# Executive Summary

## Aid, Growth, Remittances and Carbon Emission in Nepal

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Using data from Nepal—one of the highest recipients of aid and remittances among the South Asian countries—this paper investigates the link between foreign aid, growth, remittances and carbon dioxide ($CO_2$) emissions and contributes to ongoing policy debate. The investigation of this issue is particularly important, as policy makers in LDCs are increasingly concerned with growing reliance on energy imports, which has not only made their economies vulnerable to external shocks, but also to environmental disasters such as, floods and earthquakes. In addition, health costs associated with high $CO_2$ emissions are on the rise, putting pressure on health sector budget.

The existing studies examining the link between foreign aid, growth, remittances and carbon dioxide emissions are largely based on cross-sectional data—which lump together countries with different characteristics—producing contradicting results. In-depth case studies of countries from different backgrounds, which consider country-specific features and characteristics, are sparse to shed light on this debate. The aim of this study is to contribute to the debate about the link between foreign aid, growth, remittances and carbon dioxide emissions, using historical data from Nepal.

Our results suggest that higher foreign aid and remittances lower $CO_2$ emissions in the long-run, while financial development and higher income increase $CO_2$ emissions. The Nepalese experience tends to suggest that aid has fostered the spread of low-carbon technologies such

as biogas, hydro- and solar-power, while the influx of remittances may have enabled remittance-recipient households to shift towards clean energy production and/or purchase of energy efficient appliances in the wake of rising electricity prices and increasing power cut, which has been up to 14 hours in a day. These findings have significant policy implications and point to the importance of exercising market mechanisms to monitor financial development and higher income to reduce carbon emissions without undermining the competitiveness of the economy. More in-depth case studies of the countries from different socio-economic backgrounds would be an important contribution to this important debate. We have made a small contribution to this direction.