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Utilization of Foreign Aid on Agriculture Sector in Nepal: A Trend Analysis

Elina Maharjan
MPhil Scholar
Tribhuvan University, Nepal
emhrjn@gmail.com
https://orcid.org/0009-0003-9988-9777

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Abstract
This paper examines the role of foreign aid in Nepal's agricultural sector and its association with agricultural development. Given Nepal's limited domestic resource mobilization, low savings, and investment constraints, foreign aid has remained an important source of financing for agricultural development. The study is based on secondary data collected from official government publications and employs descriptive statistics, trend analysis, and Pearson correlation to examine the relationship between foreign aid and agriculture's contribution to Gross Domestic Product (GDP). The findings reveal that foreign aid allocated to the agricultural sector has generally increased over time, although with considerable annual fluctuations. In contrast, agriculture's contribution to GDP has gradually declined throughout the study period. The descriptive and correlational analyses indicate that increased foreign aid was not associated with a proportional increase in agriculture's contribution to GDP. The study concludes that improving agricultural performance requires not only external financial assistance but also complementary investments in governance, irrigation, technology, market access, and institutional capacity.
Keywords: agriculture, development, GDP, foreign aid, trend analysis, Nepal

1. Background of the study
Foreign aid is an administered transfer of resources from the advanced to lesser or developing or underdeveloped countries to encourage economic growths. It is generally defined as the concessional transfer of resources from one country to another to promote economic and social development. It is generally used to refer to the normal value of direct and indirect flow of

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finance and other resources from rich country governments and multilateral institutions to poor countries. The resources can be transferred in various forms such as financial, technical, commodities and human capital. Nepal had begun to receive foreign aid after the decline of refine in 1995 from the USA (Mishra & Aithal, 2021). However, it has been a contested subject of debate as well as a crucial need for fostering economic growth, as well as to support the developmental progress (Pandey, 2018).

Nepal is a landlocked country in South Asia with per capita income of about US$ 1467.15 (MoF, 2025). Agriculture is the main source of income providing main source of livelihood for over two thirds of the population. Nepal, being a developing country, gets foreign aid from different countries and international agencies. Before 1951, foreign aid was unknown and non-institutional factor for Nepal. When Nepal opened its border to the outsiders in 1951, the search for development assistances from external sources got started. Foreign aid appears to have played a loan able role as much as it has inspired successive governments in Nepal to demonstrate their commitment to development. Even if the desires of the people to have better living standard has a product of endogenous stimuli, everything else from the objective of development to the strategy, policies and projects are destined to be influenced by foreign aid. Channeling of the fund has been institutionalized with planned development approaches (including periodic plans) meeting a large proportion of the cost of Nepal's development program (Poudyal, 1982; World Bank, 2014).

Classical studies conceptualize foreign aid as an explicit transfer of real resources to the less developed countries on concessionaire terms in order to uplift the developing economy and the living standards of people; though this classical approach is subject to debate (e.g. Iannantuoni, 2025; Kamguia et al., 2022). Foreign aid is the international transfer of public funds in the form of loan or grant either directly by one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral like International Bank for Reconstruction and Development (IBRD) (Todaro, 1988). The debate on the relationship between foreign aid and economic growth has drawn great attention for years. Several studies are available on the role of foreign aid on economic development in international context. Some studies (for instance, Burnside & Dollar, 2000; Phuyal & Sunuwar, 2018) have shown for positive impact of foreign direct investment on economic growth while few others have shown negative impact or no impact at all on growth. Ram (2004) argued that not much evidence have been established to support the belief that direct foreign assistance to countries with good 'policy' will increase the impact on growth or poverty reduction in developing countries . There is a positive but not significant relationship between foreign aid and economic growth since foreign grant is increasing in lower rate than that of foreign loans.

Nepal is still predominately agricultural country and large portion of population rely on agriculture as their main occupation. The contribution of agriculture sector to the growth of GDP is about 24.71 percent (MoF, 2025). Nepal government has limited capacity to invest solely on agriculture sector so foreign aid on this sector is inevitable. Foreign aid is regular on agriculture sector though the agriculture production and its technological advancement is not

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satisfactory. In this context, this paper aims to analyze the trend of foreign aid in Nepal, particularly in Nepal's agriculture sector.

2. Literature Review and Conceptual Framing of the Study

This study is informed by three complementary perspectives: modernization theory, dependency theory, and the post-development approach. Modernization theory views foreign aid as an important instrument for accelerating economic development by addressing capital shortages, promoting technological innovation, strengthening institutions, and increasing agricultural productivity. From this perspective, foreign aid facilitates structural transformation by supporting investment in irrigation, mechanization, research, and market infrastructure, thereby contributing to agricultural growth and overall economic development (McArthur & Sachs, 2019). Recent development literature also suggests that external aid can promote sustainable development when it complements domestic policies and institutional reforms rather than substituting for them.

In contrast, dependency theory argues that excessive reliance on foreign aid may reinforce structural dependence, weaken domestic institutions, and limit self-reliant development. Rather than promoting sustainable growth, aid may encourage donor-driven priorities, reduce incentives for domestic resource mobilization, and constrain national policy autonomy. Similarly, the post-development approach critiques externally designed development models, emphasizing that development interventions should be grounded in local knowledge, community participation, and context-specific priorities. Regmi (2018) argues that modernization, dependency, and post-development represent three distinct yet complementary lenses for understanding development processes and their limitations. Empirical evidence from Nepal further demonstrates that the assumption of aid-induced dependency is not universal, as food aid has, in some contexts, strengthened rather than weakened local agricultural resilience and food security.

Drawing on these three theoretical perspectives, this study examines whether foreign aid has contributed to agricultural development in Nepal by considering both its potential to support modernization and its possible limitations arising from dependency, institutional weaknesses, and externally driven development strategies. The framework therefore provides a balanced basis for interpreting the relationship between foreign aid and agricultural performance in Nepal.

Empirically, the literature on foreign aid and agricultural development reflects two competing perspectives. One school argues that foreign aid supplements domestic capital, enhances agricultural productivity, reduces poverty, and promotes economic growth (Islam, 2011; Kaya et al., 2013; McArthur & Sachs, 2019). These studies suggest that well-targeted agricultural aid strengthens food security, raises rural incomes, and supports structural transformation in developing economies.

In contrast, another perspective questions aid effectiveness. Friedman (1958) argues that foreign aid may foster dependency, discourage domestic resource mobilization, and postpone

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necessary institutional reforms. Similarly, scholars such as Burnside and Dollar (2000) maintain that the impact of foreign aid on economic growth is mixed and largely depends on governance quality, policy environment, and the efficiency of aid utilization. Thus, the global debate indicates that the developmental impact of foreign aid depends more on institutional capacity and effective implementation than on the volume of aid itself.

In Nepal, development discourse has been debated and contested in various academic as well as empirical frontiers becoming a transdisciplinary juncture (Sapkota, 2023a). Among them, foreign aid has long been considered a crucial source of development financing due to limited domestic resources (Khadka, 1991; Pant, 1991; Saud, 2023). It came overwhelmingly in Nepal since early 1950s along with the postcolonial though of 'modernization' project which now become an unavoidable development trajectory (Sapkota, 2023). Early studies viewed aid as essential for capital formation and agricultural modernization. However, recent evidence presents a more complex picture. Ranjit and Dhungana (2015) report that agricultural foreign aid has a positive long-run association on agricultural GDP, although weak policies and implementation constraints reduce its effectiveness.

Likewise, Bhandari (2024) observes that despite increasing foreign aid commitments and improvements in some agricultural indicators, agriculture's share in GDP has continued to decline while food imports have risen. These findings suggest that foreign aid alone cannot drive agricultural transformation without sound policies, effective governance, and efficient resource utilization. With this, scientific studies reveal no clear consensus on the effectiveness of foreign aid in agriculture. While aid has the potential to promote agricultural development, its outcomes remain conditional upon governance, institutional quality, and policy coherence.

2. Methodology

The study followed a review method of secondary data. The secondary data on foreign aid to agriculture sector, foreign aid contribution to national GDP and other relevant information were collected from governmental reports, including ministry of finance and its economic surveys in subsequent years 2025. Both descriptive and quantitative analysis approach is used for the analysis of available data. The correlation and regression analysis of variables by using the SPSS software as a statistical tool is organized from which different forms of tables and graphs have been produced. The descriptive method as well as time series data have also been interpreted.

However, as part of limitation, the study does not account for the time lag between aid disbursement and agricultural outcomes. Future research using longer time-series data should employ lagged regression or distributed lag models to capture delayed effects of foreign aid. Foreign aid values were analyzed in current prices because constant-price series were not consistently available. Future studies can employ inflation-adjusted or real values to improve comparability over time.

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4. Finding and Discussions

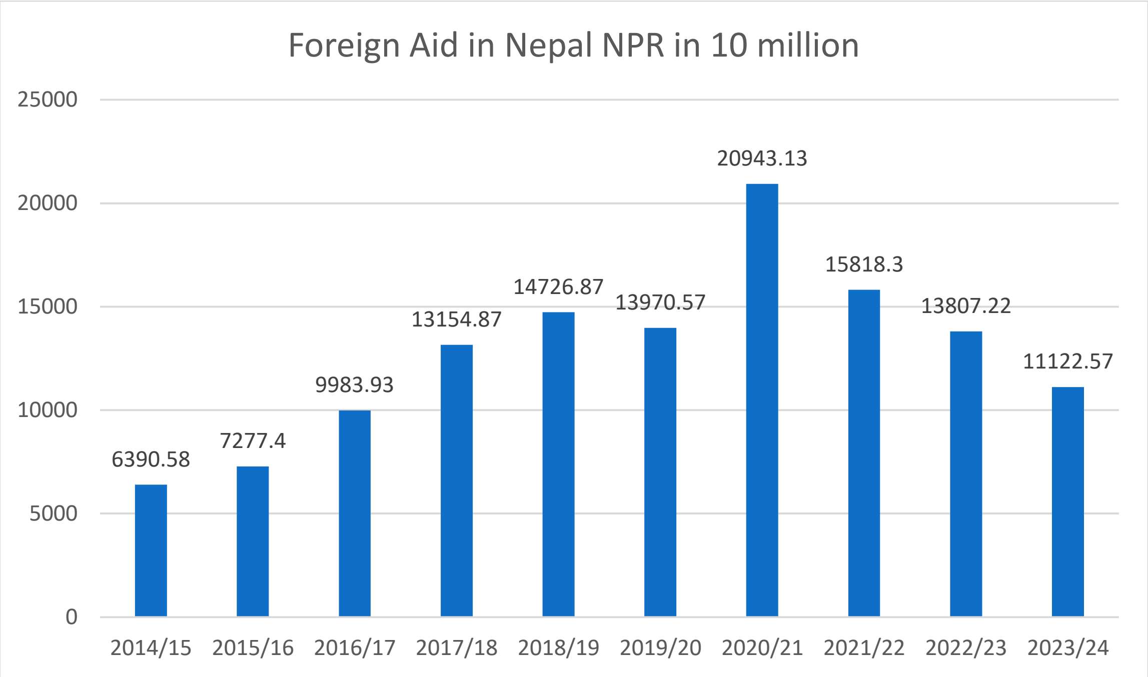
4.1 Trend of Foreign Aid in Nepal

Until the mid-1960s, Nepal depended mostly, on foreign grants for all its development projects. Most of these grants were on a bilateral basis. Japan has been the largest donor country to Nepal. The Karnali River Bridge, New Buspark at Gongabu, Tribhuvan University Teaching Hospital (TUTH), Melamchi Drinking Water Project, few hydro-power projects and highways like B.P. Koirala Highway and the widening of Koteshwor-Suryabinayak road were undertaken with the assistance of Japan. Grants from India helped to build the airport in Kathmandu, the Koshi Dam, Bir Hospital, Trauma Center, highways like Tribhuvan Highway, Siddhartha Highway and several irrigation projects in different parts of the country.

Figure 1 shows the trends of foreign aid received by Nepal from last 10 years from fiscal year 2014/15 to 2023/24.

Figure 1

Trends of Foreign Aid in Nepal



Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

Historically it is observed that eleven UN agencies, seven multilateral lending agencies (such as the World Bank), and eight private agencies (for example, the Ford Foundation) participated in aid programs in Nepal till Panchayat era. Under the auspices of World Bank, Nepal Aid Group was created in 1976. By 1987 sixteen countries and six international agencies participated in the group. The level of commitment from the Nepal Aid Group had increased from NPR1.5 billion in 1976-77 to NPR5.6 billion in 1987-88. The bulk of foreign aid contributions after 1976 came from this group (MoF, 2016).

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Most economic development projects were funded with external assistance on concessional terms. In the mid- to late 1980s, recorded aid disbursements averaged more than US$200 million annually--about 7 percent of GDP. More than 70 percent of the aid was in the form of grants; the remainder was in the form of concessional loans. A high percentage of technical assistance and direct aid payments were not documented. Much of the aid granted was underused.

Dependence on foreign aid was increasing. Between 1984 and 1987, foreign aid as a percentage of GNP increased from under 8 percent to almost 13 percent. Debt service as a percentage of GDP increased from less than 0.1 percent in 1974-75 to almost 1 percent in 1987-88. Outstanding debt in this period increased from NPR346 million to almost NPR 21 billion (MoF, 2015). Similarly in the FY 2022/23, international development cooperation amounted to NPR 23.1 billion in grants and NPR 123.5 billion in loans, totaling NPR 146.06 billion. Since the FY 2019/20, the mobilization of international development cooperation has been steadily decreasing (Mof, 2022).

From FY 1970 through FY 1988, United States commitments, including Export-Import Bank funds, totaled US$285 million. In the 1980s, bilateral United States economic assistance channeled through the Agency for International Development averaged US$15 million annually. The United States also contributed to various international institutions and private voluntary organizations that serviced Nepal for a total contribution to multilateral aid in excess of US$250 million in the 1980s. Other Western countries and official development assistance and bilateral commitments for the 1980-87 period totaled US$1.8 billion. The Organization of Petroleum Exporting Countries (OPEC) provided US$30 million in bilateral aid from 1979 to 1989. Communist countries provided US$273 million in aid from 1970 to 1988. From 1981 until 1988, Japan was the premier source of bilateral ODA for Nepal, with for more than one-third of all funds. The second biggest donor during that period was the Federal Republic of Germany (West Germany).

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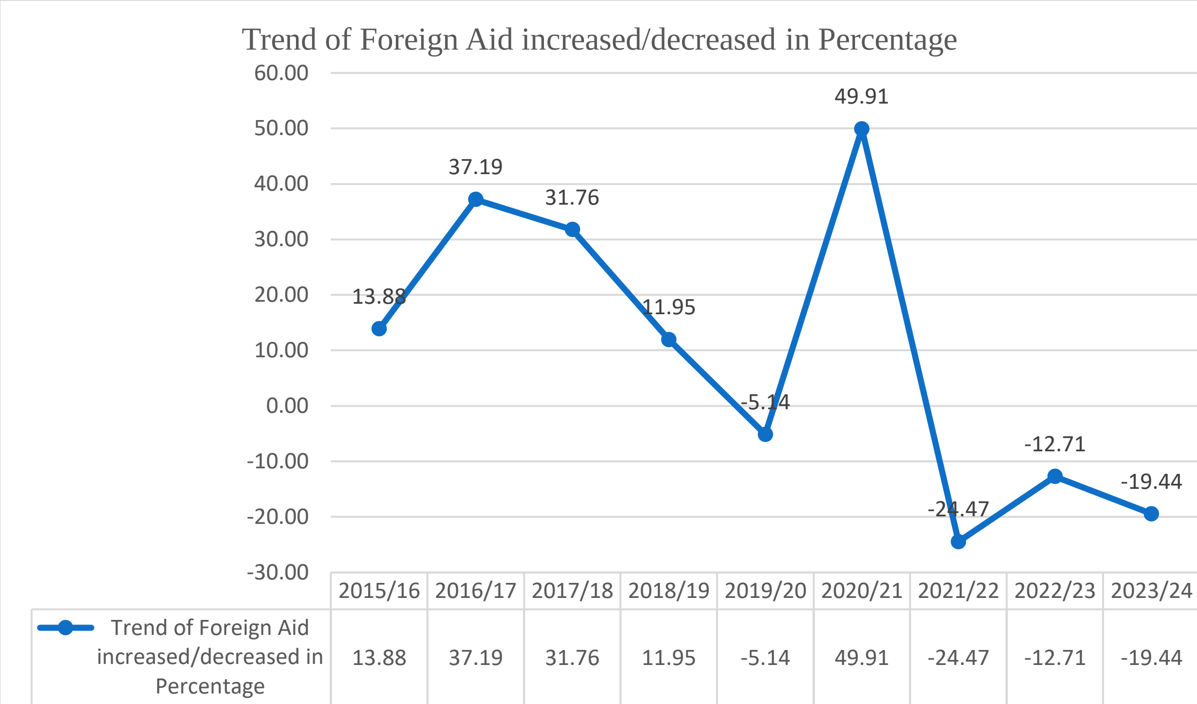
Figure 2

Trend of Foreign Aid Increased/decreased (in %)



There is an increasing number of social entrepreneurs who try to address development issues through individual, financially sustainable and more home-grown initiatives. The increasing demands of the country and the growing ambition of the countrymen required increased aid for economic development. Foreign aid has covered many fields like agriculture, poverty alleviation, emergency relief, and family planning and various training programs and expert services for social-economic development in Nepal, therefore, foreign aid transmits not only money but also ideas, values and technologies. The foreign aid got by Nepal was not in the uniform pattern. The trend of increasing and the decreasing percentage of foreign aid in Nepal as compared to the previous year from FY 2014/15 to 2023/24 are shown in Figure 2.

4.2 Trend and Contribution of Foreign Aid in Agricultural Sector

Nepal got the foreign aid continuously. The use of foreign aid in the agriculture sector and non-agriculture sectors seems in the same pattern in the all years. Out of total foreign aid received by Nepal, around 90% used for non-agriculture sector whereas about only 10% utilized in agriculture sector except in fiscal year 2018/19. In this year the only 2.5% of foreign aid utilized in agriculture sector. Figure 3 summarizes the trend of utilization of foreign aid in non-agriculture sector vs. agriculture sector from FY 2014/15 to 2023/24.

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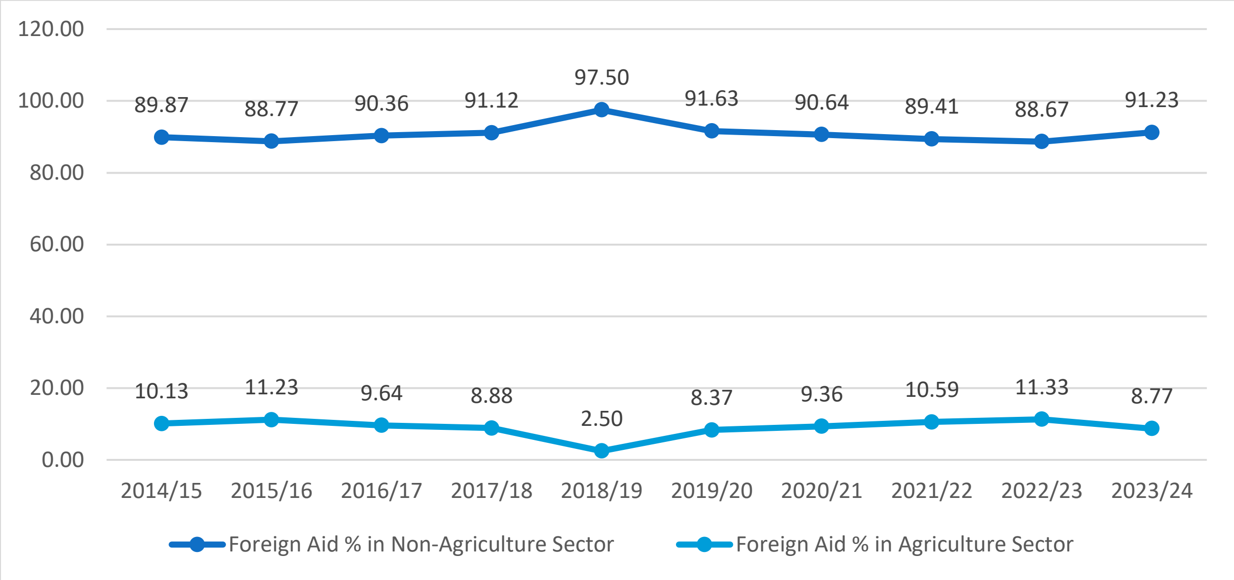
Figure 3

Trend of Foreign Aid in Non-agriculture vs. Agriculture Sector



Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

As contribution of agriculture to GDP is still significant, the balance of overall production will be subject to fluctuations until the agricultural output is stabilized. Table 1 shows that foreign aid allocated to the agricultural sector increased considerably over the study period, although with substantial annual fluctuations. Foreign loans expanded more rapidly than foreign grants after FY 2017/18, indicating a gradual shift toward loan-financed agricultural development. Despite increasing aid commitments, agriculture's contribution to GDP declined steadily from 32.7% in FY 2011/12 to 24.71% in FY 2023/24, reflecting the continuing structural transformation of Nepal's economy. Similarly, agricultural growth rates fluctuated considerably, ranging from −0.08% to 5.17%, suggesting that agricultural performance was influenced by multiple factors beyond external financial assistance.

Table 1

Foreign Aid and Agriculture Data- Trend Analysis

Fiscal Year	Agriculture sector					
	NPR in 10 million			Contribution % in GDP	Growth Rate %	Real GDP Price
	Foreign Aid	Foreign Grant	Foreign Loan			
2011/12	354.55	248.29	106.26	32.7	4.85	505.73
2012/13	347.2	270.56	76.64	31.39	1.07	512.34
2013/14	657.13	481.81	175.32	30.31	4.49	535.33
2014/15	647.41	447.78	199.63	29.39	1.2	541.8
2015/16	817.16	528.39	288.77	28.43	-0.08	541.3
2016/17	962.83	525.36	437.47	26.81	5.17	569.31

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2017/18	1167.91	373.32	794.59	26.63	2.61	584.17
2018/19	368.61	165.59	203.02	24.92	5.16	614.29
2019/20	1169.86	148.9	1020.96	25.16	2.43	629.23
2020/21	1960.32	651.1	1309.22	25.8	2.85	647.15
2021/22	1675.29	278.93	1396.36	24.46	2.35	662.37
2022/23	1564.79	184.43	1380.36	24.03	3.02	628.4
2023/24	975.45	155.14	820.31	24.71	3.35	705.27

Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

Similarly, table 2 summarizes the characteristics of the study variables over the thirteen-year period. Foreign aid to agriculture averaged NPR 974.27 (10 million), with foreign loans accounting for a substantially larger share than grants. Agriculture contributed an average of 27.36% to national GDP, while the average annual agricultural growth rate was 2.80%. The relatively large standard deviations of aid variables indicate considerable fluctuations in external financing across the study period.

Table 2

Descriptive Statistics of Key Variables (FY 2011/12–2023/24)

Variable	N	Mean	Std. Deviation	Minimum	Maximum
Foreign aid (NPR 10 million)	13	974.27	513.66	347.20	1960.32
Foreign grant (NPR 10 million)	13	343.82	167.95	148.90	651.10
Foreign loan (NPR 10 million)	13	630.45	495.81	76.64	1396.36
Agriculture contribution to GDP (%)	13	27.36	2.99	24.03	32.70
Agricultural growth rate (%)	13	2.80	1.74	–0.08	5.17
Real GDP (constant prices)	13	590.90	62.65	505.73	705.27

Source: Authors' calculation based on Ministry of Finance Economic Surveys (2015–2026).

Figure 4 shows a gradual decline in the contribution of the agriculture sector to Nepal's gross value added over the study period. Although agriculture remains an important sector of the economy, its relative share has decreased steadily, reflecting the growing contribution of the non-agricultural sectors and the ongoing structural transformation of the economy.

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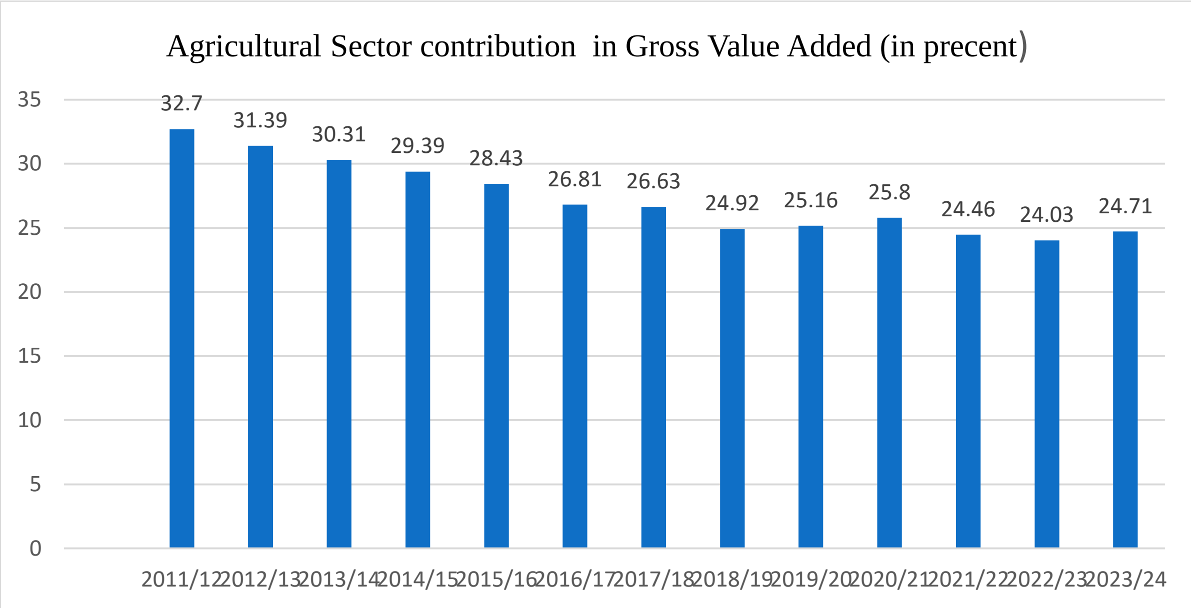
Figure 4

Agriculture Sector Contribution in Gross Value Added (in %)

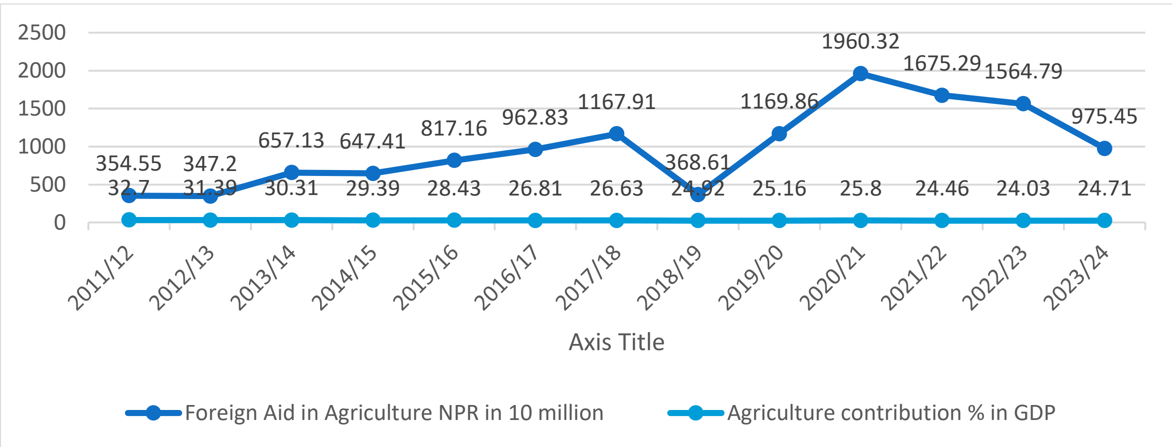


Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

Similarly, figure 5 indicates that foreign aid allocated to the agricultural sector fluctuated considerably during the study period, whereas agriculture's contribution to GDP exhibited a consistent downward trend. The contrasting patterns suggest that increasing foreign aid was not accompanied by a proportional increase in agriculture's share of GDP, implying that sectoral performance depends on multiple structural and institutional factors beyond external financial assistance.

Figure 5

Trend Analysis of Foreign Aid and GDP (in Agriculture sector)



Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

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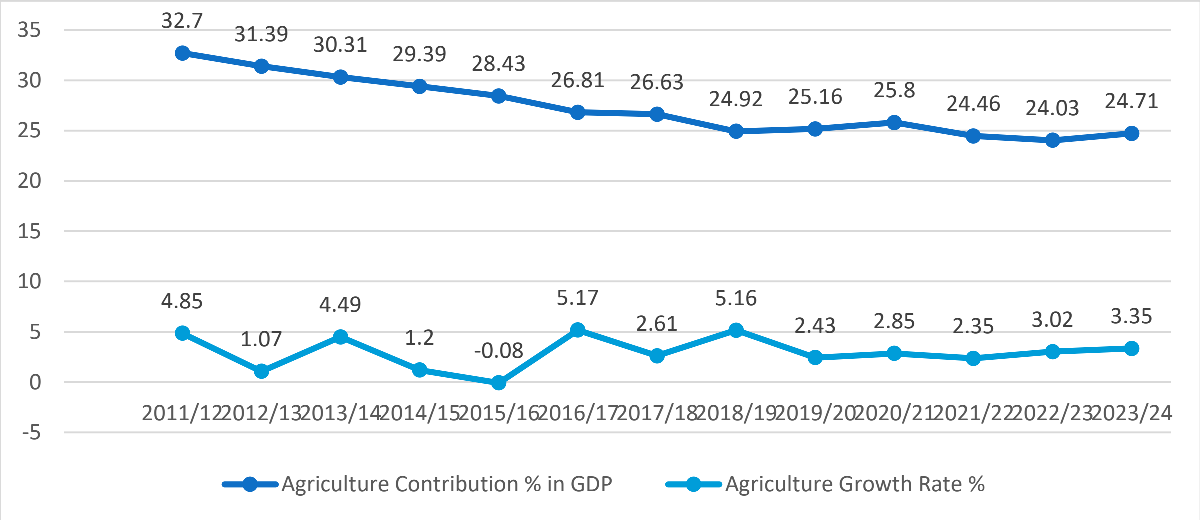
Following this, figure 6 illustrates that agricultural growth rates fluctuated markedly from year to year, while the sector's contribution to GDP declined gradually over time. This indicates that short-term improvements in agricultural growth did not reverse the long-term decline in agriculture's share of the economy, reflecting the influence of broader structural changes and the expansion of non-agricultural sectors.

Figure 6

Trends of Agriculture Growth Rate and Share Percentage of Agriculture on GDP



Source: MoF, Government of Nepal (Economic Surveys of different years where real prices are kept constant as per the respective year)

In table 3, Pearson's correlation analysis indicates a statistically significant negative association between agricultural foreign aid and agriculture's contribution to GDP ($r = -0.680$, $p = .011$). This finding suggests that increases in foreign aid were accompanied by a declining share of agriculture in national GDP during the study period. However, this relationship should not be interpreted as causal because agriculture's performance is simultaneously influenced by structural transformation, labour migration, technological change, climatic variability, public investment, and policy reforms.

Table 3

Correlation between Foreign Aid and GDP (Agriculture)

Correlation Relationship		Foreign Aid in Agriculture	Agriculture Contribution on GDP
Foreign Aid in Agriculture	Pearson Correlation	1	-.680
	Sig. (2-tailed)		.011
	N	13	13
	Pearson Correlation	-.680	1
	Sig. (2-tailed)	.011	

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Agriculture Contribution on GDP	N	13	13

5. Discussion of the Findings

The findings presented in previous section reveal that although foreign aid to Nepal's agricultural sector has increased over time, its contribution to national agricultural output has not improved proportionately. In general, this finding supports the growing international debate that the effectiveness of foreign aid depends more on governance quality, institutional capacity, and productive investment than on the absolute volume of aid (Islam, 2011; McArthur & Sachs, 2019; OECD, 2023). Recent development literature similarly stands that aid produces sustainable outcomes only when it complements domestic policies, strengthens institutions, and enhances local ownership (World Bank, 2024).

Yet, the declining contribution of agriculture to GDP despite rising foreign aid suggests that financial resources alone cannot address structural constraints within Nepalese agriculture. Persistent challenges such as fragmented landholdings, inadequate irrigation, low technological adoption, climate-induced risks, weak extension services, and increasing labour migration continue to undermine agricultural productivity. Recent evidences (e.g. FAO, 2022; Khatri et al., 2024) emphasize that investment in climate-smart agriculture, innovation, and rural infrastructure is more effective than simply increasing financial aid.

Agricultural performance is shaped by multiple structural, institutional, and environmental factors beyond foreign aid. Therefore, the findings of this study should be interpreted as indicating an association rather than a causal relationship between foreign aid and agriculture's contribution to GDP. Factors such as governance quality, climate variability, irrigation infrastructure, technological adoption, market access, and agricultural policies may substantially influence sectoral performance and should be incorporated into future research using more comprehensive analytical models. As the present study relies on a short annual time series, the findings primarily provide descriptive evidence of trends and associations.

The descriptive and correlational analyses indicate that increasing foreign aid to the agricultural sector was not associated with a proportional increase in agriculture's contribution to GDP during the study period. While agricultural aid generally increased, agriculture's share in GDP continued to decline, reflecting Nepal's ongoing structural transformation and the growing contribution of non-agricultural sectors. These findings are consistent with Arndt et al. (2015), who argue that the developmental impacts of foreign aid depend on complementary domestic policies and institutional capacity rather than the volume of aid alone. Similarly, the OECD (2023) emphasizes that development assistance is most effective when supported by sound governance, policy coherence, and effective implementation mechanisms.

The present findings partially contradict the optimistic view that agricultural aid directly stimulates agricultural growth and poverty reduction (Kaya et al., 2013; McArthur & Sachs, 2019). Instead, they are more consistent with Friedman's (1958) argument that aid may generate

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dependency or postpone necessary domestic reforms when institutional capacity remains weak. Similar conclusions have been drawn by the World Bank (2024), which notes that countries achieving sustained agricultural transformation combine external financing with domestic investment, market reforms, technological innovation, and effective governance.

The findings also reinforce recent Nepal-specific evidence. Ranjit and Dhungana (2015) found that agricultural foreign aid positively affects agricultural GDP in the long run but stressed that weak implementation limits its effectiveness. Likewise, Bhandari (2024) observed that increasing foreign aid has coincided with declining agricultural GDP share and rising food imports. The present study confirms this paradox, suggesting that the challenge lies not in attracting more aid but in improving its allocation, efficiency, and developmental impact.

Thus, the findings indicate that foreign aid should be viewed as a complementary rather than a primary driver of agricultural development. Future assistance should prioritize productivity-enhancing investments, climate-resilient agriculture, irrigation systems, agricultural research, digital extension services, value-chain development, and institutional reforms. Such an approach is consistent with recent international recommendations for achieving sustainable agricultural development and food security (FAO, 2022; OECD, 2023; World Bank, 2024).

6. Conclusion

Foreign aid is accepted means in the developing countries for the development of various sectors. In the developing courtiers like Nepal, mobilization of internal capital is not sufficient to accelerate the rate of economic development and growth without foreign aid. So, the economy of a developing country like Nepal is marked by the deficiency of capital. Foreign aid inflow to Nepal has been increasing from various countries through the bilateral process and other international process in the form of grant, loan and technical assistance. Foreign aid has covered almost every field of Nepalese economy like agriculture transportation, communication, health, electrification, industrialization, poverty alleviation, emergency relief as well as family planning and various training programs for socioeconomic development in Nepal.

Foreign aid has proved to be effective instrument contributing to significant improvements in various sectors of the economy. Foreign aid has also contributed in the economic reforms, enhanced the capacity of country and provided financial assistance for public services. Not only the achievements, foreign aid in Nepal has its short comings as well. So, Nepal is facing a paradoxical situation that it can neither promote her economy without aid, nor it has been able to avoid the risk of becoming the victim of aid intoxication. But the fact remains that a new beginning has been made in terms of enhancing the utilization of foreign assistance. The foreign aid received in agriculture sector trends over the last 13 fiscal year looks like in similar manner but the contribution in GPD of Nepal in agriculture sector as well as contribution in agriculture sector by foreign aid are continuously declined.

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