ref.)

मिति:
Date:

Department of Economics

LETTER OF RECOMMENDATION

This thesis entitled “Trend, Composition, and Impact of US Aid on Economic Growth of Nepal” has been prepared by Mrs. Bina Devi Sharma under my supervision and guidance. I hereby recommended this thesis for examination by the thesis committee as a partial fulfillment of the requirement for the degree of Master of Arts in Economics.

Deepak Regmi
Supervisor



त्रिभुवन विश्वविद्यालय
TRIBHUVAN UNIVERSITY

वीरेन्द्र बहुमुखी क्याम्पस

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Bharatpur, Chitwan

पत्र संख्या:
च.नं. (Ref.)

मिति:
Date:

Department of Economics

LETTER OF APPROVAL

We certify that this thesis entitled **Trend, Composition and Impact of Us Aid on Economic Growth of Nepal** submitted by Bina Devi Sharma to the Department of Economics, Birendra Multiple Campus, Tribhuvan University in partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

Thesis Committee

Supervisor
Deepak Regmi

External Examiner

Head of the Department
Surya Narayan Paudel

D. Regmi
Surya Narayan Paudel
Safar

Date: 2078-12-30
13 April 2022

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ABSTRACT

Background: Foreign aid is the donations of money, goods, or services from one nation to another. Such donations can be made for a humanitarian, altruistic purpose, or to advance the national interests of the giving nation. Aid can be bilateral or multilateral. Bilateral aid is usually in the form of conditional aid in which the recipients get support from the donor country. This study “**Trend Composition and Impact of US Aid on Economic Growth of Nepal**” tries to analyze the trend and impact of Us aid in Nepal.

Materials and Methods: This study is cross-sectional and analytical and is completely based on secondary data from FY1990/91 to FY2020/21. To examine the trend and impact of foreign aid on the economic growth rate of Nepal simple regression model were used. The coefficient of determination R^2 and test of significance were calculated. For the level of significance of 5 percent, the p-value for the US aid was obtained to be less than the level of significance which suggested that there existed a significant relationship between US aid and the GDP of Nepal.

Result: Over the 30 years, the total assistance amounted to US\$ 850.28 million corresponding to 48.27 percent of the total US aid. Grants amounted to US \$ 871.46 million corresponding to 49.74 percent of the total US assistance. Loans totaled US \$ 30.44 million which is equivalent to 1.99 percent of the US aid. US aid has helped Nepal in various fields including agriculture, health, sanitation & family planning, natural disasters, education, energy, economic growth, trade, and other. The R^2 value for the US aid and the GDP of Nepal was found to be 79.76 percent which signified that US aid could be one of the factors whose change might contribute to a change in the GDP of Nepal.

Conclusions: In developing countries like Nepal, adequate mobilization of internal resources could not have been possible without foreign aid to accelerate economic growth and development. The function of foreign aid is to enable the developing countries to make a transition from economic stagnation to self-sustaining economic growth. Among the various projects under foreign aid, few of them are successful to fulfill their indicated aim but in general, they have been less effective in bringing the required amount of economic growth.

Keywords: *GDP, Economic growth, Regression, Trend, US Aid,*

ABBREVIATIONS

IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
OPEC	Organization of the Petroleum Exporting Countries
IMF	International Monetary Fund
EEC	European Economic Community
UNCATAD	United Nations Conference on Trade and Development
ADB	Asian Development Bank
UNDP	United Nations Development Program
WB	World Bank
WHO	World Health Organization
UNICEF	United Nations Children Fund
US	United States

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CHAPTER I

INTRODUCTION

1.1 Background of the study

Foreign aid can be defined as economic assistance from one country to another, the recipient typically being a less developed country. Foreign aid to developing countries has been an important source of development finance in the form of grants, concessional loans for development projects, and assistance for meeting humanitarian needs and emergencies for more than half a century (Murshed & Khanaum, 2012). Aid may take the form of outright gifts of money, which may be tied to purchases from the donor, or untied and available for expenditure anywhere.

Aid may also be given in kind, including food, plant, equipment, military supplies, or technical assistance. Foreign aid subsumes all money classified as official development assistance and further incorporates military assistance, political development programs, export promotion, debt forgiveness, and non-concessional lending by all bilateral and multilateral organizations (Panday,1999).

Financial aid policy may be undertaken for various reasons: emergency relief in times of war, famine, flood, or other disasters, military aid for defense against a common enemy, and enlightened self-interest. Bilateral aid is offered directly on a government-to-government basis whereas multilateral aid is channeled through international aid-providing agencies such as the International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Organization of the Petroleum Exporting Countries (OPEC), etc. (Sahoo,2016).

Aids may take a variety of forms: a direct gift of money and equipment, short term or long-term loans, with or without specific conditions of use and or terms of repayment, technical assistance and training programs, aid for particular projects or broad development programs: sales of surplus food and other goods at an advantageous price. Nepal has been one of the aids receiving country aid for more than 60 years through foreign governments, multilateral agencies and INGOs, collectively referred as external developmental partners (EDPs). EDPs have been involved in Nepal's policy making, program design, and implementation in a range of areas (Gomez &Atun,2013).

Official Development Assistance (ODA) is the most common form of foreign aid. It is the help provided to support the development to fight poverty. The main source of ODA is the bilateral grants from one country to another, while some of the funding is in the form of loans, and often it is channeled by non-governmental bases on foreign soil (Andrews,2010).

Countries also offer foreign aid to improve their security. Economic aid may also be used to discourage friendly countries from coming under the control of unfriendly governments or paying for the right to set up or use military bases on foreign soil.

Foreign aid can be used to accomplish the political aims of a government, allowing it to obtain diplomatic recognition, gain respect for its role in international institutions, or improve the accessibility of its diplomats to foreign countries (Taffet,2012).

Foreign aid seeks to promote the exports of a country and spread its literature, culture, or religion. Countries often provide aid to relieve the distress caused by man-made or natural disasters like drought, illness, and conflict. It helps to promote sustainable prosperity, create or reinforce political institutions and address a range of worldwide concerns, including cancer, terrorism, other violations, and environmental degradation (Griffin & Enos,1970).

Among the south Asian countries, Nepal is one of the highest aid receiving nations. During 1995-2001, foreign aid to Nepal, as a percentage of the GDP, averaged 8.68 percent higher than that of Sri Lanka and Pakistan, who received 3.06 percent and 2.09 percent respectively during the same period (Panday, 1999).

Despite the constant flow of foreign aid and decades of aid –financed development efforts in Nepal, it still remains one of the poorest countries in the World, with per capita income of about US\$ 752 and almost 23.8 percent of the total population living in absolute poverty (MoF,2016).

A casual observer of these facts could easily conclude that foreign aid to Nepal has not been effective; through they would not be able to say what would have happened in the absence of aid. Donors have been reported as losing confidence in Nepal as a result of political interference and corruption in poverty relief efforts as well as the country's apparently poor capacity to utilize aid (Bhattarai, 2005). This shows that foreign aid in terms of grants and loans is being treated as a free lunch, neither affecting economic growth nor supporting for raising living standard and/or maintaining equity among the people. Foreign grants may impose many undesirable terms and conditions while

foreign loans are considered as the burden for the future generations. Besides, they crowd out the trade sector of the economy (Paudyal, 2013).

US Aid's economic growth activities aim to improve the income-generating potential of the poorest of the poor, expand young people's access to jobs, increase farmer's income and food security, help the government of Nepal address macroeconomic and agriculture sector policies and improve Nepal's business environment for private sector-led growth. It also attempts to improve trade and fiscal policies and practices and strengthen microfinance policies and institutions by working with the government of Nepal, the private sector, think tanks, and civil society (MoF, 2016).

Nepal is one of the foreign aid recipient nations after 1952 when Nepal has joined the Colombo plan for cooperative, Economic and social Development in Asia and Pacific. The development economic plan was set up via way of means of the British commonwealth nations in 1951. The US is the first country to provide aid to Nepal. On January 23, 1951, the Rana government negotiated a four-point program with American government under which Nepal was provided with the financial assistance of NRs. 22,000 and technical assistance to fight malaria and conduct a geological survey for mineral resources. The inflow of foreign aid, especially from US surges after the restoration of democracy in Nepal in 1990. Since then, US has made significant contribution in women's empowerment, strengthening democracy, agriculture, forestry, rural development, health, family planning, education and training, transportation and communication, private sector, good governance and conflict management. Also, after the acknowledgement of the MCC project, US has agreed to provide Nepal with \$659 million as grant (MoF, 2016).

1.2 Statement of the problem

The key question that both the donor and the recipient countries need to address is whether aid has any effect on economic growth of developing countries. Given the record of over 60 years, trillions of amounts of foreign aid are being provided from donor countries (Easterly, 2006). However, its impact in economic growth is said to be negligible compared to those large sums of aid inflows. This issue has been approached from various perspectives, nevertheless, a single and definite answer still does not exist. Therefore, it is important to note the amount and type of financial aid that impacts the effectiveness of available funds. The debate on the relationship between foreign aid and economic growth has drawn great attention for years. Several studies are available on

the role of foreign aid on economic development in international context. Some studies for instance Phuyal and Sunuwar (2018) has shown for positive impact of foreign direct investment on economic growth while few others have shown negative impact or no impact at all on growth (Phuyal & Sunuwar, 2018).

Ram (2004) argued that not much evidence has been established to support the belief that direct foreign assistance to countries with good policy will increase the impact on growth or poverty reduction in developing countries (Ram, 2004).

1.3 Research Questions

The economic development of any country depends upon the utilizations of available resources, the ability of the people to exploit the available natural resources and others. Despite acquisition of foreign aid proper utilization has not been conducted which might have been due to inefficient administration, low absorption capacity, corruption, delay in implementation of projects from recipient side and vested interest, directed aid programs, there strategic motives etc. from donor's side.

This study will be carried out to seek answer to the following questions:

- i. What is the trend and patterns of US Aid?
- ii. What are the contributions of US foreign Aid on economic growth of Nepal?

1.4 Significance of the study

Foreign aid has significant role in the development of different sectors of the economy. Nepal has been receiving aid in terms of grants, loan, technical aid, training services scholarship etc. Foreign aid plays a vital role in economic development, unless it is utilized properly. The significances of the study are:

- i. The study will provide a vivid vision about the trend and patterns of US aid in Nepal.
- ii. The study will identify the contribution made by US aid in the various development sectors of Nepal.
- iii. The study might help the researchers, planners and other to decide whether to bring in more aid or reduce dependent on it.

1.5 Objectives of the Study

The objectives of the study are:

- i. to find the trend and composition of US Aid in Nepal.
- ii. to forecast the US Aid in Nepal
- iii. to analyze impact of US Aid on economic growth of Nepal

1.6 Limitation of the study

The limitations of the study are:

- i. This research work is limited to the aid provided by USA, its application and utilization in different sectors in Nepal.
- ii. The flow of US aid before Fiscal Year 1990, was minimal and hence has not been taken into consideration.
- iii. The study is based on secondary data and information incorporated from the sources like Annual Budgets, Economic surveys, US Embassy and others.

1.7 Organization of the Study

The study has been divided into six chapters. Chapter one includes the general introduction about the foreign aid, statement of the problem of the study, objectives along with significance and limitation of the study. Chapter two is literature review where researches done earlier in the field of study has been reviewed. Chapter three is assigned as research methodology. It describes the data acquisition methods, statistical tools applied and method of analysis of the obtained data. Chapter four labeled as Result and discussion, includes the acquired result after processing of the data and mathematical treatment along with the analysis of those obtained results. Finally, Chapter five provides the conclusion of the study along with some recommendations. Finally, Chapter six includes the references from which the literature has been adopted.

CHAPTER II

LITERATURE REVIEW

Foreign aid is the donations of money, goods, or services from one nation to another. Such donations can be made for a humanitarian, altruistic purpose, or to advance the national interests of the giving nation. Aid can be between two (bilateral) or many (multilateral) countries/institutions. Bilateral aid is usually tied aid (conditional aid) is when recipients must purchase products/ services from the donor country. Multilateral aid is usually untied aid that can be spent in any sector of the recipient country (Machlup, 1939).

2.1 Theoretical Review

On the basis of deliverance and donor

Foreign aid can be classified in to the following categories based on the method of deliverance and donor.

i. Tied Aid

Tied aid is a type of foreign aid that must be invested in a country that is providing support (the donor country) or in a group of appointed countries. A developed country can offer a bilateral loan or grant to a developing nation but will be required by the government to invest the money in goods and services produced in that country.

ii. Bilateral Aid

Assistance provided by the government of a country to the government of another country is Bilateral Aid. It occurs mostly when capital flows from a country with a developed economy to a country with a developing economy. Bilateral aid is stimulated by strategic, political, and humanitarian interests. This is meant to further foster democracy, peace, economic growth, and sustainability of long-term programs.

iii. Multilateral Aid

Multilateral aid is the support offered by several countries that pool their fund with foreign organizations such as the United Nations, the World Bank, and the International Monetary Fund (IMF). The funds are used to abate poverty in developing countries. Although this sector of aid represents a minority of financial aid from the U.S., the donations provided by the country make up a large proportion of the donor funds obtained by the organizations.

iv. Military Aid

Military aid is not charitable. Military aid typically allows the recipient country either to procure weapons or security contracts directly from the U.S. In other situations, it abridges the mechanism by enabling the federal government to buy weapons on its own and ship them to military transport.

v. Project Aid

The assistance is known to be project aid when the funds are used to support a certain project, such as a hospital or school.

On the basis of nature of aid:

Foreign aid is also categorized into the following types based on the nature of

aid. i. Capital Aid

The provision of capital in cash for the implementation of projects provided to a developing country is capital aid.

ii. Commodity Aid

Commodity aid represents the donor funding for the acquisition of commodities including consumer items, intermediate inputs, and industrial raw materials. It usually involves the transfer of the surplus product of the donor country to the recipient country.

iii. Technical Aid

Technical assistance may involve sending experts into the field to coach skills and to help solve problems in their areas of specialization, such as irrigation, agriculture, fisheries, education, public health, or forestry. Conversely, scholarships, study tours, or seminars in developed countries may be offered, giving individuals from less-developed nations the opportunity to learn appropriate skills that they can apply when they return home. Vocational guidance, management development, business administration, home economics, mathematics, science, accounting, trade skills, urban planning, and legal services are a few of the many areas in which technical assistance has been provided to developing countries.

iv. Financial Aid

Financial aid takes the form of either grants or loans. Grants usually represent gifts i.e. they do not have to be repaid. Loans, on the contrary, have to be paid back. Grant components of aid are free resources for which no repayment is required. A loan with at least 25 percent of the grant component is considered ad foreign aid.

2.2 Foreign Aid in Nepal

In 1950, with the dawn of democracy, Nepal started building relationships with foreign countries. After signing the four-point program with the USA on January 23, 1951, the government of Nepal started receiving foreign aid. Nepal has been receiving foreign aid mostly from 'Nepal Aid Group', which includes countries like Australia, Belgium, Canada, Denmark, Finland, Norway, Germany, Kuwait, Netherlands, Switzerland, Sweden, UK, USA, Japan, and multilateral donors including International Development Association (IDA), International Monetary Fund (IMF), European Economic Community (EEC), United Nations Conference on Trade and Development (UNCTAD), Asian Development Bank (ADB), (United Nations Development Program (UNDP), World Bank (WB), World Health Organization (WHO), United Nations Children Fund (UNICEF), Organization of the Petroleum Exporting Countries (OPEC).

The rise of democracy and the commencement of the arrival of foreign aid have paved for the development processes to prosper in Nepal. Foreign aid has played a vital role in the development in the field of transportation (mostly roadways), irrigation, hydroelectricity, communication, education, drinking water, health, and agriculture. Foreign aid has also helped to increase productivity and production to expand the development works and find out suitable technologies. The magnitude, concentration, pattern, trend, motives, and share of foreign aid provided by different countries do not only have economic and developmental influences in Nepal but they also have political and strategic motives as well (Sharma & Harper, 2018).

2.3 Review of Empirical Literature

Foreign aid was supposed have been originated from the disruption of the world economy followed by second world war. Flow of aid became more rapid due to polarization, which created the competing environment between USA and USSR to gain support from the other nation, After the beginning of cold war, foreign aid became an integral part of foreign policy. In recent times, the proposal of MCC by the US can be considered as a potential US aid, intended to increase the availability of electricity and lower the cost of transportation in Nepal. If implemented, Nepal would obtain an amount of 500 million dollars. Different national and internationally published web based literature provided significant insight about the foreign aid. Various authors have

made several theoretical and empirical studies about foreign assistance in the context of Nepal (Ali & Isse, 2006). In the global context, Durbarry, Gemmell & Grenaway (1998) assessed the impact of foreign aid on 68 developing countries over a period of 1970-1993 and observed foreign aid have some positive impact on growth depending on macro policy (Durbarry, Gemmell, & Greenaway,1998).

Moreira (2005) explored aid growth relationship in macroeconomic level of 48 developing countries covering period 1970-1998 (Moreira, 2005).

The study revealed that foreign aid is beneficial to the economic growth of developing countries but immediate and overall impact of aid on growth differs in terms of magnitude. Lohani (2004) measured the development using Human Development Index (HDI) of 120 countries with HDI value less than 0.800 in the year 2001(Lohani,2004).

The finding revealed that foreign aid has a negative relationship with development. The finding rather indicated that foreign direct investment and domestic investment plays a significant role in a country's development. Similar study was conducted by Chheang (2009) on 67 developing countries by using panel data from 1986-2005 and concluded that aid has no positive effect on economic growth, however, it is positively related to corruption (Chheang, 2009).

In a regional context, Tait et al (2015). Empirically the impact of foreign aid of 25 sub-Saharan African countries over the period of 1970-2012 through the fixed effect panel model (Tait, MA, Chatterjee, 2015).

The finding indicated that aid has a significant positive long-term impact on per capita GDP of sub-Saharan African countries. In addition, this study found that, aid in the form of grant was found to be more effective. In South Asian region, Sahoo (2016) examined long run causal relationship between foreign aid and economic development (Sahoo, 2016).

The study found that aid has significant positive impact in Sri Lanka; insignificant impact in India; significant but negative impact in Pakistan. Fatima (2014) found that foreign aid; neither at aggregate level nor at disaggregates level; had influence on economic growth in Pakistan (Fatima, 2014).

Pradhan assessed the contribution of Japanese and US aid to the Nepalese economy. It concluded that the overall contribution of foreign aid in Nepal was positive; however, less effective in aggregate (Pradhan & Phuyal, 2020).

(Poudel, 2015) 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 good overall fit. He had concluded that foreign aid in Nepal positively contributed to the country's GDP growth but substituted for domestic savings (Poudel, Johnson, Yamamoto, Gautam, & Mishra, 2015).

He also estimated the model using five years lag of aid. For that one- and two-years lag, the coefficients were found smaller and negative. But for the four and five-year lag, the coefficient was positive and larger. Thus, he claimed that the long-running aid-funded projects did not contribute to the economy in the short run. The negative short-run relationship between aid and growth was attributed to the use of domestic resources to support these long-run running foreign-financed projects. However, descriptive data analysis made by Poudyal 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 the Nepalese economy was the main problem in this regard. His date analysis also found a noticeable shifts of foreign aid from transport and industry towards agriculture, power and social services (Beaver & Ryan, 2000).

(Bhattarai, 2005) using time- series data for the period 1970-2002 and employing cointegration and the error correction mechanism as the estimation procedure found that aid had a positive and significant relationship between per capita real GDP, savings and investment in the long-run. His fiscal response analysis indicated that more aid was spent on non-developmental expenditure rather than development expenditure. Also, his study found that bilateral and multilateral aids were equally effective eventually in near future. However, grant aid had a stronger positive association with per capita real GDP in the long-run than loans aid. They found that in the short-term, there was negative relationship between aid and per capita real GDP from which they implied that Nepal, as was the case with other developing country lacked absorptive capacity and high aid volatility (Bhattarai, 2005).

(Sigdel, 2010) by adopting non-linear regression model found that there was a significant relationship between resource gap and foreign aid. He found that one billion increment in resource gap was met by more than one billion increment in foreign id during the period of FY 1981/82 to 2001/02. He further stated that foreign aid to Nepal commenced in 1950/51 with NRs. 1.01 million worth. Up to 1970, foreign aid flow to

Nepal was 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 leveled NRs 186,334.9 million in 2000/01, of which, grants went up to NRs 63680.5 million, and the loan equal to NRs 122636.3 million. The ratio of ODA to GDP was 3.8 percent in Nepal during the period of 1970s and 7.8 percent in 1980/81 which was much higher in comparison to other south Asian countries such as Bangladesh, Sri Lanka, and, Pakistan. Over the long span of the last five decades, the magnitude of foreign aid to Nepal was 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 total development expenditure in Nepal. This Nepal's heavy dependence on foreign aid, which ballooned to the level of NRs. 2151454.4 million during the ninth plan (1997-2002). In tenth plan, Nepal received NRs. 134620 million worth foreign aid which was 57.5 percent of development expenditure. In addition, he concluded that foreign aid had become a foundation of North-South relation (Sigdel, 2010).

(Basnet, 2013) examined the effectiveness of foreign aid on growth and domestic saving using a simultaneous equation system. He found that foreign aid had a positive and significant impact on the growth in five South Asian countries. The result revealed a negative relationship between foreign aid and domestic savings and there was no ambiguity that foreign aid adversely affected domestic savings in south Asian countries during the period of 1980-2008 (Basnet, 2013)

(Jeffrey, 2015) employed OLS estimation and found out that bilateral and multilateral aid yielded mixed and interesting result. For middle- and low-income countries, a 1 percentage point increase in inflation on average caused the effect of bilateral aid on growth decrease by 1.516 percentage points and increased the effect of bilateral aid on growth decrease by 2.162 percentage point on average. Multilateral aid interacted with inflation yielded a positive value, which meant that as inflation increased by one percentage point, multilateral aid's effect on growth increased 2.217 percentage points, further, polity2 (measure of a country's political regime) scores interaction with multilateral aid was negative, that is point increase in a country's polity2 score resulted in a decline of 4.557 percentage points (Jeffrey, 2015).

(Galiani, 2016) using the sample of 35 countries that crossed the IDA threshold form below between 1987 and 2010 found that a 1 percentage increase in the aid to GNI ratio raises the annual per capita GDP growth by 0.031 percentage point. The mean aid-to-GNI at the crossing is 0.09 so that a 1 percentage point increase in the aid-to-GNI ratio raises annual per capita GDP growth by 0.35 percentage points. They also found out that the magnitude of effects on growth and investment is consistent with the average capital stock to GDP for the sample countries (Galiani, Knack, Xu, & Zou, 2017).

Mishra & Aithal (2021) attempted to analyze the trend and composition of foreign aids with case reference to Swiss aid. They found the total foreign aid commitment increasing in FY 2014/2015 totaling to Rs.1195.5 million in comparison to Rs.2125.9 million in FY in FY 2001/2002. They obtained that in the future, debt burden in the budgetary system will directly reduce the development expenditure which in turn would decrease the flow of budget in poverty reduction sectors. They found that in FY 2014/2015, the foreign grant assistant subsequently increased by whereas foreign loan assistance decreased (Kumar Mishra & Aithal, 2021).

(Abate, 2021) collected data covering the period 2002-2019 from 44 developing countries of the world. System generalized method of moment was employed to examine the nature of the relationship between foreign aid and economic growth and dynamic panel threshold regression was utilized to uncover the mediating role of institutional quality and economic freedom. The result they obtained revealed that the relationship between foreign aid and economic growth took an inverted U shape indicating the existence of an optimal level of aid equal to 9 percent of GDP. The result from dynamic panel threshold regression shows that the effect of aid on economic growth is negative when the arithmetic means of the institutional quality index is less than or equal to -0.614 and the overall index of economic freedom is less than or equal to 60.521. Above the indicated thresholds, the effect of aid on economic growth is positive which means institutional quality and economic freedom matter in an aid-growth relationship. Drawing on the results obtained, the author recommends that developing countries should not receive a huge amount of aid from donors, reform their institutions for the better, and improve economic freedom if they want to reap the benefit of aid (Abate,2019).

2.4 Research Gap

Many pieces of research on foreign aid have been conducted by different researchers in foreign country but there been no research done on US aid analysis and its associations with GDP in Nepal . So, this research has been planned to study on this topic by taking secondary data.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research studies the trend, pattern, composition, and sectoral concentration of US Aid. It attempts to understand the effect of US aid on the GDP of Nepal. The study is descriptive as well as analytical type. Using the obtained data and various statistical treatment of those data, inferences and analysis has been made to come to a conclusion. The study incorporates the analysis of data available after the restoration of democracy in Nepal (before, the inflow of foreign aid in Nepal was insignificant) i.e. from FY 1990 to FY 2021.

3.2 Nature and Sources of data

The empirical results were accumulated from various secondary sources. The required data were acquired from sources including Economic surveys, Ministry of Finance (MOF), Indian Embassy, National Planning Commission (NPC), Central Bureau of Statistics (CBS), Quarterly Economic Bulletin (NRB), World Bank, OECD, International Monetary Fund, etc. Some other required information was used from various other research papers, newspapers, and official documents released by the government.

3.3 Variables and Model Specification

For the comparative study between US Aid and the GDP of Nepal, the linear model best fitted the available data. Here, the GDP of Nepal is the dependent variable and US aid is the independent variable. In this model, the regression line is given by Eq. (1).

$$Y = a_0 + b_0X \quad \dots\dots\dots \text{Eq. (1)}$$

Where,

Y = GDP of Nepal (in millions US \$)

X = US aid (in millions US \$)

And a_0 and b_0 are regression coefficients.

In a linear model, a change in independent variable brings about proportional change (given by b_0 in our case) in the dependent variable.

3.4 Methods of Data Analysis

Various statistical tools were used to assist in analysis of the available data. These calculations along with graph plots have been carried out using Excel software.

3.4.1 Regression Analysis

A regression equation is a statistical model that determines the specific relationship between the predictor (independent variable) and outcome variable (dependent variable). A regression analysis is done for one of the two purposes: in order to predict the value of dependent variable for individuals for whom some information concerning the explanatory variable variables is available, or in order to estimate the effect of some independent variable on the dependent variable. In this study, we intend to study about the later one.

3.4.2 Correlation Analysis

Correlation gives the strength of the relationship between two quantitative variables and also the direction of the relationship. It assumes that the relationship between the variables is linear.

Correlation coefficients are indicators of the strength of the linear relationship between two different variables. Correlation coefficient is calculated using expression in Eq. (2).

$$= \frac{(\cdot)}{\cdot} \dots \text{Eq. (2)}$$

Where,

COV (x,y) is the Covariance (It gives the measure of simultaneous change in the two variables)

σ_x and σ_y are the standard deviations of x and y respectively

A linear correlation coefficient that is greater than zero indicates a positive relationship (i.e., increase in one variable leads to increase in another variable). A value that is less than zero signifies a negative relationship (i.e., increase in a variable lead to decrease in another variable). Finally, a value of zero indicates no relationship between the two variables x and y. The value of correlation coefficient ranges from -1 to +1.

3.4.3 Coefficient of Determination (R²)

Coefficient of determination is a statistical analysis tool that provides some information about the goodness of fit of a model. It provides a measure of how well observed outcomes are replaced by the model, based on the proportion of total variation of outcomes explained by the model.

An R² of 1 indicates that the prediction from regression perfectly fits the data. The value of R² outside the range 0 to 1 can occur if a wrong model has been chosen. The value of R² is determined using the relation in Eq. (3).

$$R^2 = \frac{\sum(\hat{y} - y)^2}{\sum(y - \bar{y})^2} \quad \dots \text{Eq. (3)}$$

The value of R² is 0.80 means that 80% of the observed variation in dependent variable 'y' can be explained by the change in independent variables.

3.4.4 Test of Significance

A hypothesis test is considered statistically significant if the p-value is less than or equal to the significance level 'α'. Typically, the values of 'α' are 0.1 (corresponding to 10%), 0.05 and 0.01. The level of significance for our is taken at 5%. A p-value, or probability value, is a number describing how likely it is that your data would have occurred by random chance.

The null hypothesis states that there is no relationship between the two variables being studied (one variable does not affect the other). It states the results are due to chance and are not significant in terms of supporting the idea being investigated. The alternative hypothesis states that the independent variable did affect the dependent variable, and the results are significant in terms of supporting the theory being investigated (i.e. not due to chance). The level of statistical significance is often expressed as a p-value between 0 and 1. The smaller the p-value, the stronger the evidence that you should reject the null hypothesis.

Suppose, the p-value is 0.0036, so the probability of observing such a value by chance is less than 0.05 which represents that the result is significant at the 0.05 level.

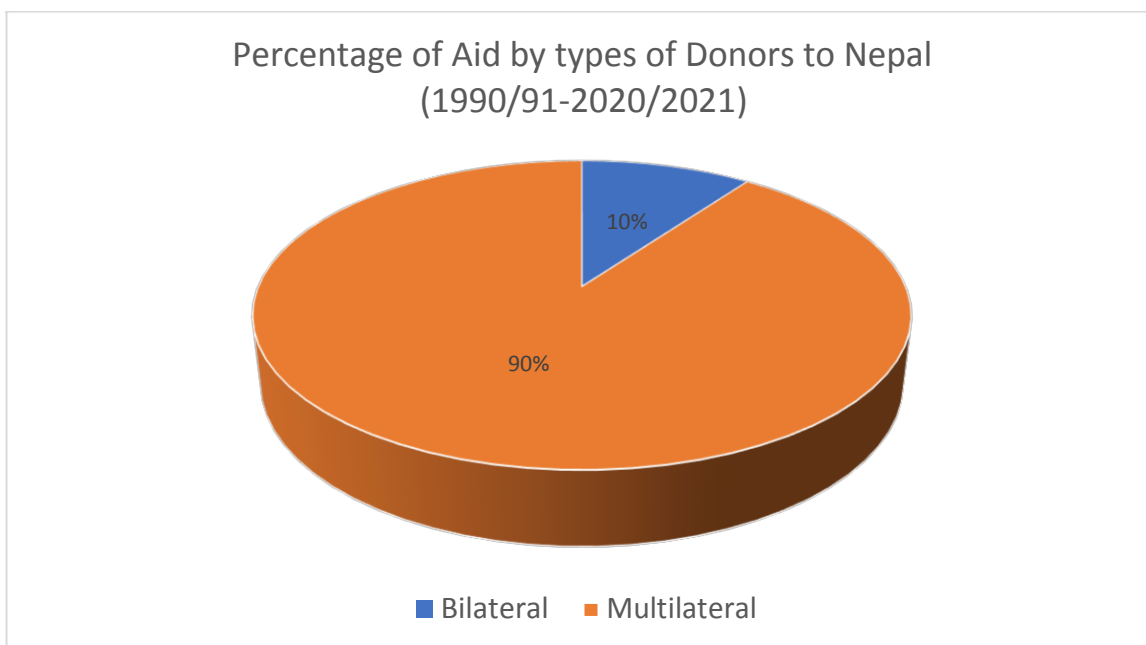
CHAPTER IV

RESULTS AND ANALYSIS

4.1 Presentation and Analysis

In this section of the study, the presentation and analysis of data has been done for meeting the objectives stated earlier. Collected data are first presented in systematic manner in tabular and graphical forms and then analyzed by different statistical tools. Simple linear regression and time series modeling has been used to analyze and interpret the finding of the study. For the analysis of the trend and pattern of US Aid in Nepal along with the relationship between the commitment and disbursement of US aid. Also, the sectoral distribution of the aid has been presented and graphs have been plotted to facilitate the interpretation for it. The required data was accumulated, sorted, classified, tabulated, and plotted to obtain the conclusion.

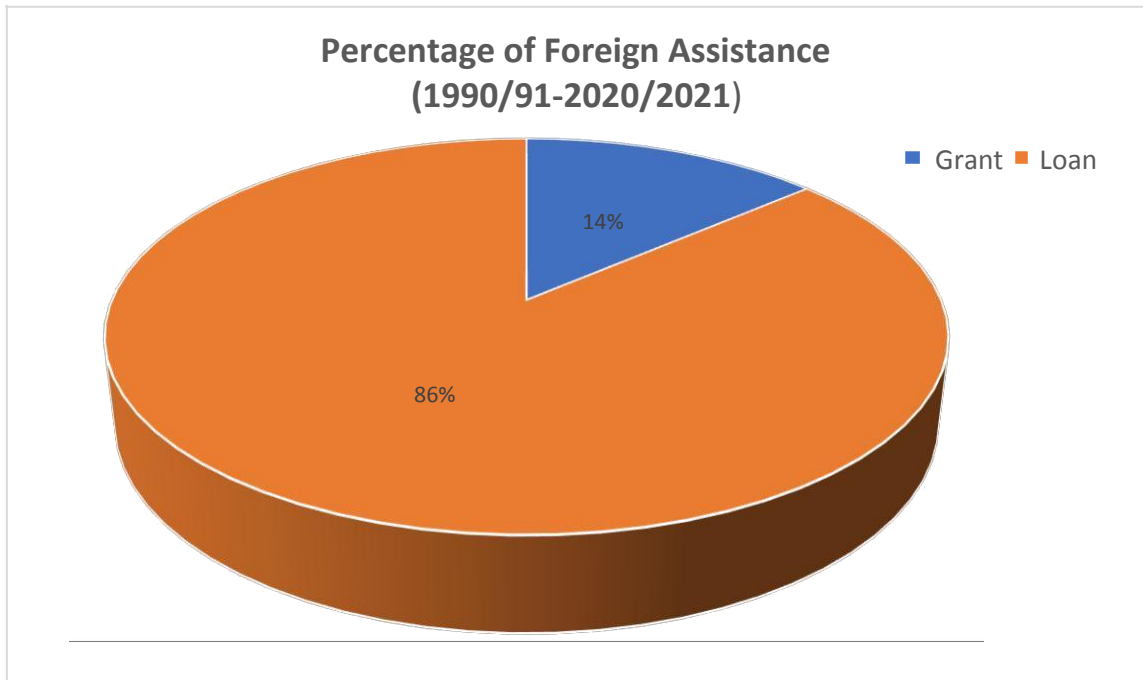
Figure 1: Percentage of Aid by types of donors to Nepal (1990/91-2020/21)



Source: Economic Surveys of Nepal from several years

Figure 1 shows the percentage of Aid according to the type of donor of Nepal from fiscal year 1990/91 to 2020/21. This shows that 10 percent donors are bilateral while 90 percent are multilateral.

Figure 2: Percentage of foreign assistance (1990/91-2020/21)



Source: Economic surveys of Nepal from several years

Above Figure 2 shows the percentage of foreign assistance of Nepal from the fiscal year 1990/91 to 2020/21. This shows that 13.69 percent of the foreign assistance was provided through grant and 86.31 percent was provided as loan.

4.2 Trend of US Aid in Nepal

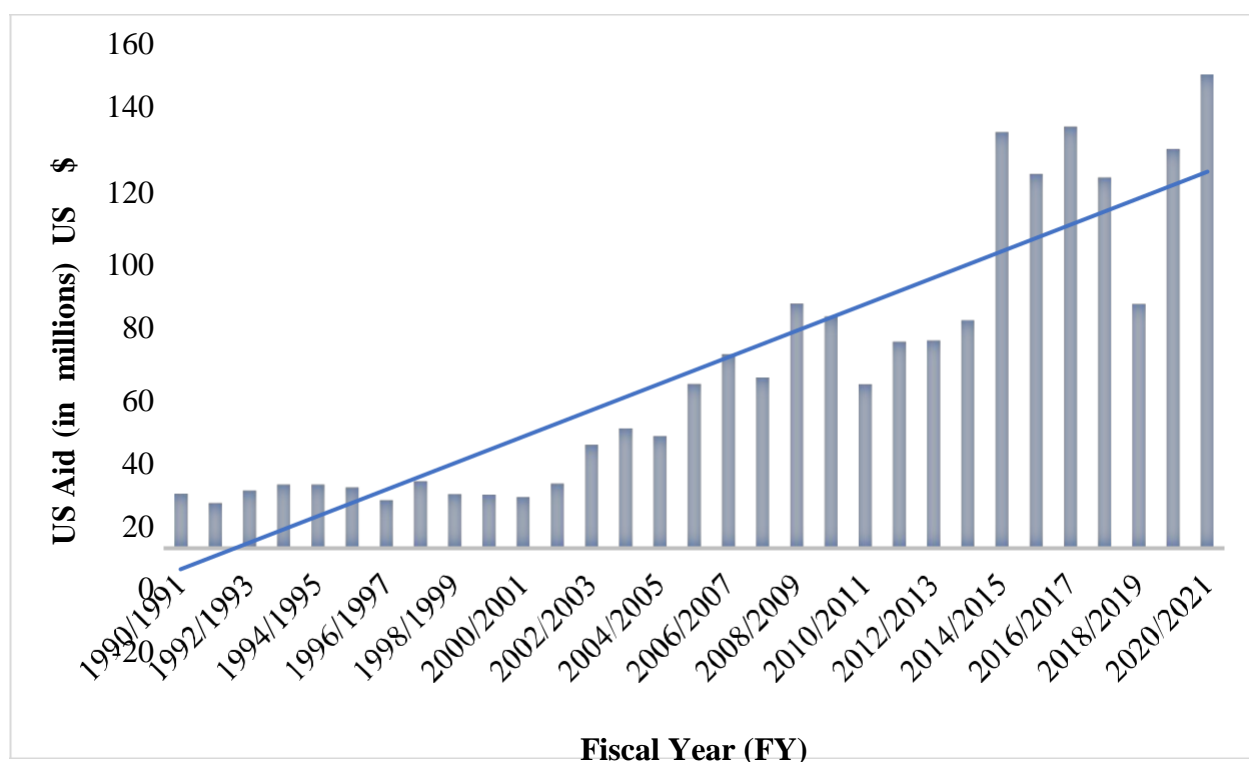
US Aid's economic growth activities aim to improve the income-generating potential of the poorest of the poor, expand young people's access to jobs, increase farmer's income and food security, help the government of Nepal address macroeconomic and agricultural sector policies and improve Nepal's business environment for private sector-led growth. It also attempts to improve trade and fiscal policies and practices and strengthen microfinance policies and institutions by working with the government of Nepal, the private sector, think tanks, and civil society.

Nepal is one of the foreign aid recipient nations after 1952 when Nepal has joined the Colombo Plan for Cooperative, Economic and Social Development in Asia and Pacific. The development economic plan was set up via way of means of the British Commonwealth nations in 1951. The US is the first country to provide aid to Nepal. On January 23, 1951, the Rana government negotiated a four-point program with American government under which Nepal was provided with the financial assistance of NRs.

22,000 and technical assistance to fight malaria and conduct a geological survey for mineral resources. The inflow of foreign aid, especially from US surges after the restoration of democracy in Nepal in 1990. Since then, US has made significant contribution in women's empowerment, strengthening democracy, agriculture, forestry, rural development, health, family planning, education and training, transportation and communication, private sector, good governance and conflict management. Also, after the acknowledgement of the MCC project, US has agreed to provide Nepal with \$659 million as grant.

Table 1 in Appendix A shows the way US Aid has trended over the years from FY 1990/90 to FY 2020/21. During earlier years, the volume of US Aid and in general ODA disbursement was comparatively low. From FY 1990-2001, the US Aid predominantly remained below 20 million US \$. Since then, US Aid to Nepal has always exceeded 20 million US \$ every year surpassing 100 million US \$ in FY 2014/2015. Due to the earthquake in Nepal in FY 2014/2015, Nepal received a huge amount of assistance from the US. The total disbursement for post-earthquake reconstruction over the FY 2014/2015 to FY 2017/2018 reached US \$ 825.6 million. The highest amount of US aid was provided in FY 2020/21 totaling 150.70 million US \$ and the least amount of US aid was provided in FY 1991/1992 totaling 14 million US dollars. From FY 1990/91 to FY 2020/21, the total US aid disbursement has amounted to 1752.18 million US \$.

Figure 3 Trend of US Aid to Nepal (FY 1990-2021)



In Fig 3, fiscal years have been kept along the horizontal axis and the amount of US aid in millions of US \$ has been kept along the vertical axis. A significant increase in US aid can be observed from FY 2000/2001 onwards. A linear relationship can be observed between the fiscal years and US aid provided to Nepal. On performing a regression analysis, a linear graph with the regression line $y = 4.225x - 11.074$ is obtained, where y represents the US aid and x represents the number of fiscal years. The standard error for the intercept is high due to which it is not taken into consideration while interpreting. The error might have been caused due to insufficient data from years before 1990. The standard error for the coefficient of x is 0.374 and the p -value was obtained to be less than the significance level of 0.05 which assists our hypothesis that indeed the inflow of US aid to Nepal has been increasing at the rate of 4.225 ± 0.374 million US \$ per year.

4.3 Pattern of US aid to Nepal

Even though Fig.3 shows a linear relationship, there have been a lot of fluctuation in the amount of aid provided to Nepal by the US for the past 30 years.

Fig 4: Pattern of US aid inflow in Nepal from FY (1990/91- 2020/21)

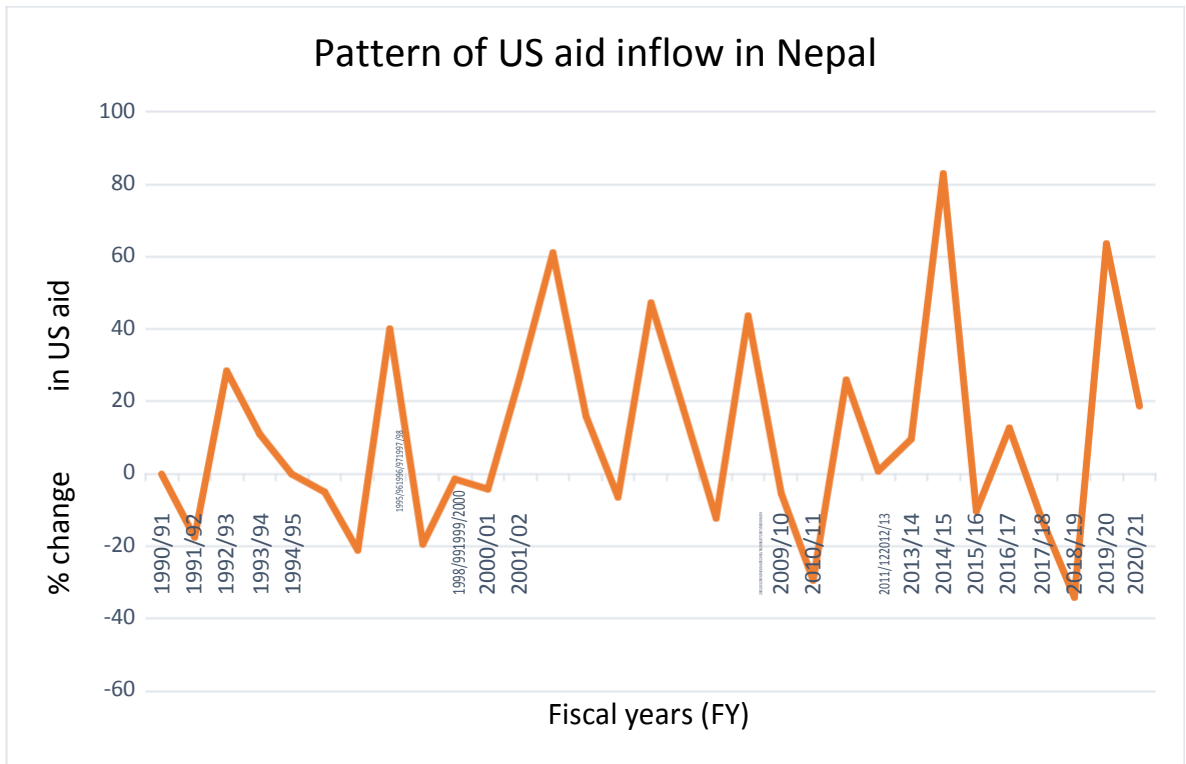


Fig 4: Pattern of US aid inflow in Nepal from FY (1990/91- 2020/21)

Although there appears to be a linear curve between fiscal year and US aid inflow, the amount of disbursement changed drastically every year as a consequence of several disasters and time of need for Nepal. During the earthquake crisis in Nepal, there has been an increase of 82.99 percent in the US aid to Nepal which is the greatest change in the history of Nepal. Within hours of the earthquake during FY 2014/2015, USAID deployed a Disaster Assistance Response Team (DART) to coordinate the U.S. government’s response efforts, conduct disaster assessments, and provide search and rescue capabilities. Their immediate humanitarian response included search and rescue deployments, emergency shelter, drinking water, food aid, and support to protect survivors against gender-based violence and human trafficking.

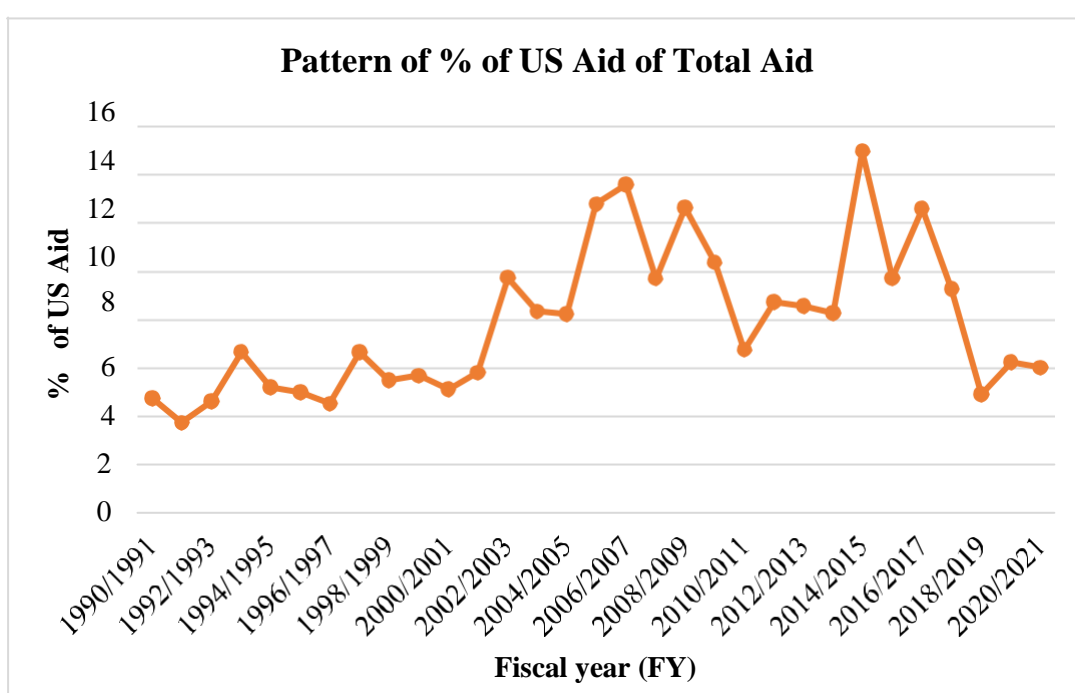
During the COVID-19 pandemic that occurred in FY 2019/2020, the US aid inflow increased by 63.65 percent than the previous year. US assisted Nepal with vaccines, ventilators, oxygen cylinder, oxygen concentrators, personal protective equipment, RDT kits, ICU beds, genome sequencing kits, PCR test kits and one PCR machine worth \$214.5 million which can be seen in the graph as a drastic increase in the US Aid.

4.4 Pattern of US Aid as a Percentage of Total Aid

Most bilateral and multilateral agencies have been assisting Nepal's endeavor for development, in the form of grant, loan, and technical assistance. Among bilateral donors, US occupies the first position among bilateral donors. Before FY 1990/91, US provided majority of the aid to Nepal, but in recent times, other countries too have tried to help Nepal in the time of need. Countries including China, Japan, UK, India and agencies including World Bank, Asian Development Bank, UNICEF have contributed much to the foreign assistance to Nepal.

Table 2 (in the appendix) represents the proportion of US aid in the total foreign aid to Nepal. In FY 1990/91, US aid was 4.76% of the total aid, 3.74% in FY 1991/92, and 4.63% in the next fiscal year. In the majority of years, the average share of US aid on the total aid inflow was 5%. In some years, the percentage of US aid on the total aid has exceeded 10% and reached a maximum of 14.98% in FY 2014/15 due to the assistance during the earthquake disaster in Nepal. Although the percentage of US aid over total aid might have dropped in some years, there is an increase in the amount of US every year for most of the year. It resembles that there were other countries and agencies that have assisted Nepal over the years and are still increasing.

Figure 5: Pattern of variation of % of US aid (FY 1990/91- 2020/12)



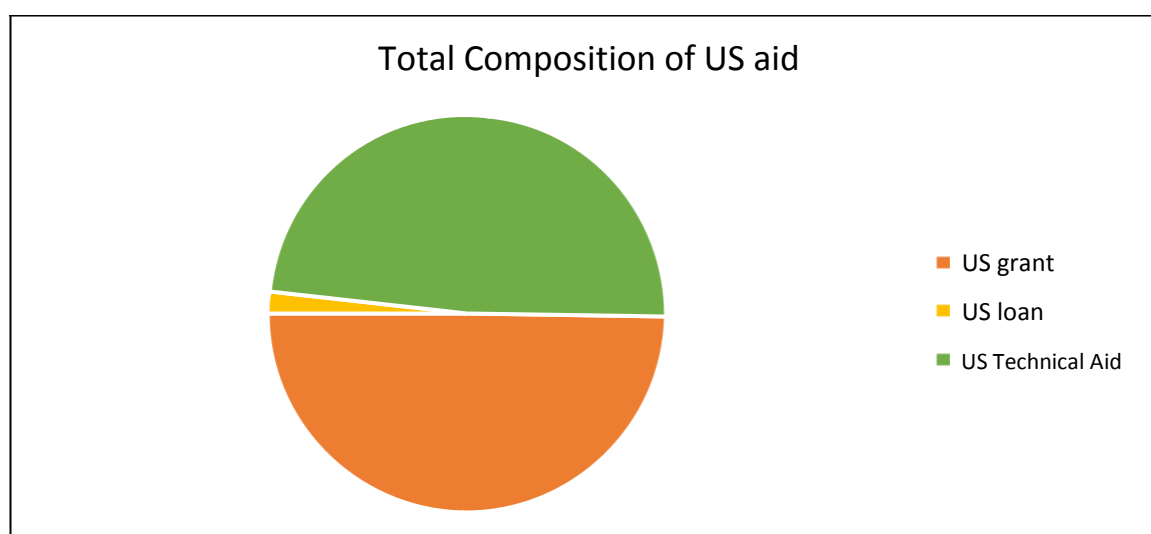
In Fig 5, fiscal year is represented along horizontal axis and % of US aid on Total aid is kept along vertical axis. In contrast to the fluctuation observed in Fig.4, the

fluctuation in Fig.5 is subtler. Although, there is an increase in the proportion of US aid in the years between, overall the trend is same. The average share of US aid on the total aid provided to Nepal is 7.9% over the last 30 years. Most of the spikes in Fig 5 represents the assistance during difficult times in Nepal. So, it can be inferred that US is one of the countries that helps Nepal during difficult times in the country.

4.5 Composition of US aid

Any aid is composed up of grant, loan and technical assistance. Table 6 shows the distribution of the US aid among grant, loan and technical assistance.

Figure 6: Total Composition of US Aid (FY 1990/91- 2020/21)



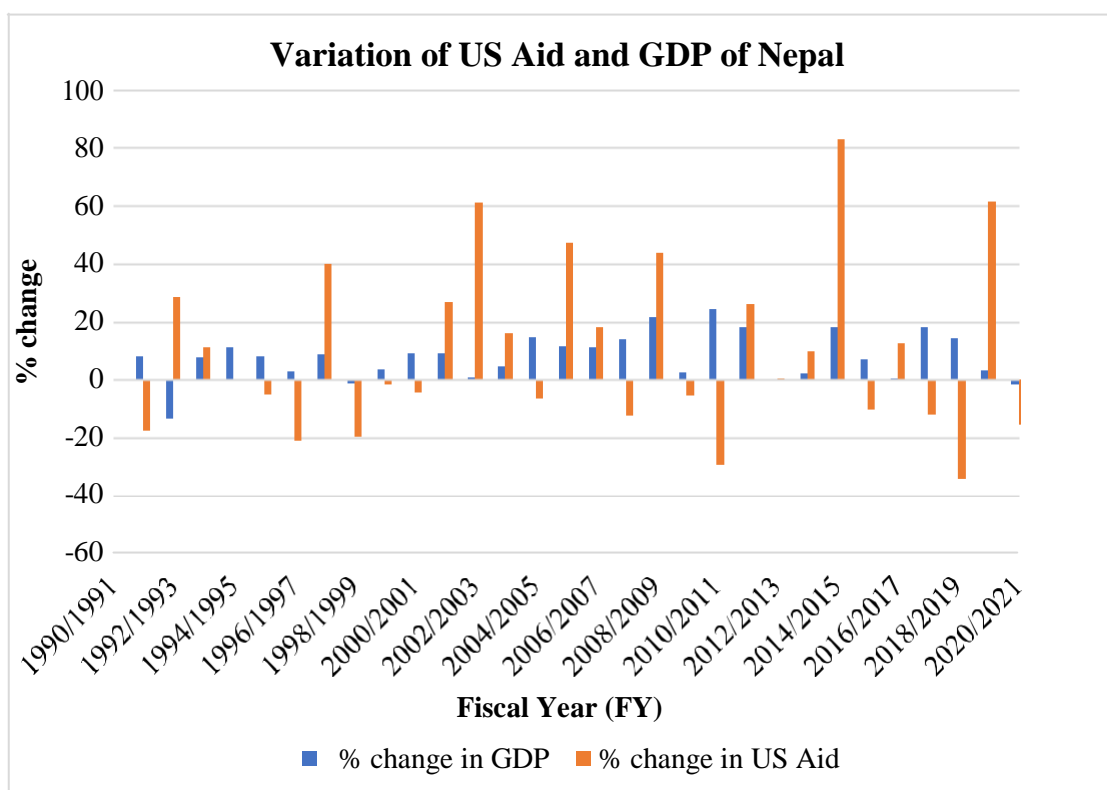
Technical assistance provided by US played foremost role from FY 1990/91 to FY 2006/07 which kept increasing from least value of 12 million US \$ to highest value of 52.48 million US \$. During that period, more than 90% of the aid by US was provided through technical assistance. The negative sign denotes debt relief. From 2006 onwards, grants started to dominate up to FY 2013/14. In FY 2019/20, highest amount of technical assistance, totaling to 125 million US \$ was provided to Nepal to overcome the crisis brought down by the COVID-19 pandemic. Over the 30 years, the total technical assistance amounted to 850.28 million US \$ corresponding to 48.27 % of the total US aid. Grants amounted to 871.46 million US \$ corresponding to 49.74 % of the total US assistance. Loans totaled to 30.44 million \$ which is equivalent to 1.99 % of the US aid.

4.6 Comparison of variation of US aid and GDP of Nepal

A pattern can be obtained observing how the US aid has varied over the years along with GDP of Nepal. US aid has been contributing in the different sectors of Nepal for the better production of goods and services. US aid has been mobilized to proper utilize the financial and technical assistance available in Nepal.

Table 4 shows how the US aid along with GDP of Nepal has varied over the FY 1990/91 to FY 2020/21. In FY 1992/93, 1998/99, 2012/13, and 2020/21, there has been a decrease in the GDP of Nepal with most decrease in FY 1992/93. In other years, there has been growth in the GDP of Nepal with a maximum increase of 24.49 % in FY 2010/11. Similarly, US aid to Nepal has decreased in 13 fiscal years which can be observed in the Table 4. In 2014/15, there has been an increase in US aid by 82.99 % and 63.65 % in FY 2019/20 both corresponding to the time of disaster in Nepal.

Figure 7 Variation of US Aid and GDP of Nepal



In Fig 7, along horizontal axis, fiscal years have been kept and along vertical axis, percentage change has been plotted. The bar diagram in blue represents the % change

in GDP while brown color corresponds to % change in US aid. Here, negative value exhibits decrease in the value than earlier year. Fig 4.4 shows the change in GDP and change in US aid in the same fiscal year. It shows that there need not necessarily be any correlation between the change in US aid and GDP of Nepal. For an instance, in FY 2010/11, there is a drop of 29.37 % of US aid from last year but still the GDP of Nepal has managed to climb up by 24.49%. Also, in FY 2002/03, although there has been 61.15% increase of US aid, there has been only 0.73% increase in the GDP of Nepal. But, in FY 2014/15, an increase of US aid by 82.99% is seen and also there is a drastic increase in the GDP of Nepal by 18.12%. This relation has been later discussed and calculated in section 4.7 using regression analysis and significance test.

4.7 Contribution of US Aid in Various Sectors in Nepal

The ultimate goal of US aid was to develop Nepal to the extent where Nepal could meet the needs of its people on a sustainable basis with its own resources. US aid has helped Nepal in various field including agriculture. health and family planning, natural disasters, education, energy, economic growth, trade and many others. US's assistance program in Nepal is guided by the vision that, together with progress in the political process of Nepal, it is equally important to ensure that economic outcomes, particularly in the areas of education, health and infrastructure, must reach people without any hindrance and in a smooth way. US helps Nepal to boost food security, sustainably manage natural resources, improve access to quality health care and education, bolster democratic governance, and build its capacity to mitigate and respond to natural disasters.

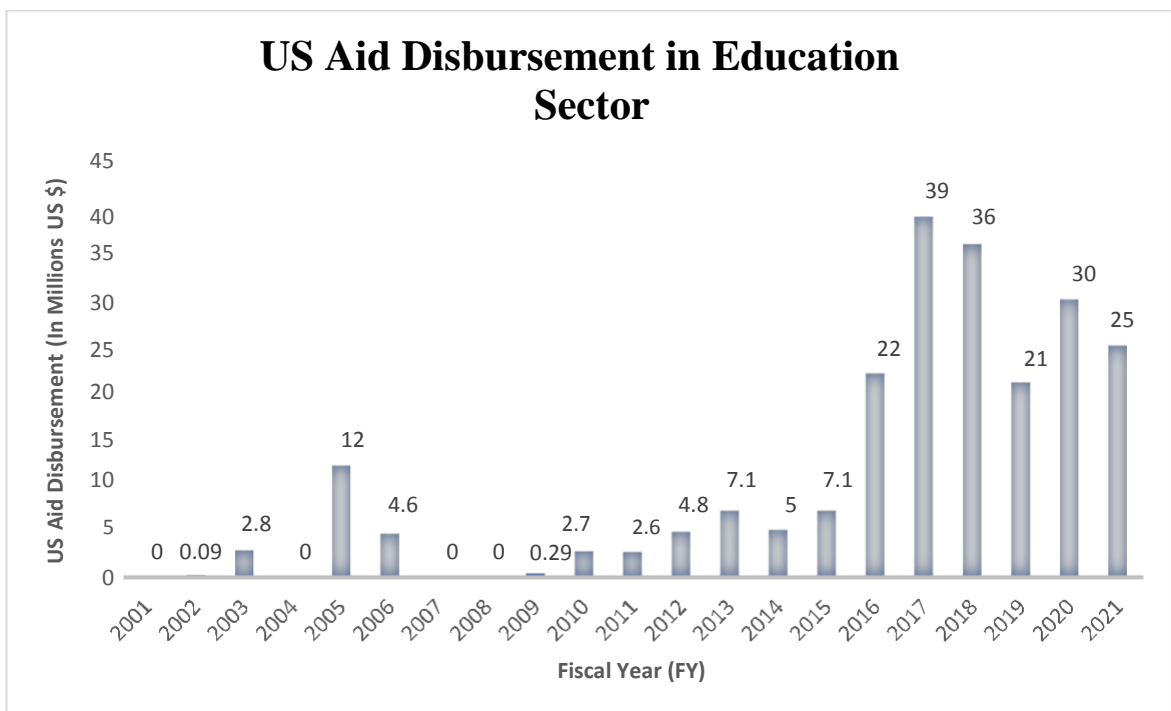
The United States Agency for International Development (USAID) is advancing the USG's Indo-Pacific vision through bilateral and regional partnerships to strengthen democratic systems, foster economic growth, and improve the management of natural resources. USAID's work in Nepal supports these objectives by promoting transparency and inclusive governance; supporting smart investment policies, regulations and practices; and advancing the sustainable management of natural resources.

4.7.1 Education

US aid has taken a leading role in promoting early grade reading on the national education reform agenda. US also supported Nepali government in improving the

quality of education, restoring access to education for children affected by the April 2015 earthquake, and providing safe learning environments for adolescents. In response to April 2015 earthquake, USAID supported the Government of Nepal to resume education services by establishing more than 1000 temporary learning centers for over 93,000 students, and providing leaning and recreational materials, temporary latrine and hand washing facilities [USAID official site] . Along with UNICEF, it launched the ‘Zero Tolerance, Gender-Based Violence Free Schools Project’, a US \$ 5 million project which aims to eliminate gender-based violence in schools and create equal education outcomes for boys and girls.

Figure 8: US Aid Disbursement in Education Sector



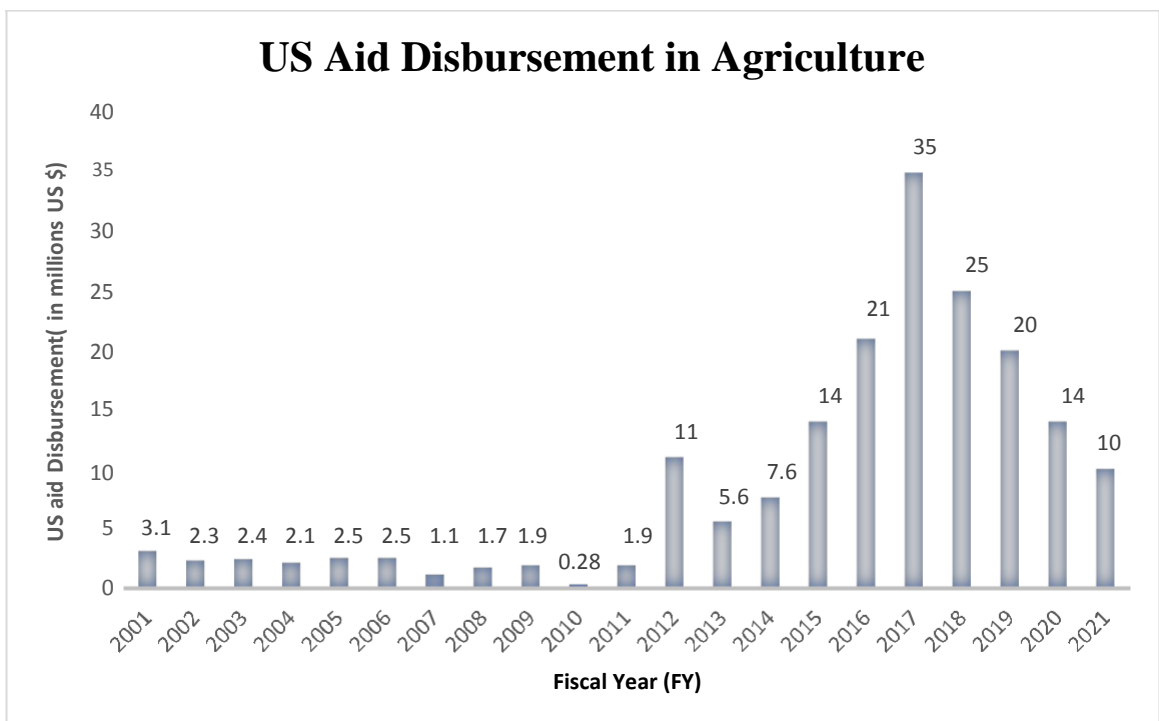
4.7.2 Agriculture and Forestry

As a rural country, agriculture accounts for about 34% of Nepal’s GDP, yet malnutrition has persisted due to low productivity and limited access to markets. To combat these issues, USAID has worked under US government to improve crop yields and subsequently increase profits and access to quality foods for farmers.

- USAID supported over 85,000 smallholder farmers in 26 remote conflict affected districts to adopt improved farming techniques. USAID’s work has increased the income of 430,000 rural farmers by over 50%.

- US trained over 49,000 households on improved maize production technologies in 20 remote hill districts. USAID’s work resulted in the production of more than 1,000 kg of improved seeds covering over 50,000 hectares of land which helped to increase income and food security for poor and disadvantaged farmers (USAID online database 2015)
- The five-year (2016-2021) US \$ 15 million ‘Feed the Future’s Nepal Seed and Fertilizer” project facilitates sustainable increase in national crop productivity, economic welfare and household level food security, working in 20 20 Feed the Future “Zone of influence” districts and in five earthquake-affected districts.
- The ‘Knowledge-based Integrated Sustainable Agriculture and Nutrition “(KISAN) project was a five-year Feed the Future initiative in Nepal that represents USAID’s global efforts to advance food security and nutrition objectives (USAID online database 2015)

Figure 9: US Aid Disbursement in Agriculture Sector



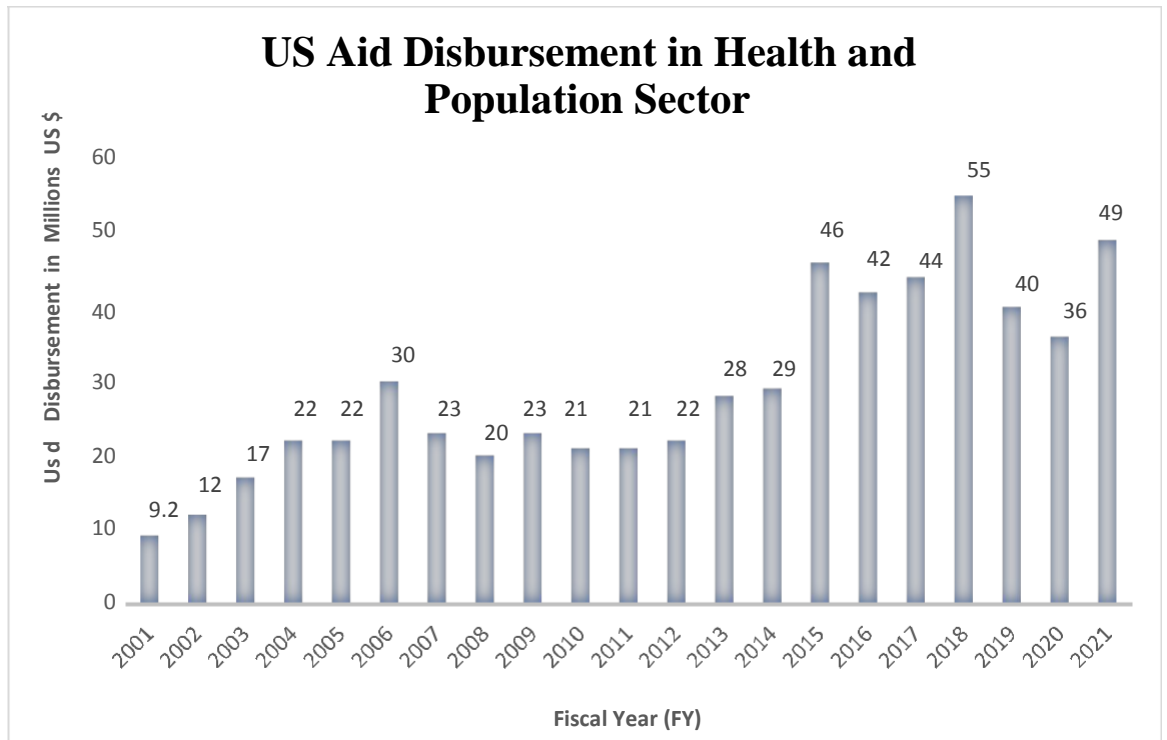
4.7.3 Health and Population

USAID’s support in the health sector reflects one of the longest standing and most successful development assistance programs in Nepal. Despite a 10-year civil

insurgency, Nepal has experienced more than two decades of steady improvement in health and has emerged as one of the few countries to meet the Millennium Development Goals related to reducing maternal and child mortality.

- USAID supported the government of Nepal in reducing of children under 5 by 54% between 1996 and 2011; in the same period Nepal achieved an increase in the use of modern contraceptive methods from 26% to 43%.
- USAID's health program reached 3.6 million children, more than 90% of Nepalese children, with lifesaving vitamin A, averting approximately 15,000 deaths among children under the age of 5 annually.
- USAID has assisted Nepal with technical assistance on COVID-29 testing, contact tracing and surveillance, treatment, lab strengthening, infection prevention, border control, technical experts for response and preparedness, and vaccine preparedness. Along with it, USAID provided 150 + ventilators, 1000+ oxygen cylinders, 80 oxygen concentrators, 6.4 million items of personal protective equipment (including face shields, masks, tunics, gloves), 565000 rapid diagnostic test kits, 100 ICU beds, 500 genomic sequencing kits, 40,000 PCR test kits and one PCR machine. USAID also provided life-saving antiretroviral drugs to more than 19,800 people living with HIV, installation of 6 liquid oxygen tank system.
- Department of Defense (DoD) of US provided 7.5 million US \$ for isolation and disaster camps, oxygen cylinders (4,200+ 47 liter), oxygen concentrators, liquid oxygen storage tank system, non-invasive breathing system and oxygen therapy devices (250+ BiPAP and CPAP machine), telemedicine equipment, handwashing stations and hygiene kits, COVID-19 testing kits, and medical equipment and gear for health clinics and health care workers along with 18 Disaster Response System container.
- US provided Nepal with 1.53 million doses of Johnson and Johnson vaccine along with 100,620 doses of Pfizer vaccine which worth a total of 122 million US \$.

Figure 10: US Aid Disbursement in Health and Population Sector



4.7.4 Energy

USAID’s earliest involvement in the energy sector was with small rural projects beginning with a micro hydro project from 1990 to 1994. It was USAID’s first experimental exploration in community self-reliance, self-financing and local management of private and community owned electricity system with USAID’s funding of 3.9 million.

- The Private Electricity project (PEP) ran from October 1995 through August 1998 with US \$ 3.16 million of funding by the USAID. Its aim was to promote private investment in and management of the hydropower sector.
- USAID’s five-year (2015-2020), \$9.9 million Nepal Hydropower Development Project (NHDP), supports the Government of Nepal's efforts to expand the country’s access to modern, high-quality hydropower services and realize its potential as an energy exporter in South Asia. Working in collaboration with the Investment Board of Nepal (IBN), the NEA, and the Ministry of Energy (MOE), the project will help Nepal facilitate and

encourage private sector investment in hydropower in an environmentally and socially sustainable manner. The project provides assistance to areas such as project appraisal, design and issuance of power purchase and other project agreements, and assistance of transactional advisors to review and evaluate the pipeline of hydropower generation and transmission projects.

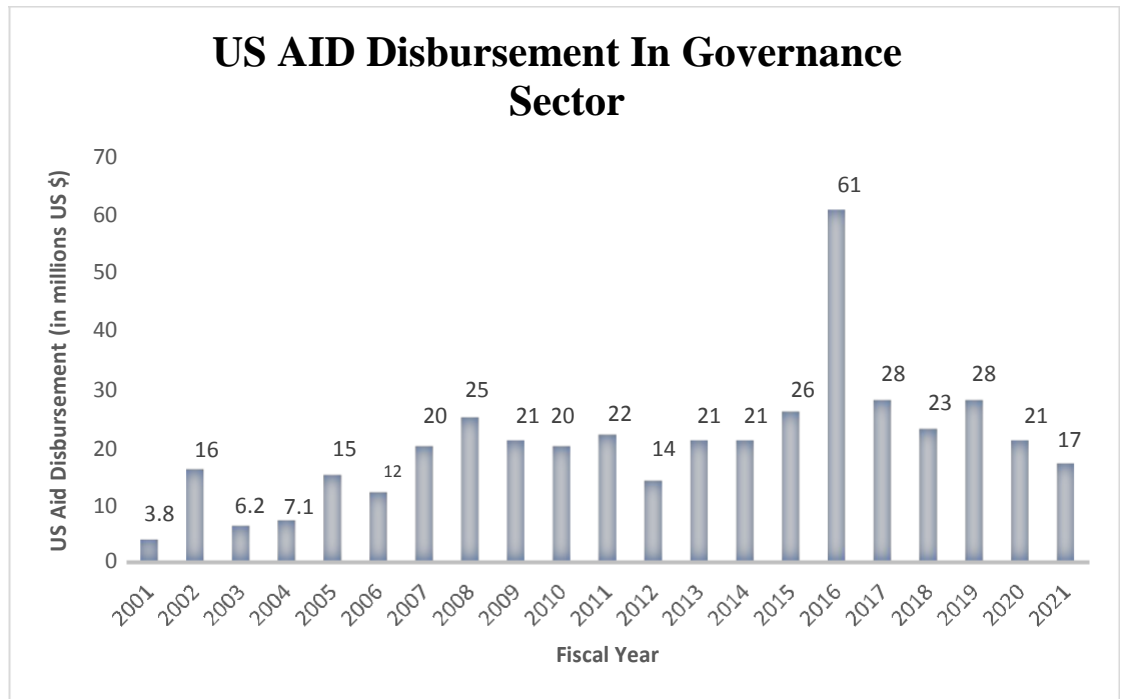
- To improve Nepal's economic condition, the MCC signed, in 2017, a US \$ 500 million compact with Nepal to expand Nepal's electricity transmission infrastructure and maintenance of road regime. The Compact will build 300 kilometers of high-voltage electric transmission lines, three substations, perform enhanced road maintenance and provide technical assistance to the national utility, new electricity regulator, and the department of roads.

4.7.5 Democracy, Human Rights and Governance

USAID is acting as one of the shoulder of responsibility to the establishment of representative democracy and restoration of public faith in political institutions.

- USAID provided US \$ 123,000 for a voter education program, which was undertaken by the non-parties NGO during the national election 1991. Similarly, US has supported on informal forum that created a space for confidentiality dialogues, helping political parties ti build trust and confidence.
- US has provided support to the ministry of women, children and social welfare in developing key policy documents, such as national minimum standards for victim protection and standard operating procedure for shelter homes for human trafficking survivors.
- USAID's support helped secure a record 75% voter turnout, and more than 1.7 million Nepalese- over 10 % of the total eligible voters, most of whom were women or members of marginalized groups-registered to vote for the first time.

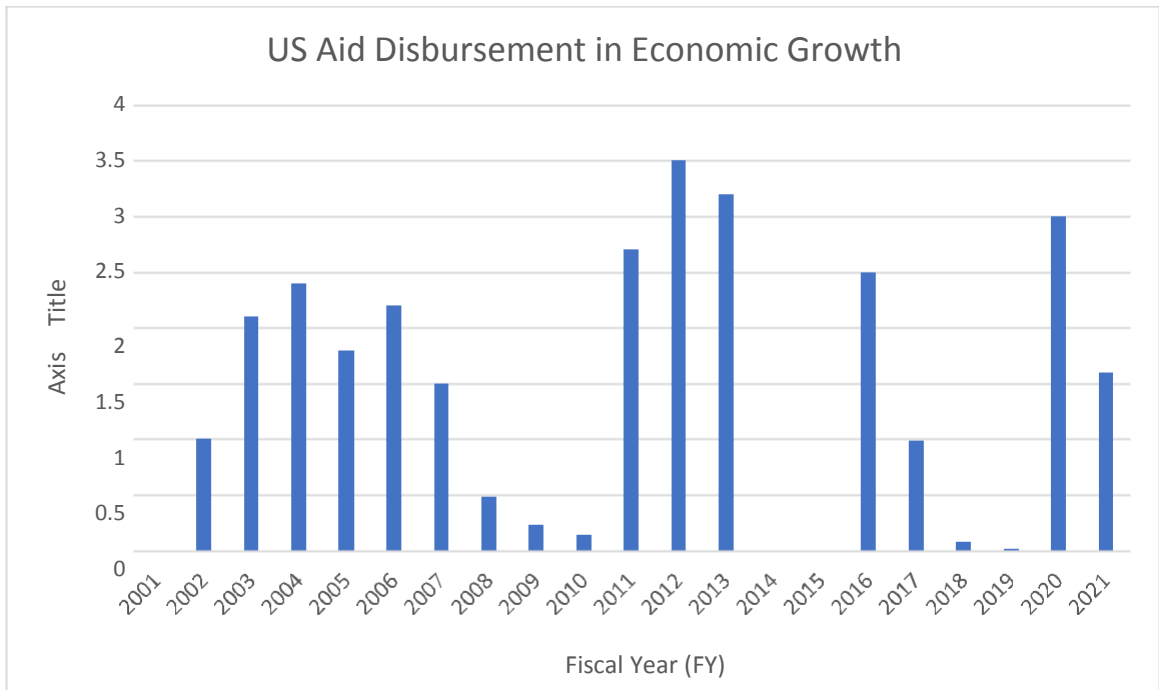
Figure 11: US Aid Disbursement in Governance Sector



4.7.6 Economic Growth and Trade

About 25.5 percent of Nepalese people live below the poverty line. The main aim of USAID in Nepal is to improve the income generating potential of the poorest of poor, expand young people’s access to job, increase farmer’s income level and food security, help the government of Nepal address macroeconomics and agricultural sector policies, and improve Nepal’s business environment for private sector led growth. USAID is encouraging socially and environmentally sustainable hydropower development in Nepal by creating enabling conditions for policy reform, transparency, good governance and private sector investment.

Figure 12: US Aid Disbursement in Economic Growth Sector



4.7.7 Natural Resource Management

USAID’s support for natural resource management has proven to be one of the most long-lasting and successful development assistance program in Nepal.

- The United States Agency for International Development (USAID) is advancing the USG’s Indo-Pacific vision through bilateral and regional partnerships to strengthen democratic systems, foster economic growth, and improve the management of natural resources. USAID’s work in Nepal supports these objectives by promoting transparency and inclusive governance; supporting smart investment policies, regulations and practices; and advancing the sustainable management of natural resources.
- US has assisted in increasing technical and managerial capabilities of community forestry and buffer zone user groups for sustainable forest management, assisting water associations to increase the distribution and flow of irrigation water and to improve their fiscal management and collection of user’s fees to maintain canal system

U.S. assistance, primarily implemented through USAID, has been critical to helping Nepal rebuild after the devastating 2015 earthquake. The United States has provided

over \$190 million for earthquake relief, recovery, and reconstruction. These commitments exceeded our initial pledge of \$130 million made at the International Conference on Nepal’s Reconstruction in June 2015. Although significant recovery needs remain, the United States, to date, has built 36 schools and hospitals; has directly helped rebuild over 16,000 homes; trained 260,000 people in safer construction; and developed policies, systems, and controls to ensure that \$8.6 billion in reconstruction results in safer structures for all. USAID is also helping Nepal implement its new disaster management law, and stand up a new National Disaster Management Authority.

4.8 The Trend of the Earning from US Aid

4.8.1 Analysis of US Aid from the time period (1990/91-2020/21)

In order to study the effect of time on earning of US Aid, regression analysis was used. In the regression analysis, the dependent variable was US Aid (Y) and the independent variable was time (X). The SPSS output is presented as:

Table 4.1 Regression Analysis of US Aid and Time

	Coefficients	Standard Error	t-Statistics	P-value
Intercept	56.5219355	3.34358203	16.90461	1.48E-16
Time	4.22471371	0.37382384	11.30135	3.83E-12

The above output gives the following regression equation:

$$Y = 56.521 + 4.22X$$

$$t\text{-stat} = (16.904)^* + (11.301)^*$$

Where,

From the above regression analysis, it can be observed that the US Aid increases by 4.2247 per year. All coefficients are statistically significant at 5 percentage level of significance because the p-value is less than 0.05.

Table 4.2 ANOVA Analysis of US Aid and Time

ANOVA	df	SS	MS	F-stat	p-value
Regression	1	44263.55	44263.55	127.7205	< 0.001
Residual	29	10050.41	346.5658		
Total	30	54313.96			

Table 4.3 SUMMARY OUTPUTS of US Aid and Time

Regression Statistics	
Multiple R	0.9027498
R ²	0.81495719
Adjusted R ²	0.80857641
Standard Error	18.6162769
Observations	31

The model summary reports an adjusted R² of 0.8085 which means 80.85 percentage of the variation in US Aid is explained by one independent variable (time) of our study and the remaining variation is unexplained. The linear regression model is significant at 5 percentage level of significance since the p-value in the ANOVA table is very low. From the above regression equation, US Aid can be predicted to be 1191.14 million US \$ by the year 2026/2027.

Table 4.4 Predicted value of US Aid

Fiscal Year	X = (t – 2005)/ 6	US Aid (in US\$ millions)
2021/22	16	908.54
2022/23	17	965.06
2023/24	18	1021.58
2024/25	19	1078.10
2025/26	20	1134.62
2026/27	21	1191.14

4.8.2 Regression Analysis of US Aid with GDP of Nepal

To study the effect of US Aid on the GDP of Nepal, regression analysis was used. In the regression analysis, dependent variable was GDP of Nepal and US Aid was the independent variable. The SPSS output is presented as:

Table 4.5 Test of significance

	Coefficients	Standard error	t- statistics	p-value
Intercept	724.957	1279.925	0.566406	0.0457
US Aid (in millions) US\$	216.043	18.19796	11.87828	1.423E-11

The above output gives the following regression equation:

$$Y = 216.04 + 724.95X$$

$$t\text{-stat} = (0.566)^* + (11.871)^*$$

All coefficients are statistically significant at 5 percent level of significance because the p-value is less than 0.05.

Table 4.6: ANOVA Analysis of US Aid and GDP of Nepal

	df	SS	MS	F	Significance F
Regression	01	2.54E+09	2.54E+09	140.9403	1.423E-11
Residual	29	5.22E+08	1.80E+07		
Total	30	3.06E+09			

In Table 4.6, df symbolizes degree of freedom, SS represents Sum of Squares and MS is the Mean Squared error. The higher value of regression SS in Table 4.6 signifies that the variability in US aid does a good job in explaining the variability in GDP of Nepal. Also, since the value of Significance F is less than the significance level ($\alpha=0.05$), it again shows that variation on US aid can somewhat explain the change in the GDP of Nepal.

Table 4.7: Regression Statistics for US aid against GDP of Nepal

Regression Statistics	
Multiple R	0.910688
R ²	0.829352
Adjusted R ²	0.823467
Standard error	4241.098
Observations	31

Table 4.7 shows Karl Pearson coefficient to be 0.91 which implies that there is a strong positive correlation between US aid and GDP of Nepal. From Table 4.5, the R² of 0.8293 is obtained i.e. 82.93% of the change in the GDP of Nepal is driven by the aid provided to Nepal by the US. It is significantly high number taking into account just one of the factors that might be responsible for the change in the GDP of Nepal. Further, one should not confuse correlation with causation; there is correlation between GDP of Nepal and US aid but we cannot be sure if US aid caused the change in GDP of Nepal. Standard error obtained is high which might have been due to the fluctuation in the value and limitation of the data to 31 years from FY 1990/91 to 2020/21.

- Our null hypothesis; H_0 is that there is no relationship between the independent variable US aid and the dependent variable GDP of Nepal.
- Alternative hypothesis; H_1 is that there exists a significant relationship between the independent and dependent variables.
- Here, the p-value for US aid is less than the significance level of 0.05, we can reject the null hypothesis. It gives that the coefficient of US aid obtained in Table 4.7 has a significant effect on the GDP of Nepal. But, the intercept value cannot be relied upon as the p-value for it exceeds the significance level.

However, the intercept is not a major concern for our research.

It is obtained that there exists a significant relationship between the GDP of Nepal and US aid inflow in Nepal which is a significant result of our research. The available data suggests that there is a dependence of Nepal's GDP on US aid, but the economic growth rate of Nepal exceeds the rate of increase in US aid to Nepal. It is a good sign for Nepal as it objects to the total dependence of Nepal for foreign aid.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

The study attempted to get various empirical results using only secondary data. The acquired data were obtained from various sources including Economic surveys, Central Bureau of Statistics, World Bank, Ministry of Finance (MoF), Development Cooperation reports etc. The time interval under study was taken between FY 1990/91 to 2020/21 since the inflow of US aid and other foreign aid began to increase after 1990. Regression analysis was carried out to examine the impact of US aid on the GDP of Nepal.

The focus of the study was to study the trend and pattern of US aid inflow in Nepal. The total US aid amounted to 1752.18 million US dollars from FY 1990/91 to 2020/21. In this period, US aid has occupied 6.3 % of the total foreign aid provided to Nepal. Although there seems to be a fluctuating pattern in the US aid, the overall trend is increasing. US aid has sent assistance in every field including Education, Health, water supply and sanitation, communication, Energy, Banking and financial services, agriculture, forestry and fishing, industry, tourism, humanitarian aid, government and civil society, conflict, peace and security, and transportation and storage.

Using the regression technique of data analysis, the available secondary data for 31 years were treated. The correlation coefficient of 0.91 showed that there is a strong positive correlation between US aid and GDP of Nepal. Any increase/ decrease in US aid, might also predict an increase/decrease in the GDP of Nepal. The R^2 value for the independent variable (US aid) and the dependent variable (GDP of Nepal) was found to 82.93 percent which signified that US aid could be one of the factors whose change might contribute to a change in GDP of Nepal. The t-test showed that US aid positively impacted the GDP of Nepal.

5.2 Conclusion

In developing countries like Nepal, adequate mobilization of internal resources could not have been possible without foreign aid to accelerate the economic growth and development. The function of foreign aid is to enable the developing countries to make transition from economic stagnation to self-sustaining economic growth. Among the

various projects under foreign aid, few of them are successful to fulfill their indicated aim but in general, they have been less effective in bringing required amount of economic growth.

Before the restoration of democracy in Nepal in 1990, most of the US aid was focused on transportation, irrigation and power generation which later changed to natural disaster management, health with continuation on transportation and hydroelectricity. Although there has been a steady increase in the US aid to Nepal, GDP of Nepal has been increasing in even greater rate which is a good sign for Nepal. Such foreign aid, if implemented well can achieve its purpose.

Foreign aid serves as an important source of fund for under-developed and developing countries. There have been countless arguments over the period on whether aid has been utilized effectively for the economic upliftment and growth of the recipient countries. Nepal is one of the least developed countries and it is highly dependent on foreign aid. Therefore, it is important to analyze the effectiveness of aid in the Nepalese economy.

5.3 Recommendations

It seems obvious that larger foreign aid is essential for the economic development of a country. But it should also be comprehended whether foreign really uplifts the economic standard of a country and helps increase the GDP of that country. If such goals are not met, the providence of foreign aid is futile and rather demotes the economy of a country increasing dependence on foreign aid. For the proper utilization of foreign aid, the disbursing countries and organization should also take care whether the grant or loan provided has been used in the intended way. Further, US aid should not be thought to be the income but a means to properly utilize the resources available in the country to increase the GDP of Nepal. In the long run, more loans will not be much fruitful if currently those aids have not been utilized properly, but rather increases the burden on the country and the people.

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APPENDIX A

Table 1 Trend and pattern of US Aid

Fiscal Year (FY)	US Aid (in millions) US \$
1990/1991	17.00
1991/1992	14.00
1992/1993	18.00
1993/1994	20.00
1994/1995	20.00
1995/1996	19.00
1996/1997	15.00
1997/1998	21.00
1998/1999	16.91
1999/2000	16.65
2000/2001	15.95
2001/2002	20.23
2002/2003	32.60
2003/2004	37.80
2004/2005	35.37
2005/2006	52.05
2006/2007	61.53
2007/2008	54.03
2008/2009	77.65
2009/2010	73.50
2010/2011	51.91
2011/2012	65.45
2012/2013	65.89
2013/2014	72.34
2014/2015	132.37
2015/2016	118.93
2016/2017	134.05
2017/2018	117.83
2018/2019	77.54
2019/2020	126.90
2020/2021	150.70

Source: World Bank, Development Cooperation Report of various years

APPENDIX B

Table 2 Pattern of US aid as a percentage of Total aid (FY 1990/91-2020/21)

Fiscal Year (FY)	Total ODA (in millions) US \$	US Aid (in millions) US \$	% US Aid of Total ODA
1990/1991	357.18	17.00	4.76
1991/1992	374.03	14.00	3.74
1992/1993	388.53	18.00	4.63
1993/1994	299.38	20.00	6.68
1994/1995	384.16	20.00	5.21
1995/1996	380.63	19.00	4.99
1996/1997	331.34	15.00	4.53
1997/1998	315.34	21.00	6.66
1998/1999	307.73	16.91	5.50
1999/2000	292.23	16.65	5.70
2000/2001	311.23	15.95	5.13
2001/2002	347.82	20.23	5.81
2002/2003	334.50	32.60	9.75
2003/2004	452.88	37.80	8.34
2004/2005	429.66	35.37	8.23
2005/2006	407.23	52.05	12.78
2006/2007	452.51	61.53	13.60
2007/2008	556.97	54.03	9.70
2008/2009	614.66	77.65	12.63
2009/2010	708.99	73.50	10.37
2010/2011	767.35	51.91	6.76
2011/2012	749.32	65.45	8.73
2012/2013	769.68	65.89	8.56
2013/2014	873.33	72.34	8.28
2014/2015	883.82	132.37	14.98
2015/2016	1224.44	118.93	9.71
2016/2017	1064.50	134.05	12.59
2017/2018	1269.65	117.83	9.28
2018/2019	1578.20	77.54	4.91
2019/2020	2002.80	126.90	6.35
2020/2021	1756.00	150.70	8.58

Source: World Bank, Development Cooperation Report of various years

APPENDIX C

Table 3 Composition of US aid in terms of the grant, loan, and technical assistance (FY 1990/91- 2020/21)

<i>(In million) US \$</i>				
Fiscal Year	US Aid	US grant	US loan	US Technical Aid
1990/1991	17.00	2.00	-	15.00
1991/1992	14.00	2.00	-	12.00
1992/1993	18.00	4.00	-	14.00
1993/1994	20.00	4.00	-	16.00
1994/1995	20.00	2.00	-	18.00
1995/1996	19.00	-	-	19.00
1996/1997	15.00	1.00	-	14.00
1997/1998	21.00	-	-	21.00
1998/1999	16.91	0.02	-0.02	16.91
1999/2000	16.65	0.16	0.01	16.49
2000/2001	15.95	0.01	-0.01	15.96
2001/2002	20.23	2.09	-0.01	18.15
2002/2003	32.60	5.60	-0.01	27.01
2003/2004	37.80	4.69	-0.02	33.13
2004/2005	35.37	3.60	-0.01	31.78
2005/2006	52.05	6.53	-0.02	45.54
2006/2007	61.53	9.06	-0.01	52.48
2007/2008	54.03	52.96	-	1.07
2008/2009	77.65	76.58	-	1.07
2009/2010	73.50	72.42	-	1.08
2010/2011	51.91	50.53	-	1.38
2011/2012	65.45	63.98	-	1.47
2012/2013	65.89	63.93	-	1.96
2013/2014	72.34	68.79	-	3.55
2014/2015	132.37	72.12	0.01	60.24
2015/2016	118.93	59.51	5.78	53.64
2016/2017	134.05	77.16	7.46	49.43
2017/2018	117.83	44.44	0.01	73.38
2018/2019	77.54	24.81	0.01	52.72
2019/2020	126.90	1.90	-	125.00
2020/2021	150.70	95.57	17.92	37.21

Source: Economic surveys of several years (MoF), World Bank

APPENDIX D

Table 4 Analysis of Variation of US aid and GDP of Nepal

Fiscal Year (FY)	GDP of Nepal (in millions) \$	% change in GDP	US Aid (in millions) \$	% change in US Aid
1990/91	3627.56	0.00	17.00	0.00
1991/92	3921.48	8.10	14.00	-17.65
1992/93	3401.21	-13.27	18.00	28.57
1993/94	3660.04	7.61	20.00	11.11
1994/95	4066.78	11.11	20.00	0.00
1995/96	4401.10	8.22	19.00	-5.00
1996/97	4521.58	2.74	15.00	-21.05
1997/98	4918.69	8.78	21.00	40.00
1998/99	4856.26	-1.27	16.91	-19.48
1999/2000	5033.64	3.65	16.65	-1.54
2000/01	5494.25	9.15	15.95	-4.20
2001/02	6007.06	9.33	20.23	26.83
2002/03	6050.88	0.73	32.60	61.15
2003/04	6330.48	4.62	37.80	15.96
2004/05	7273.93	14.90	35.37	-6.43
2005/06	8130.26	11.77	52.05	47.19
2006/07	9043.72	11.23	61.53	18.21
2007/08	10325.62	14.17	54.03	-12.19
2008/09	12545.44	21.49	77.65	43.71
2009/10	12854.99	2.47	73.50	-5.34
2010/11	16002.66	24.49	51.91	-29.37
2011/12	18913.57	18.19	65.45	26.08
2012/13	18851.51	-0.33	65.89	0.67
2013/14	19244.25	2.08	72.34	9.79
2014/15	22731.60	18.12	132.37	82.99
2015/16	24360.79	7.17	118.93	-10.15
2016/17	24524.09	0.67	134.05	12.71
2017/18	28971.59	18.14	117.83	-12.10
2018/19	33111.53	14.29	77.54	-34.19
2019/20	34186.18	3.25	126.90	63.65
2020/21	33657.18	-1.55	150.70	18.75

*Source: Economic surveys of various years (MoF), Development Cooperation Reports
of various years*

APPENDIX E

Table 5: Sector wise US Aid Disbursement

Fiscal Year	Sector wise US aid Disbursement							
	H. & P.	Gov.	Hum.	Eco. growth	Admin.	Agri.	Edu.	Others
2001	9.20	3.80	3.80	-	1.90	3.10	-	3.50
2002	12	16	3.70	1.00	2.60	2.30	0.09	3.80
2003	17	6.20	2.10	2.10	2.80	2.40	2.80	5.30
2004	22	7.1	2.70	2.40	2.70	2.10	-	5.40
2005	22	15	4.30	1.80	2.50	2.50	12	6.50
2006	30	12	5.10	2.20	2.50	2.50	4.60	5.40
2007	23.00	20.00	10	1.50	1.90	1.10	-	5.80
2008	20	25	26	0.48	4.40	1.70	-	0.78
2009	23	21	20	0.23	5	1.90	0.29	1.42
2010	21	20	8.10	0.14	7.10	0.28	2.70	0.59
2011	21	22	17	2.70	7.60	1.90	2.60	0.32
2012	22	14	8.30	3.50	8.70	11	4.80	1.5
2013	28	21	3.50	3.20	11	5.60	7.10	7
2014	29	21	3.40	-	10	7.60	5	8.5
2015	46	26	27	-	11	14	7.10	13.4
2016	42	61	32	2.50	13	21	22	16.35
2017	44	28	5.40	0.99	14	35	39	24.77
2018	55	23	5.70	0.08	16	25	36	19.45
2019	40	28	3.30	0.02	18	20	21	22.74
2020	36	21	4.5	3	13	14	30	15.07
2021	49	17	12	1.6	17	10	25	17.58

Source: Economic surveys of several years (MoF)