

**AN EFFECTIVENESS OF US AID IN NEPAL
ON ECONOMIC AND SOCIAL SECTOR ANALYSIS**

A Thesis

Submitted to the Central Department of Economics

Tribhuvan University, Kirtipur, Kathmandu, Nepal

In Partial Fulfilment of the Requirement

for the Degree of

MASTERS OF ARTS

in

Economics

By

GANESH PRASAD GAUTAM

Roll. No. 321/2011

T.U. Regd. No.: 6-1-202-163-98

Central Department of Economics

Tribhuvan University

Kirtipur, Kathmandu, Nepal

2015

RECOMMENDATION LETTER

Mr. Ganesh Prashad Gautam has completed his thesis entitled “**AN EFFECTIVENESS OF USAID IN NEPAL ON ECONOMIC AND SOCIAL SECTOR ANALYSIS**” under my supervision and guidance. I hereby recommend this thesis for examination by the thesis committee as a partial fulfillment of the requirement for the degree of Master of Arts in Economics.

.....

Supervisor

Mr. Khagendra Katuwal

Lecturer

Central Department of Economics,

Tribhuvan University,

Kathmandu, Nepal

Date:

APPROVAL LETTER

We certify that this thesis entitled “**AN EFFECTIVENESS OF USAID IN NEPAL ON ECONOMIC AND SOCIAL SECTOR ANALYSIS**” submitted by Mr. Ganesh Prashad Gautam to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirements for the Degree of Master of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

Thesis Committee

.....

Prof. Ram Prasad Gyawali (Ph.D.)

Chairman

.....

Mr. Sanjaya Bahadur Singh

External Examiner

.....

Mr. Khagendra Katuwal

Thesis Supervisor

Date:

ACKNOWLEDGEMENTS

This thesis “**AN EFFECTIVENESS OF USAID IN NEPAL ON ECONOMIC AND SOCIAL SECTOR ANALYSIS**” is prepared to meet the requirements for the Master of Arts in Economics. During the study and research period many hand directly and indirectly helped materialize to achieve the desired objectives.

I am cordially thankful to Mr. Khagendra Katuwal, lecturer at Central Department of Economics, Tribhuvan University, for his consistent availability and for enlightening discussions that shaped and directed the thesis.

I am extremely grateful to Prof. Dr. Ram Prasad Gyawali, head of the Central Department of Economics for providing me an opportunity to write this thesis.

I take this opportunity to record my sense of gratitude to all writers and publishers who were the source of inputs for the preparation of this dissertation.

I am highly indebted to researchers, persons and organization (MOF) and my friends, Ms. Mamata Kumari G. C. and Mr. Kapil Dev Pant of the co-operation in this research.

Ultimately my heart full thanks and lots of love to all the friends of Central Department of Economics who are the best friends I have ever met.

Lastly, I would like to express my gratitude towards my parent and whole family for their valuable encouragement and provision of a suitable environment.

Date:

Ganesh Prasad Gautam

TABLE OF CONTENTS

<i>Letter of Recommendation</i>	<i>i</i>
<i>Approval Letter</i>	<i>ii</i>
<i>Acknowledgement</i>	<i>iii</i>
<i>Table of Contents</i>	<i>iv</i>
<i>List of Tables</i>	<i>vii</i>
<i>List of Figures</i>	<i>viii</i>
<i>Abbreviations</i>	<i>ix</i>
CHAPTER I: INTRODUCTION	1-6
1.1 General Background of the Study	1
1.2 Statement of the Problem	3
1.3 Objective of the Study	4
1.4 Significance of the Study	5
1.5 Limitation of the Study	5
1.6 Organization of the Study	5
CHAPTER II: LITERATURE REVIEW	7-18
2.1 Theoretical Perspectives	7
2.1.1 Studies on International Aspect	7
2.1.2 Studies on National Aspect	11
2.2 Empirical Perspectives	12
2.2.1 Studies on International Aspect	12
2.2.2 Studies on National Aspect	16
CHAPTER III: RESEARCH METHODOLOGY	19-21
3.1 Research Design	19
3.2 Study Period	19

3.3	Data Collection	19
3.4	Data Analysis	19
3.4.1	Regression Analysis	20
3.4.2	Statistical Test of Significance	20
3.5	Tools of Analysis	21
CHAPTER IV: USAID TO NEPAL		22-29
4.1	A brief history of US Assistance in Nepal	22
4.2	Objectives of USAID and Priorities area in Nepal	23
4.3	Total magnitude of USAID to Nepal (1990-2014)	26
4.4	Trend and pattern of USAID to Nepal (1990-2014)	27
CHAPTER V: PRESENTATION AND ANALYSIS OF DATA		30-42
5.1	Sector- wise Distribution of USAID	30
5.2	Sector- wise magnitude and trend in terms of total aid	
	Inflow in social and economic sector of USAID to Nepal	32
5.3	Effectiveness of USAID IN Economic and Social sector	
	Analysis of USAID in Nepal	33
5.3.1	Agricultural Development	34
5.3.2	Improvement in Health Sector	35
5.3.3	Education	35
5.3.4	Democracy, Human Rights and Governance	36
5.3.5	Economic growth and trade	37
5.3.6	Environment and Global Climate	37
5.3.7	Crisis and Conflict	37

5.4	Analyzing the impact of USAID inflow in Economic And Social sector on Real GDP	39
5.5	Examining the nexus between real GDP and USAID In flow in Economic and Social sector	41
	CHAPTER VI: SUMMARY, CONCLUSION AND RECOMMENDATIONS	43-45
6.1	Summary of Major findings	43
6.2	Conclusion	44
6.3	Recommendations	44
	REFERENCES	46
	Annex I	49

LIST OF TABLE

Table 4.1	Total Magnitude of USAID to Nepal (1990-2014)	26
Table 4.2	Trend and Pattern of USAID to Nepal (1990-2014)	28
Table 5.1	Total magnitude and trend of USAID inflow to Nepal	32
Table 5.2	USAID inflow in Economic and Social sector	38
Table 5.3	Analyzing the impact of USAID inflow in Economic And Social sector on Real GDP	39
Table 5.4	Analyzing the impact of USAID inflow in Economic And Social sector on Real GDP	40
Table 5.5	Analyzing the impact of USAID inflow in Economic And Social sector on Real GDP	41
Table 5.6	Examining the nexus between Real GDP and USAID inflow in economic and social sector	42

LIST OF FIGURES

Figure 4.1	Total Magnitude of USAID to Nepal (1990-2014)	27
Figure 4.2	Trend and Pattern of USAID to Nepal (1990-2014)	29
Figure 5.1	Total Magnitude and Trend of USAID Inflow to Nepal	33

ABBREVIATIONS

GDP	:	Gross Domestic Product
GNP	:	Gross National Product
CBS	:	Central Bureau of Statistics
US	:	United State of America
USAID	:	United States Agency for International Development
UK	:	United Kingdom
LDCs	:	Least develop Countries
UN	:	United Nation
USOM	:	United operation Mission
MOF	:	Ministry of Finance
GONs	:	Government of Nepal
ECED	:	Early Childhood Education Development
DOE	:	Department of Education
IPMIL	:	Integrated Part Management Innovation Lab
GCC	:	Global Climate Change
OECD	:	Organization for Economic Cooperation and Development
FY	:	Fiscal Year
ODA	:	Official Development Assistance
OUP	:	Oxford University Press
ICRG	:	International Country Risk Guides

CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

Foreign aid is generally defined as a transfer of resources from one country to another on concessional terms. The sources can be transferred in various forms financial, technical or commodities (Khadka, 1997). In 1960s, United Nations (UN) defined foreign aid as: "All transaction for a country or international organizations which result in a permanent net addition to total resources available for economic development of another country."

Foreign aid is the administered transfer of resources from the advanced countries (The Dictionary of Economics, Oxford University Press, 2002). Britannica Encyclopedia defines foreign aid as the international transfer of capital, goods or services from a country or international organization for the benefit of the recipient country or its population. Aid can be economic, military or emergency humanitarian (www.britannica.com).

In common uses it includes governmental resource transfer to poor countries that are mainly for development purpose; it excludes quasi- commercial transactions (hard loans) such as export credits whose benefits to the lender approximate their cost. For most purposes, it also excludes public transfers for non- developmental activities, such as military assistance and private charity (Bhagwati, 1969).

The purpose of foreign aid is to meet the economic as well as social upliftment of recipient country. It helps to uplift domestic savings of backward economy. The development function of aid does not directly raise the living standard of the recipient country; rather it permits them to make a transaction from economic growth. Aid is concerned with the social and economic betterment of the poor country. The main aim of foreign aid is to enhance the economic growth of the country. In an initial stage of development foreign aid is indispensable. It is an economic necessity.

It can be interpreted in a narrower sense as well as in a broader sense. In a narrower sense it means grants and long term loans for economic purposes where as in a boarder sense, it is defined as in all aspect of economic relations, i.e. not only grants and loans but private investment and trade too. Foreign aid is any flow of capital LDCs that meets two criteria: First, its objectives should be non-commercial from the point of view of the donor, and second it should be

characterized by concessional terms, i.e. the interest rate and repayment period for borrowed capital 'softer' than commercial terms, excluding military aid.

Foreign aid is regarded as financial inflows, human and technological resources from developed to developing countries to compensate for domestic deficiencies in capital, human and technological resources. It is a much debated phenomenon. Debate has mainly centered on whose interest aid actually serves- the recipient' or donors'. Intellectuals, thinkers, development practitioners and writers have experienced difficulty on the rationale, adequacy, efficiency and effectiveness of aid. The term is used differently in diverse contexts. Neo classical economists argue that aid has largely been ineffective and inefficient due to the absence of market institutions and a policy climate to make it work. From Keynesian perspectives aid has immense potential in creating a just and equal world where productive resources are likely to be utilized optimally. Marxists believe that aid has not only not reduced poverty, it has reproduced poverty and under development. They argue that through conditional ties, aid has worked to dismantle public social services, undermine local industries and facilitate take-over of strategic sectors of the economy of many poor countries by the donors. (The Rising Nepal, 25 March 2008)

Nepal is in the category of least developed countries. 23.8 per cent Population are living below the poverty line. It is a predominantly an agrarian economy from where 74 per cent people derive their livelihood from agriculture, which contributes 33.3 per cent to GDP. Nepal's GNI per capita income is US \$ 772 (Economic Survey, F/Y 2014/15). About 82.04 per cent population live in rural areas and 17.06 percent population live in urban areas (CBS, 2011). The present level of capital formation is low and increase in saving and tax is not possible due to extreme low level of income and widespread poverty. Tax base is too low and coverage of net tax is limited; the taxes are indirect in nature which limits the possibility of mobilizing the tax revenue. There is very little scope of public borrowing because of very low income per capita. Deficit financing is also discarded because of its inflationary pressure on the economy. At this critical juncture, the only alternative to pull the economy out of the vicious cycle of poverty is the foreign aid.

Nepalese economy is facing recession and passing through the critical phase of low level equilibrium trap circumscribed by mass poverty and stagnation. There is the manifestation and subsistence farming with limited prospects for mechanization. Nepalese society is moving towards three headed crisis that are continuing existence of poverty on a large scale, threat to national environments, resources base and high population growth. There is an existence of conflict, corruption, policy failure, instability and other shortcomings which affect the rate of capital formation resulting big gap between supply and demand resources. It is

obvious that the gap seems to be impossible to fulfill from the internal resources. Development as a consequence has been patchy and incomplete with limited domestic resources. Henceforth, there is significance role of foreign aid to solve it.

Foreign aid holds critical importance for the Nepalese economy. Its economic importance resides not only in the fact that foreign aid provides resources for the national budget, rather it also helps to bridge the gap between national saving and investment. Foreign aid also helps to meet the gap between excess of imports and exports of goods and services.

Indeed, hardly any economic activities of government do not have an element of foreign aid attached to them; aid is all pervasive to the country. Significant political, social and economic policy making itself is planned and conducted with foreign aid. This horizontal and vertical pervasiveness in national economic management transcends into non- economic spheres of Nepal too, including social, political and regional dimensions and also through its overall redistributive effects (Acharya, 2002).

Foreign aid has begun to be watched critical reservation in Nepal. It is publicly held that it has not brought about the economic and social development that it had promised. On the contrary, aid is held to have widened gaps in economic opportunities between the rich and poor. Nepal has been receiving foreign aid since 1951AD when she signed 'Point Four Program' with United States. US have been a premier donor country that is playing an important role in mobilizing aid to Nepal. American (US) aid covers a wider spectrum of socio economic and infra-structural sections.

The United States was the first country to offer aid to Nepal. The United States and Nepal signed the first aid agreement (General agreement for Technical cooperation) in 1951 AD at a time when cold war hostility between the two super powers reached its peak. The United State also was the major donor until the mid-1960s and has been one of the major donors since then. From 1951 to 1990 the United States offered US \$450.8 million aid (loans and grants) and the average annual authorization in the 1980s was US \$15 million. A number of factors motivated US interest to provide aid to Nepal (Khadka, 1997).

The trend, pattern, concentration volume and motives of foreign aid provided by US not only have economic and developmental influence in Nepal but also have political and strategic motives as well.

1.2 Statement of the Problem

Foreign aid has played a crucial role in financing Nepal's economic development since 1951. Nepal mobilizes resources through economic activities

and spends in those sectors where private sectors may be reluctant as it is not guided by profit motive. There are no incentives for market and does not have adequate capacity to generate as well as absorb resources; there exist gap between required spending and available resources and skills. Under such circumstances it is desirable for Nepal to rely on foreign aid to fill such gap i.e. the gap between saving and investment (Saving gap) and between import and export (foreign exchange gap) and available skill and technology.

This study has mainly focused on the pattern and magnitude of USAID as well as effectiveness of USAID in economic and social sector in Nepal. USAID is concentrated in social sector rather than economic sector which, in turn, enhances the literacy rate, skill of the manpower, income as well as improve standard of living of the people.

The relationship between Real GDP and Foreign aid is positive as well as negative. The positive relationship between the variables is on account of the fact that larger the quantum of Foreign aid, higher the Real GDP. Foreign aid stimulates the investment thus making the environment for investment in the domestic territory, income, production and Real GDP increases. The negative relationship is in the light of Foreign aid may be misutilized by the recipient country by diverting the funds towards the thing that is not meant for. In other words there may be leakage in the quantum of foreign aid and funds may be utilized in unproductive sector thus giving rise to corruption and other deep rooted problems, thereby discouraging climate for investment, income, production and Real GDP. Foreign aid has a positive as well as negative effect on developing countries. The positive impact is on account of inflow of financial resources induces human development by inclining the quality of human capital and hence the Economic growth. Lack of political and civil liberties is found to have a negative, but statistically marginal impact on Economic growth. (Foreign Aid and Economic growth of Developing countries, Studies in Comparative International Development, volume 34, issue 3, pp -37-50). The same relationship between Foreign aid and Economic Growth hold good for developed countries.

This study tries to find out the effect of Foreign aid (USAID) on real GDP and nexus between Real GDP and USAID in Nepal. This study tries to answer the following questions

1. What is the pattern and trend of USAID in Nepal?
2. How far USAID inflow is effective in economic and social sector in Nepal?

1.3 Objectives of the study

The main objective of this study is to analyses the overall the structure and trend of USAID in Nepal. The specific objectives of this study are;

1. To examine the pattern and trend of USAID in Nepal.
2. To examine effectiveness of USAID inflow in economic and social sector on Real GDP in Nepal.

1.4 Significance of the Study

Foreign aid holds critical importance in Nepal. It is accepted as a means for the development in developing countries like Nepal. In developing country domestic saving and taxation are inadequate to stimulate investment to achieve meaningful and sustainable economic growth. Nepal faces huge problem of deficiency in resource mobilization due to low saving and high consumption. So there is serious resource gap in Nepalese economy. To bridge this gap, foreign aid is very important for the Nepalese economy.

In the early stage of development, sufficient amount of economic resources is needed to expedite the pace of economic development for which they have to depend to a large extent on foreign aid because "poor countries, like poor tend to consume most of their income, earning little for savings. Thus, they depend on aid to raise investment, to purchase essential imports, and to maintain a minimum level of expenditure on education and health services "(World Bank, 1997). Aid inflows would cause investment to increase, this would generate subsequent increases in income which in turn would raise domestic savings and increase the rate of development. Foreign aid not only supplements domestic saving in the receiving country but also helps to import the goods which have strategic importance in efficient industrial growth but cannot be produced domestically in the early stages of industrial development. It also contributes to growth by providing skilled manpower, technical skills and organizational ability.

1.5 Limitation of the study

1. Though the study uses time series data from 2000/01 to 2012/13, time series property has not been checked.
2. The study only analyzes USAID inflow in economic and social sectors in Nepal.
3. This study covers time period from 2000/01 to 2012/13 only.

1.6 Organization of the study

This study includes general background, statement of the problem, objectives of the study and significance of the study and limitation of the study.

Similarly, the related literatures from books, journals, booklets and articles are written by different expertise of this issue. It consist of brief history of US Assistance, sectoral analysis and disbursement of USAID in Economic and Social

sector, reason behind fluctuation in the trend of USAID inflow to Nepal, effectiveness of USAID in Economic and Social sector.

Finally, this study consists of summary, conclusion and recommendations and annexes of this study.

CHAPTER - II

LITERATURE REVIEW

This chapter consists of the review of literature related to the foreign aid. It includes theoretical as well as empirical perspectives.

2.1 Theoretical Perspective

The concept of foreign aid is not a recent phenomenon. It started just after the Second World War. After the Second World War foreign aid was systematized, primarily in the Marshall Plan. This was initiated by American president Herald Trueman in 1949, for the reconstruction of war divested European countries. The 'Marshall Plan' is considered as the forerunner of aid programs of the developing countries. The first foreign aid program for Nepal was initiated by the United States in 1951 with the implementation of the point four programs a technical assistance package. After the cold war, donor communities have been squeezing the flow of foreign aid. Nepal is receiving the foreign aid since the decade of 50s.

2.1.1 Studies on International Aspect.

Mihaly (1965) has given descriptive facts about foreign affairs and political condition of Nepal. He states that Nepal has attracted unusual attention from aid donors. Nepal receipt aid from so many sources from the initial stage of his development till today. They were USA, India, China, Denmark, UK, Japan and other agencies. According to him, in minor aid program, few of them are successful to fulfill their indicated goals, but in aggregate, they create serious problem of Nepal. He has shown the two types of impacts of foreign aid in Nepal: short term and long term impacts. In short term impact, aid project did not improve political consciousness as hope by donors. In long term impact, aid not only failed to give a significant boost of Nepal's economy but also it may even have made growth more difficult to achieve.

It was assumed that donors can simply fill the resource gap- that is say, the difference between domestic saving and the levels of investment required for a targeted rate of economic growth and fill it with assistance. Aid was perceived to fill gaps that were the most pressing. The currently popular view is that developing countries suffer more from an "institution gap and a "policy gap" than a financing gap. The main objective of foreign aid is to promote economic growth in poor countries and thereby lift out of poverty.

Gurugharana (1992) argues that external assistance for over 40 years was unable to alleviate poverty, improve human development, situation and foster

overall growth. He states that there is inadequate amount of aid relative to the requirement which is attributed to the nature and changing priorities of aid on the one hand and on the other hand, weak institutional and managerial capacity, inappropriate macro-economic and sectorial policies, lack of proper planning and commitment in government in government side and insufficient foreign assistance.

Samuel and Gupta (1993) said that foreign economic aid is intended to promote the economic development process in recipient developing countries. However aid is given out of mixed motives viz. commercial, humanitarian and strategic reasons. At one extreme is aid in its purest form and at the other end is said that is hardly aid because it is given in the form of loans with strings attached. The strings take the form of requiring the recipient country to purchase equipment materials etc. from the donor countries, usually at prices that are higher than from alternative sources. Hence the actual net benefit to be recipient country from the least pure forms of aid can be nil or even negative.

They further said that aid to be given and received there must obviously be a maturity of interest between donors and receiver. But the balance of interest within the framework of mutuality could determining the effectiveness of the aid for economic development. The implication is that the aid will have limited development effects if it is given mainly to further the commercial and political interest of the donor government or alternatively although given in the interest of the recipient country; it is utilized inefficiently by the recipient government.

Singh (1996) described about the evolution of Foreign aid in Nepal and political role of Foreign aid is sincerely prevalent. He emphasizes the different sectors where the foreign aid has failed to yield the fruitful results.

According to the book, the need for aid arises from both demand side and supply side.

1. On the demand side, the re-widening resource gap and trade deficits have attributed to inflow of aid into the economy.
2. The needs for aid arise due to improvement absorptive capacity, high maintenance bills and the effects of domestic and international inflation.
3. On the supply side, the aid has always been plentifully available.

The challenge is how to utilize the available aid more effectively and economically. The finding of this book is that foreign aid in general, has not helped Nepal in the mobilization of international resources and uplifting its GNP due to the following reasons.

1. A part of aid has been utilized to meet the local cost of the project.

2. The multiplier effect of the projects has been appropriated by the donor countries as well.

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

They defined foreign aid as any flow of capital to LDCs that meets two criteria:

1. Its objective should be non-commercial from the point of view of the donor,
2. It should be characterized by concessional terms that is, the interest rate and the repayment period for borrowed capital should be softer (less stringent) than commercial terms.

This definition can be inappropriate, as it could include military aid, which is both noncommercial and concessional. Military aid is excluded from international economic measurement of foreign aid flows. The concept of foreign aid that is widely used and accepted and therefore is one that encompasses all official grants and concessional loans, in currency or in kind, that are broadly aimed at transferring resources from developed to LDCs on development or income ground.

According to them, the allocation of foreign aid is rarely determined by the relatives' needs of developing countries. Most bilateral aid seems unrelated to development priorities, being based largely on political and military considerations and unpredictable whims and ad hoc judgments of donor decision makers. Multilateral aid (e.g. from the World Bank and various UN agencies) is somewhat more economically rational, although here to the rich seem to attract more resources than the poor.

They gave reason behind, why donors give aid and LDCs recipients accept aid? The issues of the economic effects of aid, especially public aid, like that of the effects of private foreign investment I fraught with disagreement. On one side are the economic traditionalists, who argue that aid has promoted growth and structural transformation in many LDCs. On the other side, critics who argue that aid does not promote faster growth but may retard it by substituting ,rather than

supplementing, domestic saving and investment and by exacerbating LDC balance of payments deficits as a result of rising debt repayment obligations and the linking of aid to donor-country exports and foreign aid has been a failure because it has been largely appropriated by corrupt bureaucrats, has stifled initiative and has engendered a welfare mentality on the part of recipient nations.

Fielding, et.al (2005) established the link between foreign aid with MDGs targets including health, wealth and wisdom. They explored the extent to which aid affects MDGs related variables and provides perspective and social aspect of aid. They concluded that aid can improve outcomes across a wide variety of development indicators including sanitation child health and household assets along with schooling.

Dhankov, et.al (2006) have argued in favor of a massive increase in foreign aid to Africa in order to escape from a supposed poverty trap. The flow of aid is targeted to a particular set of investment and public sector investment, so that the aid can't be used for consumption. Foreign aid has both negative as well as positive impact on Economic growth by influencing both investment as well as government expenditure.

An article published by Farah (2009) Journal of International relations on "Foreign aid and the Big Push theory": lesson from Sub- Saharan Africa Defined, ODA as the flow of official financing to the developing world that is concessional in character, namely grants and loans with at least a 25 percent grant component.

It is administered with the objective of promoting economic development and welfare countries and comprises both bilateral aid that flows directly from donor to recipient government and multilateral aid that is channeled through an intermediary lending institution like the World Bank. This definition excludes debt relief, total aid and other forms of aid.

Fielding, et.al (2006) in his study on "Impact of Aid on Social indicators" explored a new avenue in aid effectiveness literature by assessing the impact of aid on diverse human development indicators including measures of health, education and facility. These dimensions of well-being are likely to interact with each other.

Hong (2014) attempts to analyze the foreign aid positions and examine the impact of Foreign Aid on the Economic Growth of four countries in South – East Asia, such as Cambodia, Lao PDR, Vietnam and under developing countries, commonly known as Indochina nations and Myanmar (IM).

He described that Foreign Aid reduces the incentive to invest; especially when recipient is assured that future poverty will call for more aid. This

phenomenon is known as the Samaritan's Dilemma (Gibson et al, 2005: The Economist, 1995). It can reduce the recipient country's competitiveness (Rajan and Subramanian, 2005) culminating in the Dutch disease (A condition that reduces competitiveness of Manufacturing sector due to overabundance of Foreign aid).

Eroglu and Yavuz (NA) described that Foreign aid is advocated as necessary for the promotion of economic development in the LDCs. The purpose of Foreign aid programmer to LDC's is to accelerate their economic development up to point where a satisfactory basis. The effect of Foreign aid on the economic development of developing countries has been controversial issues. Some economic studies of Foreign Aid suggest that it is successful, as other studies find no relationship between Foreign aid and growth rate of output and suggest that it retards economic growth in Developing countries by leading to the structural distortions of the economy.

2.1.2 Studies on National Aspect

Khadka (1997) writes that foreign aid serves a multiplicity of objectives of donor and recipients; therefore there is a mutuality of interest. By using aid as an explicit foreign policy tool, donors have been trying to achieve strategic, political and economic (and sometimes humanitarian) objectives. Aid as an investible resource in foreign countries sometimes brings more dividends than investing it at home. Besides its importance as an investment, which generates exports, employment, it serves vital foreign policy interests.

Poudel (1982) declares that, foreign aid appears to have played a laudable role in as much as it has inspired successive government in Nepal to demonstrate their commitment to development. Even of the desire of the people in Nepal for better living standard was a product of endogenous stimuli, everything else from the objectives of development to the strategy, policies and projects were destined to be influenced by foreign aid. He point out that, channeling of funds was not significant until the beginning of Nepal's first five year plan in 1956.

Acharya (2002) writes that foreign aid is originated from the disruption of the world economy that followed World War II. Before the system of international trade and capital movements could be restored, the economics of the industrial-countries had to be rebuilt and their ties with former colonies replaced by multilateral arrangements. Until these structural changes could be brought about, much of the world on the United States for essential imports.

He also writes that in macro- economic terms foreign aid performs two functions: it adds to the resources available for investment and it augments the supply of foreign exchange to finance imports. Although additional aid serves both these purposes, their relative importance varies according to the economic

structure of the recipient. Since many of the goods that are critical to development must be imported (machinery, fuels and raw materials) a shortage of foreign exchange can become a bottleneck when the cost of imports increases more rapidly than export earnings.

Karna (2007) writes that aid is important source of development finances in the capital poor economics. It has helped considerably to finance the growing import needs required by the development process. Needless to say, the technical assistance, in more than one way, has helped to bridge the technology gap constraining the planning and execution of development projects. It has contributed significantly in removing transport and communication bottlenecks, industrial and agricultural backwardness. To be specific, almost all the high ways and communication networks, most public industrial enterprises, agricultural and rural development institutions are undertaking foreign aid.

Devkota (2011) in the economic journal of Nepal defined ODA in the form of foreign aid, represents an important channel through which wealth is transferred from rich, developed nations to poorest underdeveloped economies. The link between aid and growth in receiving countries has been controversial for many years; the effectiveness of aid in promoting growth remains highly contested.

2.2 Empirical Perspective

2.2.1 Studies on International Aspect

Burnside and Dollar (1997) found that there is a correlation between Aid and Economic Growth, but only when aid is applied in a good policy environment. This paper, using a sample of 56 countries and six four year time periods from 1970- 1973 until 1990-1993 shows that where aid coincided with good policies, its impact on growth was strong and positive.

Burnside and Dollar (2000) and Collier and Dollar (2001) (hereafter BD and CD respectively) have demonstrated, using cross sectional data, that aid is growth enhancing in countries with good policies and institutions and linking aid to policy reforms should help accelerate growth and alleviate poverty.

Mosley and Hudson (2001), Verschoer and Kalwij (2002) and Gomanel and Morrissey (2002) on "Impact of Aid on social Indicators" used cross country data with the head count index, HDI and infant mortality as measure of poverty and well-being, have found evidence of indirect impact of foreign aid on poverty and well-being through its impact on pro-poor expenditures of recipient countries.

Easterly et al (2003) found different results when they added more data and also extended the year range from 1993 to 1997. They found that with the

introduction of the new data, the positive relationship between aid and growth withers away.

Brautigam (2004) found a negative and highly statistically significant relationship between high aid intensity and institutional quality as measured by the international country Risk Guides' (ICRG) as 18- point index. This relationship remains robust even after controlling for economic decline, which is associated with deterioration in the quality of governance.

The finding of the study is that, there is a strong indication that a high level of aid dependence over an extended period of time- as is the case of Sub-Saharan Africa- could have a retarding effect on growth and development due to harmful effects on the overarching governance structure and institutional quality of the recipient country. Foreign aid harms governance through its tendency to

1. Create multiple distortions in the public sector.
2. Foster the emergence of a "Reinter state" effect.
3. Delay pressures for effective reform.

Lohani (2004) uses ordinary least square method to find out the effect of foreign aid on development, and found all of the variables except social aid have the expected signs, and all of them are significant at the 0.05 or 0.01 level. He found that the coefficient of FDI, domestic investment and GDP per capita have a positive impact on HDI. Further he states that countries receive a greater amount of aid if its total saving are low. Poorer countries usually have some of the lowest saving rates, and thus they receive more aid on the basis of such a calculation of aid allocation.

Further he found that FDI positively influences human development. When FDI as a share of GDP increases by one percentage, HDI increases by 0.00435, other things being same. Similarly the regression analysis shows that an increase in domestic investment by one percent increases the HDI by 0.0035. Therefore, domestic investment towards schools, roads and hospitals plays a significant role in promoting the well-being of people.

Shirazi, Mannap and Ali (2009) state that foreign aid has been contributory towards fostering broad based development and complementing national development initiatives in the recipient countries. Like many capital scarce nations, conspicuously relies on foreign aid to finance saving investment gap and trade gap. The overarching aim of aid is to realize the national development strategy and prevail over the capacity gaps in effective public service delivery.

Sigdel (2010) by adopting non-linear regression model found that there is a significant relationship between resource gap and foreign aid. He found that one

billion increment in resource gap is met by more than one billion increment in foreign aid during the period of FY 1981/82 to 2001/02. The flow of foreign aid is found to be faster than the increment in resource gap (1.023477, lag coefficient). The role of foreign aid to bridge the resource gap in Nepal has been crucial, which is estimated to be more than 60 percent of total resource gap. The remaining part is met by remittances and foreign currencies earned by 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 was of 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. 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 the 1970s and 7.8 percent in 1980/81 is much higher in comparison of other south Asian countries such as Bangladesh, Sri-Lanka and Pakistan. The higher level of DSA per capita exhibits that Bhutan, Sri-Lanka and Nepal are still more reliant economies and among the south Asian countries. Over the long span of last five decades, 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 of 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.

Bhattarai and Sharma (2011) on "Aid, policy and growth: The case of Nepal" found that aid is effective in the presence of sound economic policy, although not all policies are equally important using a regression model or historical data.

Shafillah (2011) "Foreign aid and its impact on income inequality" pointed out that the relationship between foreign aid and income inequality is negative when the regressions are carried out in the entire sample. This relationship is statistically significant both in random effects and fixed effects models when robust standard errors are used.

The finding of the study is that the first lags of ODA growth have significant correlation with Gini and second lag of ODA fails to show a significant relationship in either model. The previous years' aid affects the current years' inequality more than the current years' aid. It also found that population aged 0-14 to increase income inequality. The bigger population the higher the income inequality. There is a negative relationship between GDP growth rate and income inequality by conducting panel analysis involving either a random or a fixed effects model and unit-test and Lagrange multiplier test for random effects.

Hong (2014) found that in all of the years under study (2000 to 2009) while Vietnam was the largest: Myanmar was the smallest recipient foreign aid. Foreign aid flows to Indochina nations during the period 2000 to 2009 though had increased, but as a percentage to GDP of the respective economies had fallen during the same period.

He also found that Foreign aid as a share of GDP had significant positive impact on the Economic growth of Vietnam, whereas in case of Myanmar, Foreign Aid had a negative impact on the growth of the respective economies and there was no significant impact of Foreign Aid on the Economic growth of Cambodia using regression model.

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 & Zou (2016) using the sample of 35 countries that crossed the IDA threshold from below between 1987 and 2010, found that a 1 percent increase in the aid to GNI ratio raises the annual real per capita short term GDP growth rate by 0.031 percentage point . The mean aid-to-GNI ratio at the crossing is 0.09, so a one percentage point increase in the aid-to-GNI ratio raises annual real per capita GDP growth by approximately 0.35 percentage points. They further said that increasing the aid to GNI ratio by one percentage point, increases the investment to GDP ratio by 0.54 percentage points, although this coefficient is

generally not significant. The magnitude of the effects on growth and investment is consistent with the average capital stock to GDP ratio for the sample countries.

2.2.2 Studies on National Aspect

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

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

Khadka (1991) has analyzed the micro economic performance of foreign aid in Nepal using secondary time series data from 1961 to 1985 and employed descriptive method .In his study the main objectives were to examine the socio cultural and political constraint to development, find the sector wise and source wise allocation of aid over the past three decades and evaluate the micro economic impact of aid on Nepalese economy.

He also found that aid has not been effective for the alleviation of poverty in Nepal. On the country, aid has created socio- economic dualism by favoring urban-based and growth maximization development priorities. It caused dualism between rural and urban area in terms of consumption of public goods, (i.e. distribution of benefits), attitudes and life style which are the consequences of economic and spatial inequalities. But neither aid contributed to maximization the GDP nor helped establish institutional and political mechanism through which the distribution of benefits would trickle down. Hence aid failed to alleviate poverty and development of the economy since it failed to encompass the majority population who live in the rural areas. He conclude that foreign aid generated a number of inequalities and creation of dualism, perpetuation of aid dependence, making the domestic economy more vulnerable to external shocks, contributing to

evaporation of aid money, creation of aid elitism and it prevented in the introducing of desirable political reforms in the system of government.

Acharya (2004) has studied the origin of foreign aid in the world. The study deals on importance of foreign aid in Nepal and gives some suggestions for the proper utilization of foreign aid.

Further he concluded that very little of the total production is ever left for saving and investment. Higher rates of consumption widen the saving investment gap. He has also analyzed the sector allocation of foreign aid from 1985 to 2003 AD. In his study he has calculated that, since the very beginning the transport, power and communication sector has been the biggest recipient of the foreign aid. The industries and commerce sector got less in priority successively. An argument can also be found that donor countries or agencies used aid conditionality in order to synchronize economic policies of recipient countries with their own. Such policies merely contributed to further deepening unequal trade relations between poor and rich countries.

Devkota (2008) studied the relationship between economic growth and foreign aid using a panel data of developing south Asian countries over the period 1980-2006, found that per capita income and foreign aid have been negatively related while aid has been positively related to population and external debt. The negative coefficient on per capita GDP has favored South Asian countries in allocating aid to the donor countries. The hypothesis is that donors will give higher aid if the index of democracy index score is high but the finding is that there is no significant role of democracy for aid determination. Beside Bhutan is getting higher per capita foreign aid even its democratic index is very bad.

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

They further raised the issue donor's investment in education. Benefitting recipient or donors themselves and said that, in principle education does not only increase the productivity of economy but also helps in invention and innovation. But our excellent education productions are working for the developed countries.

The country is getting zero from such a huge investment in education while the donor countries investing less than 30 percent of total education budget of Nepal are being to get cream product of the education system. This bitter truth raises the question that whom the donor countries are investing in the education sector of poor countries for the recipient of donor's themselves benefits.

Basnet (2013) examines the effectiveness of foreign aid on growth and domestic saving using a simultaneous equation system. He found that foreign aid has a positive and significant impact on growth in five south Asian countries. The result reveals a negative relationship between foreign aid and domestic savings and there is no ambiguity that foreign aid adversely affects domestic savings in south Asian countries during the period of 1980-2008. His result bring up a very important policy issue that is the positive effects of aid on growth might be offset by the negative effect on domestic saving.

Furthermore by using 2SLS estimation he found the impact of aid on growth is positive and satisfactory significant at the 1 percent level. The result indicate that saving have a satisfactory significant impact on the growth rate of the five countries (Bangladesh, India, Nepal, Pakistan, and Sri-Lanka). He found that saving affects growth rate more than proportionately, that is a 1 percent increase in domestic saving rate causes growth to increase by more than 1 percent on average i.e. 1.5 percent. The growth rate of export and import, however, has a negative association with the rate of economic growth.

CHAPTER - III

RESEARCH METHODOLOGY

This chapter explains the whole methodology used in the study. This chapter includes research design, data collection, data analysis and mathematical as well as statistical tools used to analyze the data in accordance with the objective of the study.

3.1 Research Design

This study is an economic research for analysis of structure and role of USAID in different indicators like GDP and other social things are used. It is carried out based on descriptive analytical research design to study the trend, patterns of macro variables.

3.2 Study Period

The data covers the total USAID inflow to Nepal from 2000/01 to 2012/13 respectively.

3.3 Data Collection

This study is based on secondary data. The source of data used in this study are published materials, records of various offices, Journals, Magazines, Newspapers, articles etc. The major sources of data collection information:

1. Economic survey (various issues)
2. Website of US embassy, foreign aid, US Nepal relation.
3. Statistical year book of Nepal, CBS.
4. Previous research studies, dissertation on the related field.

3.4 Data Analysis

To analyze the data, the collected data from various sources are classified, tabulated to fulfill the requirements of the study. The simple calculation like percentage, ratio, average value etc. are made and table, graphs, pie charts is used to explain the compare data series. For regression analysis, "SPSS" computer software program and Microsoft Excel are used. The program is also used for the calculation of different statistical test as well.

3.4.1 Regression Analysis

In order to make an empirical analysis simple and multiple regression models in linear forms have been used. Regression analysis is used to establish the nature of relationship between a dependent variable and one or more independent variables. The regression of Y on U is used to estimate the relation between GDP and USAID flow.

3.4.2 Statistical Test of Significance

The model specified in this study comprises of several equations to regression including lag are used to estimate the effect of various independent variable on dependent variable. The basic assumption of these models is that they are linear; the distributions of error have expected value of zero and finite variance. (The model is taken from "A study in Indochina and under Developing countries where economic growth or GDP is taken as the dependent variable and foreign aid, foreign direct investment, export, literate rate and share of agriculture to GDP as the independent variable.). But this study has only foreign aid (USAID) as the independent variable as the inclusion of other variables affecting GDP will make the model complex.

(a) Model

$$GDP_t^s = \alpha_1 + \beta_1 US_t^{Aid} + \mu_t \dots\dots\dots(1)$$

$$GDP_t^e = \alpha_2 + \beta_2 US_t^{Aid} + \mu_t \dots\dots\dots(2)$$

(b) Lag Model

$$GDP_t^s = \alpha_1 + \beta_1 US_{t-1}^{Aid} + \mu_t \dots\dots\dots(1)$$

$$GDP_t^e = \alpha_2 + \beta_2 US_{t-1}^{Aid} + \mu_t \dots\dots\dots(2)$$

Where,

GDP =Gross Domestic Product

GDP_t^e =Gross Domestic Product of Economic Sector

GDP_t^s =Gross Domestic Product of Social Sector

α_1 & α_2 = Intercepts

β_1 & β_2 = Regression Coefficients

US^{Aid} = United States Aid

t = Time

t-1 = Time Lag

3.8 Tools of Analysis

a) t statistic

t statistic is used in this study to test the statistical significance of observed regression coefficient, and it's given by:

b) F statistic

F statistic will be used in this study to test the overall significance of the model. The formula is³

$$F = \frac{ESS/df}{RSS/df} = \frac{ESS/(k-1)}{RSS/(n-k)}$$

Where,

ESS = explained sum of squares

RSS = Residual sum of squares

k = no. of explanatory variables

n = no. of observations

DF = degree of freedom

CHAPTER - IV

USAID TO NEPAL

4.1 A Brief History of US Assistance

The diplomatic relation between Nepal and the USA was established in 1947 AD. But, when Nepal opened its borders to the modern world in 1951, US aid played a vital role in financing its economic development. In January 23, 1951, Nepal has started receiving aid from the US through its official channel United States Agency for International Development (USAID), originally it was known as the United Operation Mission (USOM). American aid under this program was made available first to establish a Village Training Centre in Kathmandu in 1952. The point four program began to take shape in the first half of 1952. The main motive of the program was framed to meet some of the urgent needs of Nepal. Under this program, the noteworthy activities were national public health program, increase in food supply and introduction of new varieties of crops, improvement in the hard tools and machinery, and improvement to land, largely through irrigation.

Working together with the government of Nepal, USAID has contributed to some of Nepal's most dramatic and remarkable development successes, increasing literacy rates, drastically reducing child mortality and facilitating peace and democracy in the later decades. USAID'S mission in Nepal has built on these successes and continues to support Nepal's effort to become peaceful, prosperous and democratic.

In the preliminary years, US assistance concentrated on road expansion by which economic development would be facilitated. During 1960 USAID begun to grasp the complex problems involved in changing backward economy into a modern one. At that time, USAID assisted Nepal for building sustainable institutions, the framework for development and agreed upon an administrative reform program to refine government administration and promote economic growth. Economic growth and institution building to provide capital investment in the hope of accelerating country's growth and concentrating on institutional building to provide capital investment in the hope of accelerating economic growth. In 1970s, USAID concentrated on rural people by participating them in development system.

In 1980s, USAID pursued a rigorous policy reform agenda to stimulate to stimulate economic growth as the 'engine of development' for development focusing on microeconomic policy reform and strengthen the private sector. The restoration of multiparty democracy in 1991 focused on the development and good

governance bringing from the grass root level through the approach of NGOs sector and encourages the growth of a private sector led market driven economy. In the recent years, USAID has focused on hydropower development, good governance and peace maintenance for the economic development of the state.

The first and financial contributor until 1965, the USA has a special role among donors in the economic development of Nepal. The bilateral assistance levels have been reduced in real terms, the US continues to be a major contributor to the economic progress of Nepal.

In the 1970s integrating the elements throughout the decade, USAID/Nepal partnership focused on meeting the basic needs of the Nepali people through small scale technical assistance projects. The major light was on consolidating on-going projects and initiating new ones on longer – term planning. Great strides made during this included :doubling primary school enrollment, linking the food – poor hills to the Terai's strong agricultural base with the western hills road, increasing the population served by health facilities from 16 % to 46%, establishing family planning services to 62 districts and increasing the yearly use of agricultural base with the western hills road, increasing the population served by health facilities from 16% to 46%, establishing family planning services to 62 districts and increasing the yearly use of agricultural fertilizer by 18%.The 1980s-Tapping into potential during the 1980s, Nepal adopted the Basic Needs Program, which set standards for items including food, drinking water and basic health services. USAID and Nepal focused on promoting the private sector and strengthening Nepal's Private Voluntary Organization's capacity to design, implement and evaluate community based development efforts. During the restoration of multiparty democracy bin 1991, it focused on strengthening and promoting good governance to bring development to the grassroots level and assisted in the privatization of state-owned enterprises.

Since 1951 and through the end of FY 2004, the United States had provided more than \$791 million in bilateral economic assistance to Nepal; US contributions to multilateral organizations working in Nepal to date approach an additional \$725 million, including humanitarian assistance.

4.2 Objectives of USAID and Priorities area in Nepal

Since the donors started to assist the developing countries, they have been provided assistance for the various objectives. Generally Foreign aid enters with three objectives: humanitarian, political-strategic and economic objectives .It is not easy to divide the foreign aid into different objectives. The objectives of aid may vary from donors to donors and from time to time. The objectives of aid are shadowed by the other things. They are narrowly strategic, broadly political, basically humanitarian and certainly economic. From the American's point of

view, US assistance is playing a crucial role in supporting the transition to peace, building strong and representative government, establishing the rule of law, ending human right abuses, strengthening equitable social services delivery, an addressing poverty.

USAID pursues the goal of "better governance for equitable growth" through a development program that supports government of Nepal in several sectors to help Nepalese achieve a better life.

USAID/Nepal developed four program goals for the 1990s, which combined aid's global assistance strategies with Nepal's own development needs and priorities. (USAID policy framework 1990) These were:

1. Strengthening the development of sound economic policies which rely on competitive markets operating with the minimum of government regulations.
2. Increasing the range of choice, availability and use of the most essential child survival and family planning services through complimentary public, private and NGO efforts.
3. Accelerating the process of endowing private groups and users with control over and capacity to manage Nepal's economically important renewable resources.
4. Expanding access of farmers, rural groups and agro enterprises to market opportunities in order to increase their economic options and incomes.

Since 1991, USAID has helped Nepal reduce its fertility rate by 20% and its child mortality rate by 40%. It is government of Nepal's lead donor of both high quality, voluntary family planning services, and of HIV/AIDS funding.

In June 1995, the following strategic objectives were approved by US AID/Nepal:

Increased production and sales of forest and high – value agricultural products.

1. Reduced fertility and improved maternal and child health, and
2. Increased women's empowerment.

After 2001, the strategic objectives of USAID /Nepal were (USAID policy framework policy 2001)

1. Increased producing and sales of forest and high-value agricultural products.
2. Reduced fertility and improved maternal and child health.
3. Increased women's empowerment.
4. Increased private sector investment in environmentally and socially sustainable hydropower development, and

5. Strengthened governance of natural and selected institutions.

In 2005, USAID plans to provide US \$ 23.54 million to increase the voluntary use of family planning, improve maternal and child health, reduce transmission of HIV in high-risk groups, monitor infectious diseases and address psychological needs of children in conflict. This funding includes US \$ 8.7 million for HIV/AIDS. The main objectives of USAID/Nepal in 2005 were (USAID policy framework 2005)

1. Democracy and Governance-It emphasizes increasing citizens 'capacity to advocate for improved policies in governance and improving the transparency and accountability of local and national government institutions.
2. It plans to provide US \$5.224 million to support greater local over the conservation, management and sustainable use of Nepal's natural resources, increase civil society's role in promoting social development and human rights, implement the anti-corruption/judicial sector reform program, and launch an election/political process strengthening program.
3. It continues to address the problem of trafficking of women and children through both community-based programs and transnational efforts for instance the South Asia Regional Initiative for Gender equity.
4. Promoting peace – It aims to generate employment and income opportunities in rural areas through labor-intensive infrastructure projects, improve and expand support systems for victims of the on-going conflict, strengthen national capacity to manage the process and development strategies and provide care and support for victims of torture.
5. Agriculture and National resources –It plans to provide US \$2.637 million in 2005 to facilitate agricultural market development , initiate policy dialog with government of Nepal, introduce modern irrigation technology and management practices, management to increase the sale of high-value western and Mid-western districts of Nepal. Sound resource management is central to reducing the poverty of and generating employment for Nepal's 80% rural population.
6. Hydropower-harnessing Nepal's tremendous potential is critical to sustaining the country's long term development .It plans to provide US \$1.7 million in training and technical assistance to improve private sector participation and investment in hydropower, promote structural and regulatory reform in the energy sector, assist in the establishment of the power development fund, and promote government and private sector capacities to assess the environmental and social impacts of hydropower projects- USAID's South Asian Regional Initiative in Energy, trade and exchange issues, complements the hydropower program.

4.3 Total magnitude of USAID to Nepal (1990-2013).

Below mentioned table 4.1 depicts the amount of American assistance to Nepal for twenty four year through 1990 to 2013.

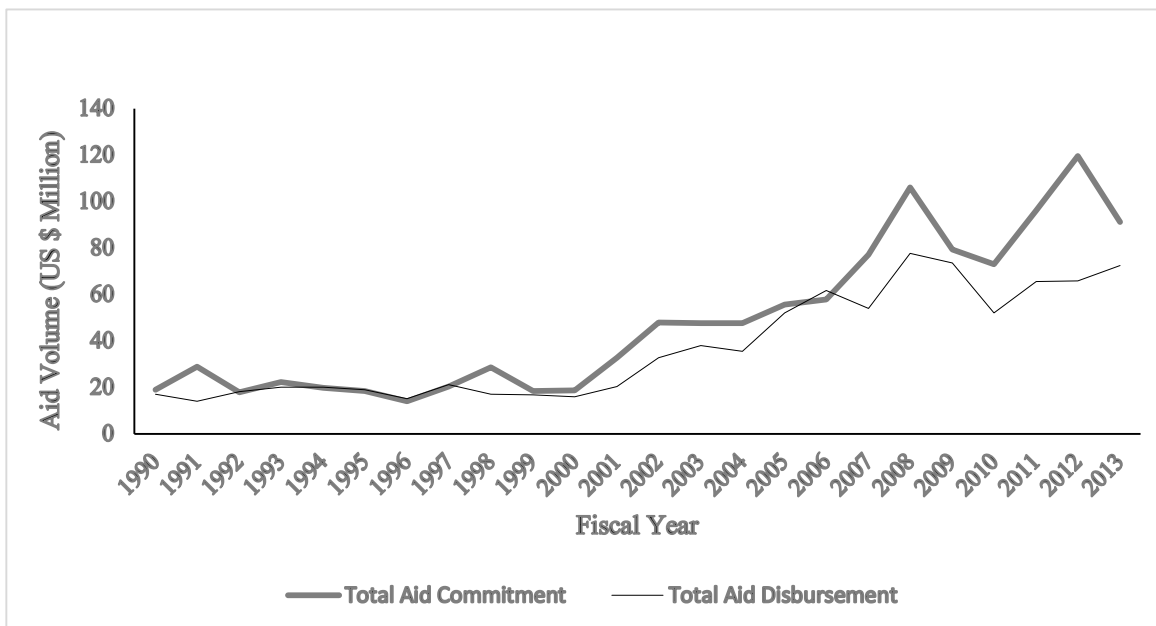
Table 4.1: Total magnitude of USAID to Nepal (1990-2013) (US \$ in million).

Year	Total Aid Commitment	Total Aid Disbursement	Disbursement as % of commitment
1990	18.93	17.00	89.80
1991	28.76	14.00	48.68
1992	17.77	18.00	101.29
1993	22.25	20.00	89.89
1994	19.72	20.00	101.41
1995	18.37	19.00	103.43
1996	14.00	15.00	107.14
1997	20.41	21.00	102.89
1998	28.69	16.93	59.01
1999	18.36	16.65	90.69
2000	18.77	15.96	85.03
2001	32.70	20.24	61.89
2002	47.94	32.61	68.02
2003	47.55	37.82	79.54
2004	47.69	35.38	74.19
2005	55.52	52.07	93.78
2006	57.74	61.54	107.96
2007	77.10	54.03	70.08
2008	105.89	77.65	73.33
2009	79.37	73.50	92.60
2010	72.9	51.91	71.21
2011	96.19	65.45	68.04
2012	119.64	65.89	55.07
2013	91.21	72.34	79.31

Source: OECD, Paris 2015 (Online database).

It can be inferred that there is fluctuation in the trend of total USAID commitment and disbursement and disbursement as % of commitment for the last 24 years. Total USAID commitment and disbursement ranges from US \$18.93 million to US \$119.64 million and US \$ 14 million to US \$ 77 million respectively.

Figure 4.1: Total magnitude of USAID to Nepal (1990 to 2014) (US \$ in million)



4.4 Trend and pattern of USAID to Nepal (1990-2014)

The given table 4.1 shows the trend and pattern of American assistance of Nepal from 1990 to 2013 .The aid inflow has been fluctuating over the year. All the aid has been in the form of grants. There has been no loan component in the total assistance up to 1997 .When we review year to year aid inflow, the trend is quite fluctuating up to the year 2010 thereafter the figure shows an inclining trend up to 2013. The above table shows that there has been slight incline in the inflow of aid from in the year 1991 to 1992. Thereafter, it decreased up to the year 1999. Again, it increases up to 2002 and there is fluctuation in the figure up to 2010. The corresponding figure exhibits an inclining trend up to 2013. The highest volume of aid to Nepal during the last twenty two years was in 2012 respectively. There is also up and down in the trend of USAID inflow to Nepal. The corresponding figure ranges from US \$14 million to US \$ 77.65 million. The highest and lowest volume of USAID to Nepal during the last twenty two years was in 1991 and 2008 respectively.

Table 4.2: Trend and Pattern of USAID to Nepal (1990-2014)**(US \$ in million)**

Year	Total aid inflow	US Aid inflow			Total
		Grants	Loans	Technical aid	
1990	238.97	2.00	-	15.00	17.00
1991	290.68	2.00	-	12.00	14.00
1992	275.68	4.00	-	14.00	18.00
1993	246.84	4.00	-	16.00	20.00
1994	269.92	2.00	-	18.00	20.00
1995	266.87	0.00	-	19.00	19.00
1996	237.30	1.00	-	14.00	15.00
1997	234.48	0.00	-	21.00	21.00
1998	216.27	0.02	-0.02	16.91	16.91
1999	210.27	0.16	0.01	16.49	16.65
2000	233.58	0.01	-0.01	15.96	15.95
2001	271.88	2.09	-0.01	18.16	20.23
2002	281.54	5.60	-0.02	27.01	32.60
2003	321.92	4.69	-0.02	33.13	37.80
2004	320.18	3.60	-0.01	31.78	35.37
2005	347.28	6.53	-0.02	45.54	52.05
2006	335.61	9.06	-0.01	52.48	61.53
2007	385.61	52.96	-	1.07	54.03
2008	436.14	76.58	-	1.07	77.65
2009	504.88	72.42	-	1.08	73.50
2010	475.88	50.53	-	1.38	51.01
2011	489.72	63.98	-	1.45	65.45
2012	521.06	63.93	-	1.96	65.89
2013	498.93	68.79	-	3.55	72.34
2014	542.76	73.88	-	2.37	76.25

Source: OECD, Paris 2015 (Online database)

Note: Negative number for ODA loan represent debt relief

Table 4.2 shows that the aid inflow has been fluctuating over the year. All the aid has been in the form of grants. There has been no loan component in the total assistance up to 1997. When we review year to year aid inflow, the trend is quite fluctuating up to the year 2010 thereafter the figure shows an inclining trend up to 2013. The above table shows that there has been slight incline in the inflow of aid from in the year 1991 to 1992. Thereafter, it decreased up to the year 1999. Again, it increases up to 2002 and there is fluctuation in the figure up to 2010. The

corresponding figure exhibits an inclining trend up to 2013. The highest volume of aid to Nepal during the last twenty two years was in 2012 respectively. There is also up and down in the trend of USAID inflow to Nepal. The corresponding figure ranges from US \$14 million to US \$77.65 million. The highest and lowest volume of USAID to Nepal during the last twenty two years was in 1991 and 2008 respectively.

Figure 4.2: Trend and Pattern of USAID to Nepal from 1990 to 2014 (US \$ in million).

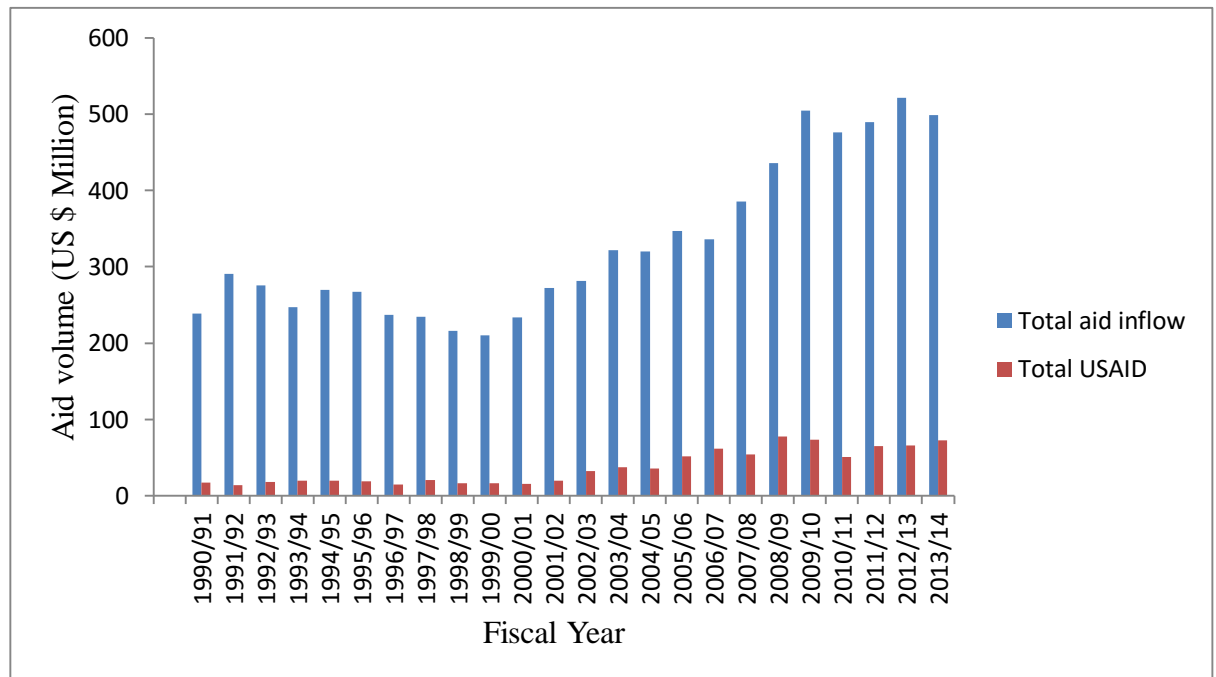


Figure 4.3 shows that the aid inflow has been fluctuating over the year. All the aid has been in the form of grants. There has been no loan component in the total assistance up to 1997. When we review year to year aid inflow, the trend is quite fluctuating up to the year 2010 thereafter the figure shows an inclining trend up to 2013. The above table shows that there has been slight incline in the inflow of aid from in the year 1991 to 1992. Thereafter, it decreased up to the year 1999. Again, it increases up to 2002 and there is fluctuation in the figure up to 2010. The corresponding figure exhibits an inclining trend up to 2013. The highest volume of aid to Nepal during the last twenty two years was in 2012 respectively. There is also up and down in the trend of USAID inflow to Nepal. The corresponding figure ranges from US \$14 million to US \$77.65 million. The highest and lowest volume of USAID to Nepal during the last twenty two years was in 1991 and 2008 respectively.

CHAPTER - V

PRESENTATION AND ANALYSIS OF DATA

Since the beginning of the American assistance to Nepal, it has been covering the major beneficiaries sectors of our economy. The major beneficiaries sectors of American assistance in Nepal are economic and social sector.

5.1 Sector-wise Distribution of USAID

The quantum of USAID disbursed in economic and social sectors has been given in the following table which shows the amount of American assistance from 2001 to 2012 in economic sector and social sector.

The annex I depicts the inflow of USAID to Nepal for the year 2001 to 2012 respectively. From Economic sector, USAID inflow to Agriculture was quite fluctuating. The trend of USAID inflow was inclining up to 2005 then after it suddenly inclines in 2006, again inclines in 2007 and then shows inclining trend up to 2011 and again surges to US \$11303520 thousand in 2012 respectively. USAID inflow to Nepal has not been mentioned for Bank and Financial services up to 2004. The amount was US \$ thousand 116148 in 2005 and then it declines up to 2010 then after inclines in 2011, finally the value reaches to US \$ 808935 thousand in 2012 respectively. The next sector Energy generation and supply has registered a US AID inflow of US \$1333923 thousand, surges up to 2003 then after inclines up to 2012. The amount has not been mentioned for fishing for any of the years except 2003 i.e. 25000 billion respectively. The next sector Industry has experienced a USAID inflow of US \$174782 billion in 2002, inclines up to 2004 then after declines up to 2006. Trade policy and Regulation has experienced a value of US \$1023 billion in 2008 and inclines up to 2012. The last economic sector i.e. Transport and storage has registered a USAID inflow of US \$ 441000 thousand in 2007 and declines up to 2009 and then inclines up to 2011 and again surges in 2012 respectively.

From social sector, USAID inflow to Basic health was quite fluctuating. The trend of USAID inflow was inclining up to 2003 then after it suddenly inclines in 2004, again inclines in 2005 and again decline in 2006, then shows a inclining trend up to 2008 and again surges to in 2009 and finally inclines in 2010, again declines in 2011 and finally inclines in 2012 respectively. USAID inflow to Nepal has not been mentioned for Education. The amount was 604840 million in 2005 respectively. The next sector Population Policy Programmed and Reproductive health has registered a USAID inflow of US \$7223662 million in 2001, inclines up to 2004 then after declines in 2006 and declines up to 2008, inclines in 2009, thereafter declines in 2010, again inclines in 2011 and finally

declines in 2012. The amount has not been mentioned for Fishing for any of the years except 2003 i.e. 25000 million respectively. The next sector Water Supply and Sanitation has got USAID inflow of US \$2500 million, US \$67744 million and US \$185703 million in 2002, 2011 and 2012 respectively.

The table of annex I depicts that the USAID from the year 2001 to 2012 was concentrated on Agriculture sectors i.e. US \$32426996 million. The second priority sector was Energy generation and supply. Similarly, Trade policy and regulation had got third priority, Banking and financial services fourth priority, Industry fifth priority, Transportation and storage sixth priority and Fishing seventh priority sector taking Economic sector into account respectively in these days.

Taking Social sector into account, the large amount of American assistance has been absorbed by Population policy program and Reproductive health i.e. US \$203331448 billion followed by Basic Health, Health, in general, Water supply and Sanitation, Education level, unspecified etc. from the year 2000 to 2012.

Taking both sector into account or as a whole, a large quantum of USAID from the year 2001 to 2012 was concentrated in Population policy program and reproductive health followed by Basic Health, Agriculture, Energy Generation and supply, Trade policy and Regulation, Banking and financial services, Industry, Transportation and storage, Health, General, Water supply and Sanitation, Fishing and Education level, unspecified etc.

5.2: Sector-wise magnitude and trend in terms of total aid inflow in social and economic sectors of USAID in Nepal.

Table 5.1: Total magnitude and Trend of USAID inflow to Nepal

(US \$ Thousand)

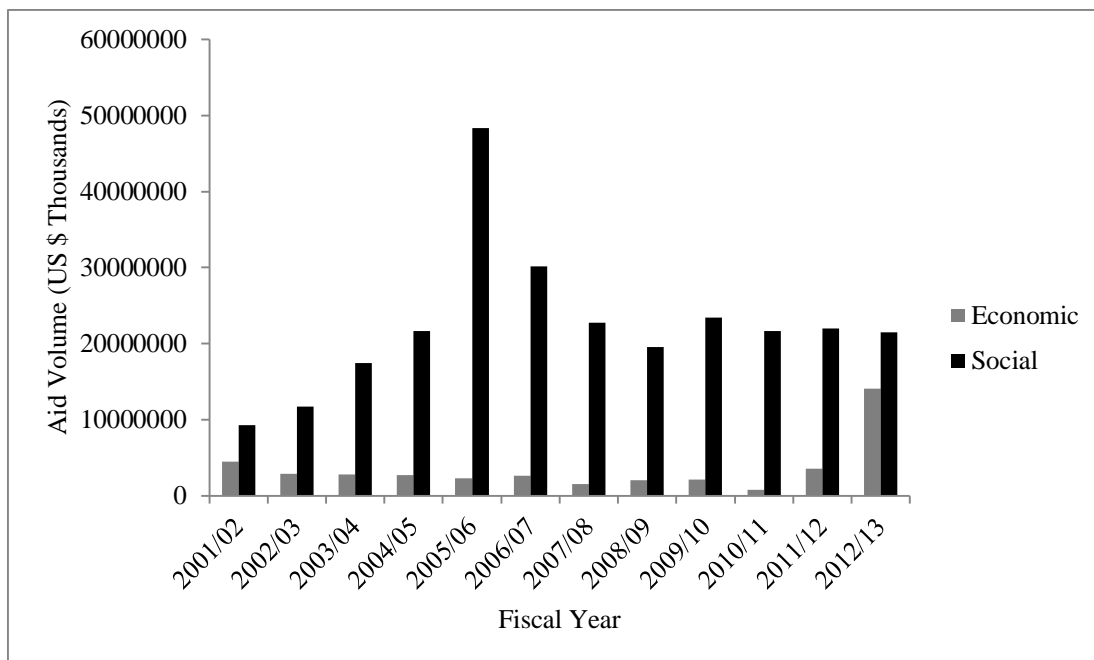
Year	USAID Inflow in Economic Sector (US \$ in thousand)	Economic Aid as % of USAID	USAID Inflow in Social Sector (US \$ in thousand)	Social Aid as % of USAID
2001/02	4457463	32.53	9246722	67.47
2002/03	2900276	19.88	11687416	80.12
2003/04	2815152	13.88	17462751	86.12
2004/05	2699749	11.08	21662678	88.92
2005/06	2308983	4.56	48340574	95.44
2006/07	2593922	7.92	30163282	92.08
2007/08	1539981	6.35	22715846	93.65
2008/09	2039707	9.43	19593487	90.57
2009/10	2143453	8.39	23402242	91.61
2010/11	753044	3.36	21676703	96.64
2011/12	3586815	14.02	22002846	85.98
2012/13	14105729	39.63	21489517	60.37
Total	41944274		269444064	

Source: USAID, Kathmandu (2014)

From table 5.1, it is cleared that there is fluctuation in the trend as well as pattern of USAID inflow to Nepal in both Economic and Social Sector. Nepal has registered USAID inflow of US \$ 4457463 thousand accounting for 32.53% of the total USAID in Economic Sector in the first FY which declines up to 2005/06 respectively. Then after it again inclines in 2006/07 and again declines in 2007/08 and shows inclining trend up to 2009/10 and declines in 2011/12 and again restore to US \$14105729 thousand which is 39.63% of the total USAID. On the other hand, Social sector has experienced USAID US \$ 9246722 thousand which is 67.47% of the total USAID in 2001/02 and inclines up to 2005/06 and suddenly surges up to 2008/09. The volume of USAID inflow to Nepal inclines in 2009/10 and again declines in 2010/11 and then after inclines up to 2012/13.

The above table reveals that Social sector has received a large amount of USAID as compared to Economic sector i.e. USAID from the year 2000 to 2012 was concentrated on Social sector followed by Economic sector respectively.

Figure 5.1: Total magnitude and Trend of USAID inflow to Nepal (US \$ Thousands)



From the above Bar- diagram, it is cleared that there is fluctuation in the trend as well as pattern of USAID inflow to Nepal in both Economic and Social Sector. Nepal has registered USAID inflow of US \$ 4457463 thousand in economic sector the first FY which declines up to 2005/06 respectively. Then after it again inclines in 2006/07 and again declines in 2007/08 and shows inclining trend up to 2009/10 and declines in 2011/12 and again restore to US \$14105729 thousand. On the other hand, Social sector has experienced USAID US \$9246722 thousand in 2001/02 and inclines up to 2005/06 and suddenly surges up to 2008/09. The volume of USAID inflow to Nepal inclines in 2009/10 and again declines in 2010/11 and then after inclines up to 2012/13.

5.3 Effectiveness of USAID in Economic and Social sector, Analysis of USAID in Nepal

Analysis of impact of foreign aid on the process of economic development of a country is difficult because it consists of short as well as long- term effects, tangible and intangible effects. In certain areas, e.g. Education, infrastructure, the contribution of foreign aid does not give immediate results. Similarly, foreign aid may change socioeconomic environment of the country and improvement in health of the public of the public. However, the impacts in these cases are invisible. So, it is difficult to evaluate the impact of foreign aid quantitatively. The ultimate goal of US Aid is to develop the country. Nepal could meet the needs of its people on a sustainable basis with its own resources. The US has assisted in various field of Nepalese economy. (www.usaid.gov/np).

This chapter tries to evaluate the impact of USAID on the basis of contribution in different sectors.

5.3.1 Agricultural Development

US \$ 4.9million of the total USAID has been disbursed to this sector. (USAID, 2015). Over 70% of the Nepal's population works in the agriculture sector accounting 38% of the GDP. Farmers have limited excess to improved seeds, new technologies and market opportunities. Almost 50% Nepal's population is undernourished and nearly half of all children under five are malnourished. Despite these difficulties there are many opportunities to ensure adequate food supply for all Nepalese. The government of Nepal has made food security a national priority.

1. USAID-supported programs already have demonstrated impact by increasing agriculture productivity and incomes of small holder farmers.
2. It also provided improved nutrition by increasing the production and consumption of nutritious food products and improving hygiene and access to safe water. Nepal also receives support for scaling up programs that increase agricultural productivity and facilitate access to markets.
3. US AID supported over 85,000 smallholder farmers in 26 remote, conflict-affected districts to adopt improved farming technique. US AID'S work has increased the incomes of 430,000 rural farmers (54% women) by over 50%.
4. USAID helped flood-affected communities, improve farmer productivity and incomes, rehabilitate essential infrastructure such as irrigation systems and bridges and built resilience against future natural disasters.

In agriculture sector, the point four program had targeted goals such as increased food production.

1. Sufficient irrigation to sustain three annual crops.
2. Land ownership to the tiller.
3. Establishment of an agricultural credit system.

USAID has introduced the following programs and initiatives to enhance the agricultural productivity and thereby raising standard of living of people of Nepal.

1. Cereal system initiative for South Asia Nepal.
2. Hill maize Research program.
3. Integrate pest management innovation lab (IPM 1L) project.
4. Knowledge based integrated sustainable agriculture and nutrition (KISAN) project.

5.3.2 Improvement in Health Sector

US \$12.38 million of the total USAID has been disbursed to health sector. (OECD, 2015). USAID's support in the health sector reflects one of the longest standing and most successful development assistance programs in Nepal. As one of the largest health sector donors, USAID has a strong and collaborative partnership with the government of Nepal to improve the survival and quality of life of all Nepalese through equitable and well- governed health system.

USAID/Nepal has a bilateral agreement with the government of Nepal for a five year (2001-2006) health and family planning program. Activities under this agreement aim to implement GONs' long –term goal of reducing fertility and child mortality and protecting the lives of the Nepalese people.

1. Family planning- expanding access to and the use of quality, voluntary family planning services.
2. Maternal and Child health – reducing child mortality by increasing access to quality selected maternal and child health services.
3. HIV/AIDS- preventing the spread of and controlling HIV/AIDS by enhancing the prevention to care continuum and treating other sexuality transmitted infectious among most-at-risk groups.
4. Health sector Reform – supporting GON Ministry of Health care services from the national to the district level.
5. Infection diseases- controlling infectious diseases by strengthening surveillance and minimizing antimicrobial resistance.
6. Conflict Mitigation- supporting the immediate health, psychological and educational need of children affected by the conflict through local non-government organizations.

5.3.3 Education

US \$110,161 million of the total USAID has been disbursed to this sector. (USAID, 2013).

1. USAID has supported many initiatives to develop and improve the education sector of Nepal from as early as the 1960s.
2. It has focused attention on qualitative improvement of the education system through institutional development such as Teacher and technical education teacher training project.
3. American assistance facilitated the Institute of Education for the development of research and evaluation component, utilization of educational materials and improvement in the curriculum and teaching methods.

4. Most recently, USAID, together with other donors is providing direct support to the Ministry of Education through the Early Childhood Education Development (ECED) program to prepare Nepali children for basic workforce of Nepal.
5. USAID's program is designed to strengthen government ownership and credibility, increase community awareness of and demand for ECED services and improve the government ability to monitor and evaluate the national network of ECED centers.
6. USAID helps the government of Nepal strengthen early childhood education, particularly early grade reading, by upgrading its curriculum, improving teachers' skills and building the foundation for subsequent primary education.

Improvements in Education sector due to the USAID have been outlined below.

1. USAID, through Nepal's Department of Education (DOE) helped improve the monitoring system of the DOE and sub- district offices. Now the DOE and sub- district offices are monitoring more than 21,000 ECED centers.
2. USAID has trained over 26,000 ECED facilitators, 15,000 school management Committee members, more than 1,000 resource persons responsible for providing technical support to ECED facilitators and school teachers and 15,000 parents. USAID'S efforts have increased community awareness of and demand for ECED service.

5.3.4 Democracy, Human rights and Governance

US \$7.5 million of the total USAID has been disbursed to this sector (USAID, 2013). USAID plays dominant role in the re- establishment of representative democracy and restoration of public faith in political institutions. The main goals of the Democracy and Governance Assistance in Nepal are

1. Strengthened administration of justice: improving administration of justice in courts, and in public defense organization.
2. More transparent, accountable and effective governance: strengthening the integrity of government planning and implementation, improving anti-corruption system and legal frameworks for good governance reform.
3. Electoral and political process strengthening.
4. Supports an informal forum creating a space for confidential dialogues, helping political parties to build trust and confidence.
5. It provided support to the Ministry of Women, children and social welfare in developing key policy documents such as the National minimum standards for victim protection (NMS) and Standard operating procedure for shelter homes (SoP) for human trafficking survivors.

6. In partnership with the Election Commission Nepal and United Nations, USAID has conducted ongoing voter registration for upcoming elections and has already registered more than 10 million voters and trained about 2,000 voter's band trained about 2,000 voter education trainers.

Some of the program activities under this topic are:

1. Supported civil society efforts to monitor and report on political and electoral reform progress.
2. Assisted the National Election Commission to carry out election reforms and prepare for elections.

5.3.5 Economic growth and trade

US \$ 4.5 million of the total USAID has been disbursed to this sector (USAID, 2013). USAIDs' economic growth activities aim to

1. To improve the income- generating potential of the poorest of the poor.
2. Expand young people's access to jobs.
3. Increase farmers' incomes and food security.
4. Help the government of Nepal to address macroeconomic and agricultural sector policies.
5. Improving Nepal's business environment for private sector-led growth.
6. Encouraging competitiveness and exports.
7. Improving trade and fiscal policies and practices.
8. Strengthening microfinance policies and institutions by working with government of Nepal, the private sector, think tanks and civil society.

5.3.6 Environment and Global Climate Change

1. Nepal is now a focus country for the US Global climate change (GCC) initiative. In Nepal USAID is reducing a adverse impacts of Climate change and threat to biodiversity.
2. Building on a successful community forestry program that engages 35% of Nepal's total population, US aid strengthens the ability of local communities to take ownership of other resources and manage them according to international standards.
3. It helps local government to develop plans to overcome or adapt to climate change risks.

5.3.7 Crisis and Conflict.

1. USAID helps to enhance ability of Nepal to prevent, mitigate and respond to disasters.

2. It addresses the needs of vulnerable populations through programs that improve preparedness for and response to natural disasters.
3. It help to increase the understanding of the importance of disaster risk reduction measures by mainstreaming them into government planning and budgets, increasing private sector engagement, enhancing the ability of the media to cover all aspects of disasters and increasing peoples' understanding of risks and how to protect themselves against hazards.
4. It helps communities to be more resilient and ensure that targeted infrastructure is resistant to natural disasters.

USAID and US Embassy in Nepal created an interagency disaster Risk Reduction (PEER) training in Nepal since 1998. New additions to the PEER program include training on community action for disaster response and incident commenced system operation.

Table 5.2: USAID inflow in economic and social sector (US \$ in thousands).

Year	Real GDP (NRs. Billions)	USAID Inflow (US \$ thousands) in Economic Sector	USAID Inflow (US \$ thousands) in Social Sector
2001/02	442.07	4457463	9246722
2002/03	459.5	2900276	11687416
2003/04	481	2815152	17462751
2004/05	497.7	2699749	21662678
2005/06	514.5	2308983	48340574
2006/07	532	2593922	30163282
2007/08	564.5	1539981	22715846
2008/09	590.1	2039707	19593487
2009/10	618.5	2143453	23402242
2010/11	639.7	753044	21676703
2011/12	670.7	3586815	22002846
2012/13	695.2	14105729	21489517

Source: Economic survey, 2001/02 to 2013/14(Real GDP) and USAID

From the table 5.2, it is cleared that there is fluctuation in the trend as well as pattern of USAID inflow to Nepal in both Economic and Social Sector. Nepal has registered USAID inflow of US \$4457463 in Economic Sector the first FY which declines up to 2005/06 respectively. Then after it again inclines in 2006/07 and again declines in 2007/08 and shows inclining trend up to 2009/10 and declines in 2011/12 and again restore to US \$14105729. On the other hand, Social sector has experienced USAID US \$ 9246722 in 2001/02 and inclines up to 2005/06 and suddenly surges up to 2008/09. The volume of USAID inflow to

Nepal inclines in 2009/10 and again declines in 2010/11 and then after inclines up to 2012/13.

Similarly, there is up and down in the fluctuation in the trend of real respectively.

5.4 Analyzing the impact of USAID inflow in Economic and Social Sector on Real GDP

Generally the relationship between Real GDP and Foreign aid is positive and in the extreme case the relationship may be negative. The positive relationship between the variables is on account of the fact that larger the quantum of Foreign aid, higher the Real GDP. Foreign aid stimulates the investment thus making the environment for investment in the domestic territory, income, production and Real GDP inclines. The negative relationship is in the light of Foreign aid may be misutilized by the recipient country by diverting the funds towards the thing that is not meant for. In other words there may be leakage in the quantum of foreign aid and funds may be utilized in unproductive sector thus giving rise to corruption and other deep rooted problems, thereby discouraging climate for investment, income, production and Real GDP.

This study tries to find out the effect of USAID in Economic and Social sector on real GDP in Nepal.

Table 5.3: Analyzing the impact of USAID inflow in Economic and Social Sector on Real GDP

Dependent variable: Real GDP						
Sample:2002 to 2013						
R Square:0.1860						
P value of F Statistic 0.39						
	Coefficients	Standard Error	t-Statistic	P-value	Lower 95%	Upper 95%
Intercept	484.68	71.04	6.82	7.7	323.98	645.38
USAIDECO	9.84	7.36	1.34	0.21	-6.81	2.65
USAID SOC	1.77	2.61	0.68	0.51	-4.13	7.66

Since $R^2 = 0.1860$ implying that only 18.60 % variation in the Real GDP is explained by the variation in USAID inflow in Economic and Social Sector and rest is due to error. F -statistic has p value which is well above the level of significance; the model is not good and statistically insignificant. This may be due to the fact that other variables affecting USAID inflow in economic and social sector which are not taken into account in this study. Since the intercept term is 484.68 indicates that Real GDP is 484.68 when both independent variables are

zero. The slope of USAID inflow in Economic sector is 9.84 which indicate that there is positive relation between Real GDP and USAID inflow in economic Sector implying when USAID inflow to Economic Sector increases by 1 unit, Real GDP increases by 9.84 units. The logic behind such is higher USAID inflow to Economic Sector induces saving, investment, innovation, production and finally Real GDP. (Aid and growth regressions by Henrik Hansen, Finn Tarp)

Since slope of USAID inflow to Social Sector is 1.77 indicating positive relationship between Real GDP and USAID inflow to Social Sector. Implied Real GDP increases by 1.77 units when USAID inflow to Social Sector inclines by one unit. This is due to higher USAID inflow to Social Sector induces saving, investment, innovation, production and finally Real GDP. (Aid and growth regressions by Henrik Hansen, Finn Tarp) The P value of F- statistic is well above 5% indicating the model is not good. The P- value of t- Statistic of the three variables is well above 5% indicating the model is not significant.

Table 5.4: Analyzing the impact of USAID inflow in Social Sector on Real GDP.

Dependent variable: Real GDP						
Sample:2002 to 2013						
R Square:0.1732						
P value of F Statistic:0.429						
	Coefficients	Standard Error	t-Statistic	P-value	Lower 95%	Upper 95%
Intercept	551.89	57.58	9.58	5.09	421.63	682.14
USAIDSOC	.02	7.55	1.35	0.211	-6.9	2.72
USAIDSOC(1 lag)	-1.2	2.21	-.59	0.59	-6.2	3.75

Since $R^2 = 0.1732$ implying that only 17.32% variation in the Real GDP is explained by the variation in USAID inflow in Social sector and lag(-1) and rest is due to error. F-statistic has p value which is well above the level of significance; the model is not good and statistically insignificant. Since the intercept term is 551.89 indicates that Real GDP is 551.89 when USAID inflow in Social sector and USAIDSOC (1 lag) are zero. The slope of USAID inflow in Social sector is 0.02 which indicate that there is positive relation between Real GDP and USAID inflow in Social Sector implying when USAID inflow to Social Sector increases by 1 unit, Real GDP increases by 0.02 units. Since slope of USAIDSOC(1 lag) of USAID inflow in Social sector is -1.2 implying that as USAIDSOC(1 lag) of USAID inflow in Social sector inclines by one unit then Real GDP declines by 1.2 unit.

Table 5.5: Analyzing the impact of USAID inflow in Economic Sector on Real GDP.

Dependent variable: Real GDP						
Sample:2002 to 2013						
R Square:0.1537						
P value of F Statistic:0.4721						
	Coefficients	Standard Error	t-Statistic	P-value	Lower 95%	Upper 95%
Intercept	509.37	66.28	7.68	3.05	359.43	659.31
USAIDECO	-6E-07	3.12E-06	-0.19	0.85	-7.6	6.45
USAIDECO(1 lag)	3.04E-06	2.6E-06	1.17	0.27	-2.8	8.92

Since $R^2 = 0.1537$ implying that only 15.37% variation in the Real GDP is explained by the variation in USAID inflow in Economic sector and USAIDECO (1 lag) and rest is due to error. F-statistic has p value which is well above the level of significance; the model is not good and statistically insignificant. Since the intercept term is 509.37 indicates that Real GDP is 509.37 when USAID inflow in economic sector and USAIDECO (1 lag) are zero. The slope of USAID inflow in Economic sector is -6E.07 which indicates that there is negative relation between Real GDP and USAID inflow in economic Sector implying when USAID inflow to Economic Sector increases by 1 unit, Real GDP declines by 6E.07 units. Since slope of USAIDECO (1 lag) of USAID inflow in economic sector is 3.04 implying that as USAIDECO (1 lag) of USAID inflow in economic sector inclines by one unit then Real GDP inclines by 3.04 units.

5.5 Examining the nexus between Real GDP and USAID inflow in Economic Sector

Generally the relationship between Real GDP and Foreign aid is positive and in the extreme case the relationship may be negative. The positive relationship between the variables is on account of the fact that larger the quantum of Foreign aid, higher the Real GDP. Foreign aid stimulates the investment thus making the environment for investment in the domestic territory, income, production and Real GDP inclines. The negative relationship is in the light of Foreign aid may be misutilized by the recipient country by diverting the funds towards the thing that is not meant for. In other words there may be leakage in the quantum of foreign aid and funds may be utilized in unproductive sector thus giving rise to corruption and other deep rooted problems, thereby discouraging climate for investment, income, production and Real GDP.

This study tries to find out the nature and direction of relationship between USAID in Economic and Social sector and real GDP in Nepal

Table 5.6: Examining the nexus between Real GDP and USAID inflow in Economic and Social Sector.

	Real GDP	USAID Inflow in Economic Sector	USAID Inflow in Social Sector
Real GDP	1		
USAID Inflow in Economic Sector	0.380053	1	
USAID Inflow in Social Sector	0.155988	-0.12219	1

From the above result, it is cleared that there is positive relationship between Real GDP and USAID inflow in Economic Sector as well as Real GDP and USAID inflow in Social Sector indicating both are positively correlated with correlation coefficient of 0.38 and 0.16. (Very low degree, insignificant). If we correlate a variable with itself (Real GDP with Real GDP, USAID inflow in Economic and Social sector with USAID inflow in Economic and Social sector). It will be perfectly correlated. Correlation coefficient lies between 0 and 1. Means perfectly positive related and -1 means perfectly negative correlated which means that they are exactly on a straight line.

CHAPTRE - VI

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Summary of Major Findings

There was fluctuation in the trend of USAID inflow to Nepal in both Economic and Social sector for the year 2000/01 to 2012/13 respectively. From Economic sector, USAID inflow to Agriculture was quite fluctuating .A large quantum of USAID was concentrated on Agriculture sectors followed by Energy generation and supply, Trade policy and regulation, Banking and financial services, Industry, Transportation and storage. Fishing got last priority in term of inflow of USAID to Nepal in economic sector respectively.

The scenario of USAID inflow to Nepal in social sector indicate that the large amount of American assistance has been absorbed by population policy programme and reproductive health followed by basic health, health , in general, Water supply and Sanitation, Education level, unspecified etc. for the year 2000/01 to 2012/13.

Taking both sector into account or as a whole, a large quantum of USAID from the year 2000/01 to 2012/13 was concentrated in Population policy programme and reproductive health followed by basic health, agriculture, energy generation and supply, Trade policy and Regulation, banking and financial services, industry, transportation and storage, health, general, water supply and sanitation, fishing and education level, unspecified etc.

Social sector has received a large amount of USAID as compared to economic sector i.e. USAID from the year 2000/01 to 2012/13 was concentrated on social sector followed by economic sector respectively.

There is positive relation between Real GDP and USAID inflow in economic Sector. The logic behind such is higher USAID inflow to economic sector induces saving, investment, innovation, production and finally Real GDP. (Aid and growth regressions by Henrik Hansen, Finn Tarp).

The variation in Real GDP is insignificantly explained by USAID inflow in Economic sector. Only a small change in Real GDP is explained by USAID inflow on account of other variables affecting Real GDP which are beyond this study. The positive relationship between Real GDP and USAID inflow to social sector is in the light of higher USAID inflow to Social Sector induces saving, investment, innovation, production and finally Real GDP. (Aid and growth regressions by Henrik Hansen, Finn Tarp).

The variation in Real GDP is insignificantly explained by USAID inflow in Social sector. Only a small change in Real GDP is explained by USAID inflow on account of other variables affecting Real GDP which are beyond this study.

6.2 Conclusion

From the above, it is concluded that Social sector has received a large amount of USAID as compared to Economic sector i.e. USAID from the year 2000/02 to 2012/13 was concentrated on Social sector followed by Economic sector respectively. There is positive relation between Real GDP and USAID inflow in economic Sector. The logic behind such is higher USAID inflow to Economic Sector induces capital accumulation, investment, innovation, production and finally Real GDP.

The positive relationship between Real GDP and USAID inflow to Social Sector is in the light of higher USAID inflow to Social Sector induces capital accumulation, investment, innovation, production and finally Real GDP. (Aid and growth regressions by Henrik Hansen, Finn Tarp)

6.3 Recommendations

USAID has played a major role in the economic development of Nepal. It has bridged the resource and foreign exchange gap. In order to make USAID fruitful, it is useful for Nepal's development new visions and new ways of aid utilization that have to be thought from both Nepal's and donor sides.

On the basis of above summary and conclusion, following suggestions are suggested:

1. There should be improvement in the absorptive capacity of Foreign aid for that concrete steps should be taken toward the solution of over facing obstacle(e.g. Delay in the approved of tender, weakness in administrative management and coordination and impractical financial rules and regulations etc.) to enhance the absorptive capacity.
2. Since there is no sufficient information about utilization of Foreign aid. There is a need for developing transparency and efforts should be initiated in record keeping system.
3. The government should prepare priority list of viable projects and backward sectors according to the development need. Entire freedom in the selection of the projects should not be provided to donors.
4. Emphasis should be given to Economic sector as the volume of USAID inflow to this sector is negligible as compared to Social sector.
5. Foreign aid should be used in transparent manner with proper accounting system of recording the movement of foreign aid.

6. Project management efficiency should be improved and enhanced.
7. Priority should be given to grants rather than loans and be used to productive sectors as the latter interfere with the sovereignty of the Nation.
8. In order to enhance the foreign aid utilization without loss of time a substantial amount of foreign aid should be channeled towards the activities contributing to the increase in production. i.e. by providing assistance to farmers, entrepreneurs etc.

REFERENCES

- Acharya, K.P. (1988). *A review of foreign aid in Nepal*. Kathmandu: Citizen's Poverty Watch Forum.
- Acharya, L. (2004). *A review of foreign aid in Nepal 2003*. Kathmandu: Citizens Poverty Watch forum.
- Basnet, H.C. (2013). Foreign aid, domestic savings and economic growth in South Asia. *International Business & Economic Research Journal*. 12 (11). Retrieved from <http://www.cluteinstitute.com/ojs/index.php/IBER/article/download/8176/8216>
- Bhagwati, J.N. (1969). *Amount and sharing of aid*. Washington D C.: Development Council Monograph No.2.
- Bhattarai, B. and K. Sharma (2011). *Aid, policy and growth: The case of Nepal*. *Journal of Economic Issues* vol.47, No.4, 2013.
- Black, J. (2002). *A Dictionary of economics*. New York: Oxford University Press.
- Brautigam, D. & Knack, S. (2004). *Foreign aid, institutions, and governance in Sub-Saharan Africa*. *Economic Development and cultural change* pp.255.
- Chand, S. K. (1999). *Advanced dictionary of economics*. New Delhi: Dominant Publishers and Distributors.
- Deerfield, A. (2013). *A study of corruption, foreign aid and economic growth*. (Thesis and Dissertation). Martin School for Public Policy Administration: University of Kentucky. Retrieved form http://uknowledge.uky.edu/msppa_etds/5
- Devkota, K. L. (2008). *Foreign aid and economic growth: A case of South Asia*. *Economic Journal of Nepal*, Vol. 3, no. 4, Issue No.124.
- Dhankov, S.M., Jose G., & Querol, M.R. (2006). *Does foreign aid help?* Social Science Research Network.
- Easterly, W. (2003). Can foreign aid buy growth? *The Journal of Economic Perspectives*. 17 (3). Retrieved from http://www.development.wne.uw.edu.pl/uploads/Courses/dev_easterly_2003.pdf
- Farah, A. S. (2009). *Foreign aid and the big push theory: Lessons from Sub-Saharan Africa*. *Standard Journal of International Relation*.

- Galiani, S., Knack, S., Xu, L.C., & Zou, B. (2016). The effect of aid on growth: evidence from a quasi-experiment. *National Bureau of Economic Research. No. 22164*. Cambridge. Retrieved from <http://www.nber.org/papers/w22164>
- Hassoun, N. (2010). Empirical evidence and the case for the foreign aid. *Research showcase: Carnegie Mellon University*. Retrieved from <http://repository.cmu.edu/cgi/viewcontent.cgi?article=1358&context=philosophy>
- Hong, K. K. (2014). *Foreign aid impact on economic growth – A study in Indochina and under developing countries*. Retrieved from <http://www.academia.edu>.
- Jeffrey, S.B. (2015). Is all foreign aid the same? : An empirical comparison of the effect of multilateral and bilateral aid on growth. *Undergraduate Economic Review. 12 (1)*. Retrieved from <http://digitalcommons.iwu.edu/uer/vol12/iss1/3/>
- Karna, S. K. (2007). *An inflow of foreign aid in Nepal*. The Economic Journal of Nepal, 30(4): 201- 214, Kathmandu.
- Khadka, N. (1991). *Foreign aid, poverty and stagnation in Nepal*. New Delhi: Vikas Publishing House Pvt. Ltd.
- Khadka, N. (1997), *Foreign aid and policy major powers and Nepal*. Vikas Publishing House Pvt. Ltd.
- Lohani, S. (2004). *Effect of foreign aid on development: Does more money bring more development?* Retrieved from http://digitalcommons.iwu.edu/cgi/viewcontent.cgi?article=1027&context=ec_on_honproj
- Mihaly, E.B. (1965), *Foreign aid and politics in Nepal*. Oxford University Press, London.
- MoF. (2008). *Economic survey*. Kathmandu, Nepal: Author.
- MoF. (2010). *Economic survey*. Kathmandu, Nepal: Author.
- MoF. (2012). *Development cooperation report*. Kathmandu, Nepal: Author.
- MoF. (2015). *Development cooperation report*. Kathmandu, Nepal: Author.
- MoF. (2015). *Economic survey*. Kathmandu, Nepal: Author.

Poudyal, S.R. (1982). *Impact of foreign aid in Nepal's development*. CEDA, Kathmandu.

Poudyal, S.R. (1988). *Foreign trade, aid and development in Nepal*. New Delhi: Common Wealth Publishers.

Samuel, S.N., & Gupta, D.B. (1993). *Issues in applied economics*. Australia: Macmillan Education Australia Pvt. Ltd.

Shafillah, M. (2011), *Foreign aid and its impact on income inequality*. International Review of Business Research Papers, Vol7.No.2, pp.91-105.

Shirazi, N., Mannap, T. & Ali M. (2009). *Effectiveness of foreign aid and human development*. The Pakistan Development Review, 48:4 part II (winter), pp.853-862.

Sigdel, B.D. (2010). *Dimensions of Nepalese economy*. Nepal: Human Actions for Rapid Development.

Todaro, M.P. and Smith S.C. (2003). *Economic development*. India: Pearson Education, Ltd.

Embassy of USA, Kathmandu.
<http://nepal.usembassy.gov/>

Ministry of Finance, Nepal
<http://www.mof.gov.np>

Wikipedia, the free encyclopedia.
http://en.wikipedia.org/wiki/Foreign_aid_to_Nepal

Annex I

Table 5.1: Sector-wise Distribution of USAID to Nepal (2001/02-2012/13) (US \$ in thousand).

Sector	Year												
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Economic													
Agriculture	3,123,540	2,293,818	2,158,565	2,068,565	1,848,551	2,489,817	1,098,981	1,742,342	1,970,727	2,277,949	2,050,621	1,130,352	32,426,996
Banking & financial services	-	-	-	-	116,148	8,183	-	-	-	-	1,501,347	808,935	24,346,133
Energy generation & Supply	1,333,923	431,676	3,734	-	-	-	-	-	154,950	390,466	236,661	406,566	29,579,766
Fishing	-	-	25,000	-	-	-	-	-	-	-	-	-	25,000
Industry	-	174,782	627,853	631,184	344,284	95,922	-	-	-	-	-	-	18,740,255
Trade Policy and Regulation	-	-	-	-	-	-	-	1,023	6193	41,409	1,085,532	1,583,470	27,176,277
Transport and storage	-	-	-	-	-	-	441,000	296,342	11,583	43,220	63,867	3,238	8,592,500
Total	4,457,463	2,900,276	28,151,522	26,997,749	23,089,833	25,939,222	15,399,811	20,397,077	21,434,533	75,304,444	35,868,155	14,105,729	419,442,744
Social Sector													
Basic Health	2,016,996	2,468,124	2,456,132	2,019,891	2,788,246	405,263	6,261,191	7,766,342	2,948,529	4,432,674	2,554,614	3,428,706	64,640,925
Education, level unspecified	9,094	-	-	-	-	-	-	-	-	-	-	-	9,094
Health, General	-	-	-	-	604,840	-	-	-	-	-	-	-	604,840
Population Policy programme and Reproductive Health	7,223,662	9,216,792	15,006,619	19,642,787	19,248,431	29,758,019	16,454,655	11,827,145	20,453,713	17,244,029	19,380,488	17,875,108	203,331,448
Water Supply and Sanitation	-	2,500	-	-	-	-	-	-	-	-	67,744	185,703	2,559,477
Total	9,246,722	11,687,416	17,462,751	21,662,678	48,340,574	30,163,282	22,715,846	19,593,487	23,402,242	21,676,703	22,002,846	21,489,517	269,444,064

Source: USAID Nepal, Kathmandu (2014).