

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

The term “Foreign Aid” is defined in the economic dictionary as the administered transfer of resources from the advanced countries for the purpose of encouraging economic growth in developing countries (Penguin Dictionary). This term is generally defined as a transfer of resources from one country to another country at concessional terms. The resources can be transferred in various forms; financial, technical or commodities. 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 assistance agency like the IBRD. Foreign Aid or Assistance, according to the organization for Economic Cooperation and Development (OECD), refers only flow, which qualifies as “Official Development Assistance (ODA)” i.e. grant or loan undertaken by the official sector with promotion of economic development or welfare as the main objectives at concessional terms (if loan, at least 25 percent grant element). In addition to financial flows, technical cooperation is also included in aid (OECD, 2016).

The subject matter of foreign aid is related concerned with economic and social progress of the country. The main purpose of aid to developing countries is to accelerate their pace of economic development up to a point where a satisfactory rate of growth can be achieved on a self-sustaining base. The function of aid for a development program is not directly to improve standard of living in the recipient countries but to impart them to make the transition from economic stagnation to self-sustaining economic growth.

From the economic history of various countries, it may be envisaged that almost every advanced country of the modern world had to rely on foreign aid for up-grading the pace of economic development. Lewis has pointed out; “nearly every developed state has had the assistance foreign finance to supplement its own meager savings during the early stages of its development. England borrowed from Holland in the seventeenth and eighteenth centuries and in turn came to lend to almost every other

country in the world in the nineteenth and twentieth centuries. The United States of America, now the richest country in the world, borrowed heavily in the nineteenth century and is in turn called upon to become the major lender of the twentieth century". One of the UNO Reports also holds the similar view that, "domestic savings tend to be at a low level in the developing countries because of the poor incomes. Thus, It is impracticable to cut the already lower consumption levels. Hence, external finance becomes necessary not only to increase the rate of development, but to act as a stimulant to domestic savings."

Domestic resources are not sufficient to meet the financial requirements of economic development in developing countries like Nepal. The present level of capital formation of these countries is too low and any substantial increase in saving is not possible due to extremely low level of income and widespread of poverty. Public borrowing and taxation have got their own limitations. Deficit financing is also discarded because of its inflationary impact on the economy. At this juncture, the only alternative to pull the economy out of vicious circle of poverty remains foreign aid. In fact, income, saving and investment of the developing countries are too much low. Without increasing the rate of these three importance components, no countries can achieve steady growth. The overall aim of foreign aid is not to equalize income in different countries but to provide every country with an opportunity to achieve steady growth. That aid should not be discontinued when a certain income level is reached in developing countries but only after those countries can mobilize a level of capital formation adequate for self-sustaining growth. Thus, foreign aid is an advantageous for the acceleration of growth mechanism in these underdeveloped countries.

Nepal is one of the least developed countries in the world. It stands at the very low level of international economic stratification. It has low level of per capital income around \$ 762 (MOF, 2017) and a low GDP growth rate. It has very large population (about 25.5 percent as quoted by NPC//Nepal, 2017) below the poverty line which increasing continuously. The rate of economic growth is also very low. The economy is based on agriculture. The contribution of the manufacturing sector is about 10 percent of the GDP. More than 80 percent of the labour force is primarily engaged in agriculture. Increasing government responsibility and its involvement in the nationwide social and economic development are some of the causes, which compel a

developing country to accept the foreign aid. Increasing development expenditure of Nepal government and the lesser increment in the internal revenue and other sources are the main causes to accept the aid or assistance from different countries and from the external institution at present. Still now, more than 50 percent of total development expenditure of government is financed by external assistance. (The construction of economic infrastructure a proper administrative organization to respond of economic regeneration and the reliance had to placed on foreign assistance in the from of aid, loan, technical assistance and private capital.) Therefore, under these circumstances the only way to achieve a sustainable rate of economic growth is the foreign assistance.

Japan is one of the developed countries in the world. Nepal receives much aid from outside and one major donor is Japan. Japan is also interested to flow the assistance an overall development to Nepal. Nepal and Japan established their friendly diplomatic relationship in 1956 and respective embassy were opened in Tokyo and Kathmandu. Nepal and Japan have enjoyed very old and close relationship. They are both Asian nations with long history and traditional background and have common values of life. Especially, Nepal is the birthplace of “The Light of Asia,” Lord Buddha. Then, Japan is a nation, which has enriched its cultural and religious fabric by incorporating Buddhist practices and percepts within its societal corpus. And both are also peace loving countries. In 1970, Nepal- Japan society was established which is known as “Nepal Japan Friendship and cultural Association.” Japan is placed at most importance on the support to the self-help efforts of developing countries. It provides official Development Assistance to help ensures the efficient and fair distribution of resources and ‘good governance’ in developing countries through developing a wide range of human resources and socio-economic infrastructure, and also through meeting the basic human needs, thereby promoting the sound economic development of the recipient countries. Nepal has been obtaining Japanese assistance in the financial as well as technical terms. Japanese aid comes for the construction of many projects for the development purpose on various sector of economy to Nepal and to enhance the relationship between Nepal and Japan. In current period, Japan has become one of the largest donors (Bilateral) to Nepal. In fiscal year 2015/2016, Japanese assistance to Nepal was Rs. 3217.317 million (MOF, 2016) which is greater than that provided by

any other donor country. Therefore, we can certainly see among the bilateral donors from Asia Japan has emerged as a major development partner of Nepal.

## **1.2 Statement of the Problem**

Least developed countries like Nepal have many problems. This group of countries have low level of living standards, low level of productivity, high rates population growth, high and rising level of unemployment, dependency of agriculture, low ability to pay tax, considerable revenue and expenditure gap of the public sector and so on. It is argued that these countries need foreign assistance to help in overcoming these problems. In order to improve the human development status and create basic economic infrastructures, there is the need of large amount of public spending which can not finance by the current level of domestic savings. This in turn, demands foreign assistance for the economic development of developing countries like Nepal.

The gap between the rich and the poor has become inevitably the most tragic and urgent problem of modern world. Domestic sources of capital are not enough to meet this gap between developed and underdeveloped countries. Foreign aid can be taken as an important source to meet this gap, because “foreign aid has inspired the nations left behind by the technological revolution to mobilize these resources for economic growth. It has also produced a transfer of resources on an unprecedented scale from richer to poor countries.” In this way, foreign aid has been taken as a means of reducing the gap.

In the early stages of economic development all underdeveloped countries need help from the developed countries. In the context of Nepal, the foreign aid inflow has been increasing since 1970s due to the increase in expenditure. But the problem is that the foreign aid has been able to fill the gap completely. Nepal has facing a problem of under spending at the time. It may have been happening due to inefficiency of administration, non-availability of suitable contractors, resulting delays in the implementation of projects and also over calculation of donor countries.

Japan has been providing grant, loan and technical assistance for the major development part of Nepalese economy. Japanese assistance to Nepal is gradually increasing. So it is necessary to study, why foreign assistance inflow in Nepal is

increasing. How Japanese aid is taking high position among the donor countries of Nepal. What type of pattern and magnitude of Japanese aid is in Nepal, what are the impacts of the Japanese aid in the economic development of Nepal. So, overall context of foreign aid, the study of bilateral aid is important while we study the aid inflow of Nepal. The research questions for the study are:

- i. What is the effectiveness of foreign aid inflow in Nepal?
- ii. What is the trend and prospects of Japanese aid?
- iii. What is the impact of Japanese aid in the economic development of Nepal?

### **1.3 Objectives of the Study**

Although the history of Japanese assistance to Nepal is not so long as compared to other donor countries. In the received period of time the size of Japanese aid in Nepal is increasing rapidly and at the same moment the contribution to total foreign aid received by Nepal is also increasing. Thus, in this situation the major objective of the study is to analyze the impact of the Japanese aid in the economic development of Nepal. However, the specific objectives are as follows:

- i. To analyze the effectiveness of foreign aid inflow in Nepal.
- ii. To study the trend and prospects of Japanese aid in Nepal.
- iii. To examine the impact of Japanese aid in the economic development of Nepal.

### **1.4 Significance of the Study**

Certainly, the foreign aid plays a significant role in the development of Nepal. It is true that Nepal is a least developed and poorest country in the world. Nepal does not pose a strong and stable economy and it requires more assistance to have rapid development process in different purposes to development. The country has a shortage of internal resources to finance the entire expenditure of her development effort. In order to break the vicious circle of poverty and to improve socio-economic condition of Nepalese people, there is a great need to foreign assistance to supplement domestic resources.

Many of the developing countries, including Nepal, are rich in natural resources but they are poor in capital, skill and management, while the developed ones have

sufficient capital and skill. Thus the main objective of providing aid is to employ the international tools and resources for the achievement of maximum economic advancements. Foreign assistance in the form of grant, loans, technological know how, training, scholarship etc. has multiplier effect on income and accelerator effect on investment and ultimately the country can be self-sufficient to finance investment. This approach holds the view that self-sufficiency should be taken as a long-term aim. The developed countries regard foreign aid program as an instrument that can be used by an underdeveloped country to the road self-sustaining growth.

Different countries and agencies/ organizations of the world have been providing aid to Nepal. The study of foreign aid provides a clear-cut idea about aid being provided by advanced countries for the various developmental works of the underdeveloped countries. Country specific studies on the matter of foreign aid to Nepal are very essential and important in order to know their current status, future directions and to develop relevant literature in this area. Japan is one of the highly developed countries in the world and plays the vital role in the development of developing countries including Nepal. Hence, this study aims to analyze the trend and volume of aid inflow to Nepal being provided by Japan for the economic development of Nepal in various sectors of the economy. To this regard the present study on the Japanese aid to Nepal can be regarded as an important endeavor.

### **1.5 Limitations of the Study**

Although the impact of foreign aid on the economic development of developing countries covers a wide range of the economy. In the present study period of this dissertation;

- i. The researcher has tried to include the area of foreign aid and with especially Japanese assistance to Nepal since 1988/89 to 2016/2017. The assistance of other donor countries is also of enormous importance
- ii. The study is mainly confined due to budget, time and resource constraints on Japanese aid in particular, and foreign aid in Nepal in general
- iii. The research is completely based on the documents and other secondary sources. The dissertation will be compiled with figures from different sources and the units of the government as well as foreign Embassy (particularly from Japanese

Embassy) to meet objectives of the study. So, some of the figures are converted from Japanese Yen to Nepalese currency on the exchange rate of appropriated year.

### **1.6 Organization of the Study**

This study is divided into five chapters. They are as follows: The first chapter deals general background, statement of the problem, objectives of the study, significance of the study, limitation of the study and methodology. The second chapter deals review of literature especially theoretical reviews, and review of foreign aid. The third chapter discussed the foreign aid in Nepal. In this chapter, history of foreign aid in Nepal, Trend and Structure of Foreign Aid, Foreign Aid Commitment and Disbursement, Sectoral Composition of Aid, Sources of Foreign Aid, Mobilization of Foreign Aid in Nepal and Burden of Foreign Aid are discussed. The Fourth chapter has Contribution of Japanese Aid in Nepal which depicts the Japanese Aid history in Nepal and its impact in development of Nepal. Fifth chapter focuses as summary, conclusion and recommendations.

# **CHAPTER-II**

## **REVIEW OF LITERATURE**

### **2.1 Introduction**

In this chapter, an attempt has been made to review the existing literature pertaining to an impact of the foreign aid in the economic development of developing country. The relevant literature and articles are reviewed from the international and national publication available in different libraries and website.

### **2.2 Theoretical Concept**

Mikesell (2008) conducted a study on foreign aid. The concept of foreign aid is certainly not a recent phenomenon. It has been with us for generations. It needs to finance the economic development efforts of underdeveloped countries. But it is generally agreed that foreign aid is considered an important factor and a key instrument to economic development of developing countries in the recent time. The value is increasingly growing after the second great world war of 1939-1945 in the third world countries. So, the scope of foreign aid has become more significant.

The required literature review in the area of Foreign Aid, several publications are published in forms of books, booklets, journals and useful articles. Similarly, there are several books, booklets, journals and articles written by Nepalese as well as foreign writers in the reference of foreign aid in Nepal. The students of economics who have submitted dissertations referring to foreign aid for the fulfillment of master's degree and several articles in local newspapers are published referring to this field.

Baskota (1983) analyzed foreign aid in a macro-economic context; the conventional arguments for external assistance have focused on these issues. External assistance helps to overcome the limitations on investments imposed by a domestic savings constraint. Through the availability of the increased level of investment resources, it was assumed that developing countries would be able to achieve higher rates of economic growth with external assistance than would have been possible without external aid. External assistance overcomes import bottlenecks arising out of hard currency shortages. With limited export earning, most developing countries have

faced major problems of financing development imports. Under such a situation, external assistance can help. One of the major areas of advantage of foreign assistance has been in the field of technology transfer, overcoming skilled manpower shortages of specific commodities

Poudyal, (1991) tried to examine the basic features of foreign aid to Nepal and assess the possible impact of aid on the development of the country in his issue "Foreign Aid in Nepal". He adds that the economic impact is very low and on the other hand he says that the flow of aid appears to have severely obscured the prospects of rising internal capital. The growing dependence on aid indicates that the country is suffering from the diseases of aid psychosis where by the compulsion is felt to go asking for more foreign aid. Here he remarks that the increased dependence on aid without expansion in the production based may eventually prove harmful to the country. He also adds in order to avert the impasse Nepal is heading towards; attention should be centered on the following theme issues.

Firstly, he suggested that country should try to reduce its dependence on foreign aid and strengthen the internal capacity of generating resources. The way out for us does not lie in massive inflow of foreign aid but in the pursuance of right policies effectively geared towards, accelerating growth, increasing production, expanding export base, reducing imports and promoting indigenous technologies. The heavy dependence on India for aid, in particular, may not be a welcome trend because it would further exacerbate the Indian monopoly situation in the Nepalese economy already created by the unavoidable dependence on India for transit aid of most of the goods of daily necessity. Secondly; he suggests the country should try to shift the concentration of foreign aid from transportation infrastructure to the industries. Thirdly, he suggests that the utilization of foreign aid should be strengthened. He adds the presence of strong incorrupt and effective administration is required to develop the economy smoothly. Absence of this, there seems again wastage of such foreign assistance, which retards the growth process.

According to Lewis it is obvious that the record of all development assistance by all donors up to now is mixed. It is easy enough to assemble a negative scorecard of mistakes, silly or counter productive projects, and other failures. But there are some powerful counter points to be made. First, there have been major and speeding

achievements. Multifaceted aid from a number of donors was a catalyst-not the main force, but a strong, indispensable catalyst-for the remarkable improvement in South Asian Food Production that blossomed in the 1970s. In the case of South Asian Agriculture, “success” (by no means complete) was achieved with a very thin spread of aid per capita. In other cases South Korea and Taiwan, for example very heavy concentrations of economic aid (in both cases, interestingly, for strategic reasons) have helped lay the base for burgeoning economic expansion. There also has been good deal of progress failures as well, but mainly significant, ramifying successes in helping guild such key development promoting institutions as agricultural universities, technical institutes, and enterprise management training establishments in many countries. Directly and indirectly aid has contributed to the downward trend in birthrates that has begun to appear in certain countries, especially in Asia. The list of on-balance successes could be many times longer. It constitutes no scientific proof that aid, overall, has had positive and significant net benefits. But it fortifies a strong suspicion that without aid in the 1960s and 1970s, Third World growth (which on average was strong) would have been slower, the outcomes for the poor would have been worse, social and political turbulence would have been greater, and less groundwork would have been laid for further advances. In particular, without aid, the poorest countries, where growth was slower, would have lagged more.

Mikesell (2008), analyzed the efficiency of foreign assistance in the context of developing countries. For the analysis, he used two years data as a sample and analyzed them by the descriptive method. His main conclusion was inflowing to developing countries that aid did involve much more than economic theme, perhaps it was an important instrument of foreign policy of the donors.

### **2.3 International Studies**

Hagen (1982) like almost all developing countries, Nepal is moving in a vicious circle of poverty at present. It can only break out by foreign assistance in the view of foreign aid its blessing and problem. According to him, Nepal is still in the pre-industrial stage; therefore it is logical that foreign aid must be applied in Nepal.

Krueger (1986) examined the impact of foreign aid substitutes for domestic savings, we need to consider the contention that, at a given level of income, the domestic

saving rate in recipient is less than it would be in the absence of aid; and at a given level of income, and investment is lower than it would be without aid. The first proposition asserts that the recipient will allocate its aids partly for present and partly for future income. The second proposition is more extreme; implying that aid is more than offset by increased domestic consumption. The first proposition, that the marginal propensity to save is less than one, accords with economic theory and, therefore, is empirically testable. The second proposition, which essentially posits a negative propensity to save, is more extreme and is a priori impossible. Since government macroeconomic policy is a prime determinant of how an economy reacts to the receipt of aid, any outcome, in principle, is possible. Governments committed to the goal of economic growth would adjust macroeconomic policies to foster higher investment as a consequence of receiving to higher investment, and domestic savings would decline or domestic consumption rise in response to aid.

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Mihaly (2005) analyzed foreign aid and politics in Nepal and stated descriptive facts about foreign affairs and political condition of Nepal. According to him, Nepal has attracted unusual attention from aid donors. Nepal received aid from so many sources, from initial until today they are USA, India, China, USSR, Israel, Switzerland, West Germany, Japan, Australia, New Zealand, United Nations and its agencies and the fund foundations. He also includes that in Nepal, there are tribes and groups of people, diversity of religions and languages that are barrier to national unity and to national affects to advance economic growth. Hence, the aid giving country has to face various difficulties. He further states that India and Chinese aids conflict in purpose. India gave a greater urgency to implement the economic aid program after the political change of Nepal, to prevent Chinese influences in Nepal.

Mihaly, (2005), The study has shown the impacts of minor aid programs provided by different donor countries. According to him, in minor aid program, few of them are successful to fulfill their indicated aim, but in aggregate they created serious problems

of Nepal. In addition, he has shown the impacts of two types of foreign aid in Nepal: short-term and long-term impact, "In short-term impact, aid project did not improve political consciousness as hoped by donors. In long-term impact, aid not only failed to give a significant boost of Nepal's economy, but also, may even have made growth more difficult to achieve.

Cassen (2012) analyzed the most extensive study of the contribution of aid concludes that "most aid does indeed work." It succeeds in achieving its developmental objectives (where those are primary), contributing positively to the recipient countries' economic performance, and not substituting for activities, which would have occurred anyway. That is not to say that aid works on every count. Its performance varies by country and by sector.

Hawkins (2013) assessed the foreign aid is only a recent phenomenon, originating in the international scene after Second World War. Foreign aid will remain as a permanent part of international economy and will continue to proceed development and thinking, which will themselves, influence the amount and character of foreign aid.

Meier (2014) tried to examine the capital accumulation is regarded as core process by which all other aspect of growth are possible. Capital increases by investment. Investment needs more saving or foreign assistance. In his view, foreign aid might have some limited used, aid should be given to those who help themselves. In short run calculation of aid, requirements through the industrial assumptions need to be looked at very carefully. It is not much use, indeed it may be harmful over the long run.

Rodan (2014) one of the development economist as well as a famous writer of economics has written in his book "Notes on the theory of Big Pus" the indivisibilities as a basis for the 'Big Push Theory' to remove the poverty of a less developed country deserve considerations one of these indivisibilities speaks. In view of the saving gap, he adds, foreign aid assumes much importance as a means to break the "Vicious circle of poverty" and to accelerate the pace of growth.

Bauer (2015) argues that continuous flow of large amounts of aid may pauperize the recipients by encouraging the idea that unearned doles are the primary ingredient in the livelihood of nations: consequently, the indispensable process of mobilizing domestic resources may be under mind.

Griffin (2015) widely believed that the purpose of foreign aid is to reduce world poverty. The major purposes of aid is to further the economic and political interest of the aid giving nations; there is very altruism in most aid programs". Therefore, for a developing nation it is very important to identify the nature of foreign aid advanced by such developed donor countries or agencies. The recipient country at first, should give attention to the objective or the purpose of advancing aid by the donor country. It should also know the kinds of aid, sources of aid and the terms and conditions of aid, which the donor countries impose on the utilization of aid.

The mentioned that the external assistance becomes inevitable not merely to fill up the gap of domestic savings but also to create necessary conditions in which fuller and proper utilization of human and material resources becomes possible.

Little and Clifford (2015) have focused on aid in the form of transactions between rich and poor, but independent government was very restricted in scope before 1960. France and Britain had been helping their colonies for the development. Since 1970, the U.S.A. had run a member of programs with increasing emphasis on development, but never the less concentrated heavily military strategy and supporting friendly governments. The Soviet Union has begun to land on a small scale to non-communist developing countries with avowedly political objectives. Other countries were just beginning to be involved in aid for social infrastructure as well as economic development. In conclusion, the use of subsidized loan in diplomacy involved many of the problems, which now have to face by those who make decision about foreign aid.

Clausen (2015) Evaluations of the World Bank Projects Clausen completed in the 2015 (130 projects representing \$ 10 billion of total investment) showed that 94 percent achieved their major objectives including the minimum required economic rate of return of 10 percent. The 49 agricultural projects evaluated averaged an economic rate of return of 19.5 percent.

Montgomery (2016) studied the social problems of great complexity have been successfully attacked since second world war, the purpose of construction of European countries depressions have been averted and wars have been confined and limited. The fact of foreign aid may relieve some of the distress of poverty encourages the hope that, it may also reduce the appeal of communism. The possibility that, it may stimulate economic development suggests that it may give restless intelligentsia stake in peaceful change, foreign aid can indirectly contribute to the possibility of decent and peaceably changing world order. Foreign aids held European self-resent together long enough to permit the endogenous revival of nationalism and exogenous rise of nationalism. Foreign aid depends merely upon the political and economic interests of donor countries and the aid also has been provided less in amount and percentage in comparison to their GDP.

OECD (2016) has also evaluated the effects of their aid to projects. A development advisory committee report concluded that the findings of projects evaluations show that about 33 percent of aid's capital projects are highly successful, 33 percent 'can be judged satisfactory' and 33 percent are disappointing of these last, about 10 percent of the total have to be regarded as 'a total loss.

Mendal (2016) tried to examine Japan as a model for developing nations. Japan's record can be used by currently developing as a guide. In his view, the developing nations should take lesson from Japan's development.

## **2.4 Nepalese Studies**

Paudel (1982) expressed view 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 if the desire of the people in Nepal for a better living standard was a product of endogenous stimuli every thing else from the objectives of development to the strategy, policies and projects were destined to be influenced by foreign aid. Channeling of funds was not significant until the beginning of Nepal' first five year plan in 1956. Since then, foreign aid from various sources has been meeting a large proportion of the cost of Nepal's development program.

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Mishra and Sharma (1983) analyzed the foreign aid in the context of a country like Nepal, 'development' through foreign aid essential becomes a metaphor for the maintenance and strengthening of the traditional native power structure. Definite social classes in such recipient countries play a decisive role in determining, in collusion with the donors, both content and the channel of foreign aid inflow. The upper social classes of such countries derive the major benefits from foreign aided development. Foreign aid, therefore, enhances the position of the upper social classes who benefit from the maintenance of the existing system of political and economic power. The need to legitimize such a power give foreign aided development the halo of a 'people-oriented development' while at the same time increasing the dependence of the lower classes. This façade, in turn, sets up a major contradiction within the native social structure.

Paudyal (1983) analyzed the impact of foreign aid in terms of its role as filling either the savings gap or the track gap, depending upon which ever is larger is not relevant for country like Nepal. The gap approach assumes that the lack of investible fund is the main constraint to growth that the relationship, between investment and growth is fairly stable, the consumption makes no contribution to output and that domestic and foreign savings are interchangeable. Though no one can deny the importance of capital in production process, what is also equally and even more important is the social framework consisting of political, administrative, economic and social values

and institutions. Had the assistance been productively used, they would have generated the funds for repayment, but since they have not been, the debt servicing is becoming increasingly burdensome to the country. Thus the way in which foreign aid has been used makes it look as if it is going to become a self-perpetuation process.

Paudel (1991) tried to examine the basic features of foreign aid to Nepal and assess the possible impact of aid on the development of the country in his issue "Foreign Aid in Nepal". The study added that the economic impact is very low and on the other hand he says that the flow of aid appears to have severely obscured the prospects of rising internal capital. The growing dependence indicates that the country is suffering from the diseases of aid psychosis where by the compulsion is felt to go asking for more foreign aid. Here he remarks that the increased dependence on aid without expansion in the production based may eventually prove harmful to the country. He also adds in order to avert the impasse Nepal is heading towards; attention should be centered on the following theme issues.

Firstly, the study suggested that the country should try to reduce its dependence on foreign aid and strengthen the internal capacity of generating resources. The way out for us does not lie in massive inflow of foreign aid but in the pursuance of right policies effectively geared towards, accelerating growth, increasing production, expanding export base, reducing imports and promoting indigenous technologies. The heavy dependence on India for aid, in particular, may not be a welcome trend because it would further exacerbate the Indian monopoly situation in the Nepalese economy already created by the unavoidable dependence on India for transit aid of most of the goods of daily necessity. Secondly; he suggests the country should try to shift the concentration of foreign aid from transportation infrastructure to the industries. Thirdly, the study suggested that the utilization of foreign aid should be strengthened. The study added the presence of strong incorrupt and effective administration is required to develop the economy smoothly. Absence of this, there seems again wastage of such foreign assistance, which retards the growth process.

Singh (1996) examined the importance of foreign aid in Nepal. The main objective of the study was to analyze foreign aid politics and its impact on socio-economic and political structure of Nepal. The study used the time series data from 1951/52 to 1984/85 and analyzed the data by descriptive method. His findings were that

economic aid failed to hasten the pace of the democratization of Nepalese society and that economic aid failed to encourage political stability and economic aid fared badly in promoting gradual social revolution. Singh examined the importance of foreign aid in Nepal. The main objective of the study was to analyze foreign aid politics and its impact on socio-economic and political structure of Nepal. The study used the time series data from 1951/52 to 1994/95 and analyzed the data by descriptive method. His findings were that economic aid failed to hasten the pace of the democratization of Nepalese society and that economic aid failed to encourage political stability and economic aid fared badly in promoting gradual social revolution.

Pant (2014) tried to examine external assistance in his books, *Problems of Development of Smaller Countries*. According to him, the external assistance available to the least developed and smaller countries can be discussed under the headings of foreign aids in the form of grants, loans and technical assistance. According to him, shortage will be supported by foreign aid at least in the initial stage of development plans. He further says that rapid formation of capital for accelerating the growth of LDCs can not be possible without foreign aid, even if domestic resources are mobilized to the optimum level.

Pant claimed on the international flows of resources that lower the stage of development, greater the percentage of imports of net loans and grants. The efforts of advanced countries and international agencies to impart knowledge and skills to developing countries through technical assistance have been increasing in recent years (Pant, 2014).

According to Pant it is fairly well known that the flow of international economic assistance to developing countries have not kept pace with the growing ability of the developed countries as measured by the growth in their GDP.

In the same Pant also points out the volume of international economic assistance has been far below the capacity of the developing countries to utilize it effectively. So, it is important that the foreign aid provided should have to be increased in higher amount and but not under any condition and donor countries interest should not be imposed on the recipient countries. Recipient countries must be free to use foreign

aid according to their national interest. As pointed out in the research committee on foreign aid, his holiness progression declared development is the new name for peace.

Budhathoki (2015) analyzed the role of Chinese aid states that Nepal is facing the problems of aid indigestion, which has been caused by different factors such as (a) lack of concrete project and program formulation (b) small absorptive capacity (c) slow flow of funds system resulting in delays of realizing of funds and (d) inefficient system of scheduling of inputs including the important of skilled manpower. He has shown that the terms of financial aid the people's republic of China is one of the major donor countries that have extended economic co-operation to Nepal.

Aryal (2016) Foreign aid is an important not only in the form of economic assistance but also in the form of technical assistance and commodity assistance as well in a developing country. Technological advancement has presented so sophisticated machines that without skilled and trained hands the machines can not operate. Thus foreign cooperation in the form of technical assistance serves the host country to train the local people and to generate able personnel in the near future. "Technology provides the equipment and knowledge that, when utilized, adds to productivity. But while the latest technology may be most productive one, the same may not be adopted in a country due to lower level of infrastructure. Even its sustenance may be questionable as it presupposes the existence of a certain minimum level of economic activity in the country and buying power of the users, which the country may not have. In launching a development program through foreign aid, the country should therefore select technology that can be sustained and adopted by the people for their own development. Aid makes the country accessible to benefits of technology in the development. Aid makes the country accessible to benefits of technology in the development programs through availing the capital, and expert human resources of the developed country as well as an opportunity to train its own human resources to effectively utilize the technology for an overall development of the country.

Subedi (2016) tried to explain the role of foreign aid especially US aid in Nepal. In his study, he has shown the percentage of foreign assistance in different plan project in one hand. On the other hand, he has shown the decreasing trend of US aid in different plan period. In the first plan, its rate is 58.88 percent out of total foreign aid, in the second 45.57 percent, in the third 22.55, in the fourth 14.3 percent and the fifth

plan in down to 10.94 percent. Then it gradually decreases and flow minimum amount to Nepal, through US aid from the out of foreign aid. He also expressed that, US is the first country to co-operate in Nepal in the beginning of plan period. In conclusion, he says that foreign aid provides assistance to promote the economic development of Nepal. But it has not effected in desirable level of the economic development.

Rajbhandari (2016) tried to show the foreign assistance in Nepal by different countries in a project wise basis. He had also shown the volume of aid that Nepal received, but he did not mention the relative amount mainly to avoid controversy in the manner.

Manandhar (2016) puts a question if Nepal can survive without aid. To answer to this question, is very difficult. According to him, before giving the answer of this question, we have to look the role of foreign aid at present in developing process. In his view, no one seems to be worried about what happens when the aid stops. he adds Nepal is an agricultural land industries, are of recent phenomenon, when the flow of aid shops, these will be stagnation in industrial sector by lacking enough capital and modern technology. He further writes that if aid is stopped, these will be no scholarship provided under bilateral aid program. Thus, the foreign aid also affects the higher education as well as technical education. According to him foreign aid is necessary for Nepal. Without aids, the overall economic situation will be frightening and alarming. This may show how vulnerable we have become in dependence of foreign assistance.

Aryal (2016) analyzed the objective of assessing the magnitude of foreign aid in Nepal and to give the historical analysis of Chinese aid in Nepal from 1989/90 to 2013/14 and also to assess the role of Chinese aid in Nepal from 1989/90 to 2013/14. By analyzing different sectors in short, the study focused that from 1989/90 to 2013/14, China acted as a major donor of Nepal.

The study found that foreign aid is affecting the economic development of Nepal. He adds that competition among aids should depend on the absorptive capacity of the recipient country. In his view, aid recipient country should suggest appropriate project to the donors, which will be beneficial for the rapid development of the country.

Khadka (2016) analyzed the micro economic performance of foreign aid in Nepal. The study used the secondary time series data from 1991 to 2014, and employed the descriptive method. the main objectives of the study were to examine the socio-cultural and political constraint to development and to find out the shore wise and sector wise allocation of aid over the past three decades as well as the evaluate the micro economic impact of aid on Nepalese economy.

The study findings were that foreign aid generated a number of negative effects in the socio-economic structures such as widening of inequality and creation of dualism, perpetuating aid dependence, making the domestic economy more vulnerable to external shocks, contributing evaporation of aid money, creation of aid elitism and its prevented in the introducing desirable political reforms in the system of government.

Sigdel (2016) analyzed Japanese Economy and Economic Diplomacy. The study employed the secondary time series data from 1990 to 2015. The study used descriptive method to analyze the data. It is findings showed a positive of Japanese assistance to the least developed countries but in the context of Nepal the impact of Japanese aid was not found so favorable because it always created adverse balance of trade rather than narrowing the trade deficit and demonstration effects of various kinds to Nepal.

Pandey (2016) made study on the Foreign Aid to Nepal. The main objectives were to analyze the structure of foreign aid in Nepal, 'to find the contribution of foreign aid to the GDP and the actual resources gap problem in Nepal: The study found that the flow of foreign aid in Nepal is increasing both from bilateral and multilateral sources where the aid that inflows with in country encourages inflation. The contribution of aid to GDP is increasing in Nepal. The study found out that the aid in Nepal is highly correlated with GDP. The study remarks that although the aid impact on the Nepalese economy is positive, there is misdirection, misutilization and corruption of the aid which are responsible of the low growth rate of the economy.

The review of previous studies made above in the case of foreign aid inflow in developing countries reveals that the studies have adopted descriptive techniques and analyzed the impact of foreign aid. In the domain of foreign aid, several publications

is not found in the field of foreign aid to Nepal along with Japanese assistance in particular is too few.

## **2.5 Research Gap**

The one of major source of government financing is foreign aid in order to fulfill its deficit budget. It is obvious foreign aid is significant to the economy of nation. The main objective is to facilitate the flow of the fund for economic development of country. Foreign aid make possible to satisfy the deficit financing of government. Japan is one of the major contributors contributing both cash and kind for the development of nation.

I have chosen this study as keen interest upon it. Till the date some research has been conducted on joint impact of foreign aid in an economic development of nation. But the scenario, donor and form of aids have been changed. Therefore, this research is specially focused on impact of Japanese aids in the economic development of Nepal, Which will be relevant to the present context.

Hence, the research with old and obsolete data cannot draw the relevant information. This study is specifically based on secondary data to reach in conclusion.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

The basic objective of this chapter is to provide details of the various methodologies followed during the study of the project that have been used for analyzing the study are described. It includes research design, natures and sources of data, methods of data collection, and methods of data analysis.

#### **3.1 Introduction**

Before presenting, analyzing and interpreting data research methodology is to be described. In its absence, the result driven may be misunderstood. Research methodology is a systematic way to solve the research problem. This chapter deals mainly with research methodology, which is used in the period of research."Research means to research the problems again and again to find out something more about the problem."(Kothari, 1990: 10-11)

#### **3.2 Research Design**

The main attempt of this study is to make a general survey on economic cooperation between Japan and Nepal. The main focus point of this study is to find out the inflow of foreign aid with reference to Japanese aid towards the economic developmental process of Nepal. This is an exploratory as well as explanatory type of research. So it is not necessary to find out cause and effect, relationship or hypothesis testing.

#### **3.3 Method of Data Collection**

This study is based on secondary data. The sources of the data used in this study are the published materials and records of various offices: Ministry of Finance, Embassy of Japan, National Planning Commission, Central Bureau of Statistics, World Bank, JICA, UNDP, NRB and others. In addition to these the sources have also been collected from various published books, magazines, newspapers, different economic journals, etc.

### **3.4 Method of Data Analysis**

In the process of data analysis, the data are presented in percentage. The available data are from various documents are collected and classified and then tabulated to meet the needs of the study. In the analysis of the available data, which are in Japanese Yen or US Dollars are converted into Nepalese currency in current exchange rate on July 31 of that year. Japanese assistance has been calculated in different forms; loan, grants and technical assistance and have been compared with total aid flow in Nepal.

## **CHAPTER-IV**

### **FOREIGN AID IN NEPAL**

#### **4.1 History of Foreign Aid in Nepal**

The history of foreign aid in Nepal is not very old. Before Second World War or even before pre-democracy period, Nepal was not familiar with the integration of aid. Whatever Nepal got before these two periods was more connected with the war or military assistance. It was not for any clear purpose of economic development. Formal aid program commenced in Nepal on the eve of the collapse of Rana regime in January 1951 with the “Marshall Plan” of the US following which India also started its bilateral aid program. Both of these were in the form of Technical assistance. The first capital assistance came from India in 1952 and the US in 1956, the only two donors to Nepal till 1956.

On January 23, 1951, the United States became the first country to confer foreign assistance to Nepal valued at Rs. 22,000 through a point four agreement. India was the only country to follow suit almost immediately in October 1951. The socialist donors, namely China and the Soviet Union, joined the group in October 1965 and April 1959 respectively. The strategic location of Nepal between India and china and its non-aligned friendly relations with all countries, including the two superpowers, helped increase the volume of aid from ‘torrent” after 1956. The role of strategic location evidenced from fact that up to 1979/80, the US, India and China together provided more than three-fourths of the total bilateral grants.

When Nepal embarked on a development course in 1951, her economy possessed a drastic dearth of domestic savings, foreign exchange and trained manpower. Naturally the foreign aid was expected to fill the hiatus by providing additional resources in the form of cash, equipment and trained personal.

Even the first five year plan was introduced in Nepal mainly as a response to the requirement of the Colombo plan consultative group meeting which Nepal attended as a full fledged member for the first time in 1955. The increasing demands of the country and the growing ambition of the countrymen required increased assistance for

economic development. The volume of aid flow into the country played a meaningful role in the progress of various sectors of Nepal. Nepal remained underdeveloped because it was poor because of lack of resources and technical know-how; foreign aid transmits not only money but also ideas, valued and technologies.

After 1956, the sources and volume of aid to Nepal rapidly increased because of its strategic location between India and China, non-aligned policy and friendly relation with all countries including the two superpowers, the importance of strategic location is evidenced by the fact up to 1979/80, the U.S., India, and China together provided more than three fourths of the total bilateral grants. Before 1951, the flow of aid to Nepal was Negligible, almost were for the military purpose as we mentioned above because of the fact that the Rana Regime following a policy of Isolation of conservatism. After the democratic government in 1951, many bilateral along with multilateral agencies came into aid field. Besides these donors countries (USA, India, UK) and agencies ford foundation and SATA (Swiss Association for Technical Assistance) many countries like India, UK, Japan, Australia etc. begun to co-ordinate aid programs through the Colombo plan.

In order to channelize foreign aid in a co-coordinated and internationally agreeable manner Nepal aid group was formed in 1976 under the aegis of the World Bank to provide a forum for coordinating the increasing level and complexity of assistance. Since then, an overwhelming portion of aid from aid group members flowing toward our country. The need for forming Nepal aid group has arisen because of two main reasons:

- (a) Growing aid requirement for Nepal, and
- (b) Need for better co-ordination of aid-financed project/programme.

The Nepal aid group has enlarged the number of its members to about two-dozen including half a dozen multilateral donors, namely, IDA, WB, IMF, EEC, UNCTAD, ADB and UNDP. At present the share of the aid group members in total aid commitment exceeds 90 percent of total Nepal's participation in Colombo plan in 1952 was another factor for increase in the bilateral aid from UK, India, Canada, Australia and Japan for several years

After the restoration of multiparty democracy, many international donors as well as multilateral agencies are taken keen interest of providing aid in different sectors of the Nepalese economy. So the substantial amount of aid that has been provided up to now, the last meeting of Nepal aid group was held 2010 in Katmandu, that was concluded with a pledge of US \$500 million to make available, the basis of aid utilization and performance results under Poverty Reduction Program (PRP).

#### **4.2 Trend and Structure of Foreign Aid**

In 1951, coming out from self-isolation, Nepal started construction and consolidation of its economy. After signing the Point Four Programme with US in January 1951, Nepal started getting foreign aid. Indian aid dominated throughout the decade. American aid came forward to counter and also to prevent the Chinese influences in the country. In 60s, China stood as a third largest donor for the Nepal. After receiving aid from Point Four Programme, Nepal is receiving foreign aid through foreign grants and foreign loans from the various donor countries, agencies and institutions.

After the end of the cold war, donor communities have been squeezing the flow of foreign aid in general and that of the grant element in particular. In 1969, the OECD, DAC affirmed a need-based target of 0.7 percent of donor countries' GNP for overseas development assistance. In reality, very few countries have met this goal. In 1997, mainly four countries: Denmark, Norway, Netherlands and Sweden, disbursed the aid amounting to more than 0.7 percent of their GNP. In the ranking, U.S.A. remained the lowest among 21 countries. The U.S.A. aid disbursement amounted to 0.08 percent of its GNP.

The table below shows the total aid inflow to Nepal from FY 1988/89 to FY 2017/18.

**Table 4.1**  
**Total Inflow of Foreign Aid to Nepal (1988/89-2017/18)**

(Rs. in million)

Fiscal Year	Total Aid Inflow	Grant	Percent in Total	Loan	Percent in Total
1988/89	2676.4	923.4	34.5	1753.0	65.5
1989/90	3491.5	1120.6	32.1	2370.9	67.9
1990/91	3314.4	1078.3	32.5	2236.1	67.5
1991/92	5078.3	1984.0	39.1	3094.3	60.9
1992/93	5666.9	1478.2	26.1	4188.7	73.9
1993/94	6427.1	1798.8	28.0	4628.3	72.0
1994/95	5990.0	1630.0	27.2	4360.4	72.8
1995/96	7800.4	1531.0	19.6	6267.4	80.3
1996/97	9235.6	3273.9	35.4	5961.7	64.6
1997/98	11537.2	2393.6	20.7	9163.6	79.4
1998/99	11249.4	3937.1	35.0	7312.3	65.0
1999/00	14289.0	4825.1	33.8	9463.9	66.2
2000/01	15031.9	5988.3	39.8	9043.6	60.2
2001/02	16457.1	5402.6	32.8	11054.5	67.2
2002/03	16189.0	4336.3	26.8	11852.4	73.2
2003/04	17523.9	5711.7	32.6	11812.2	67.4
2004/05	18797.4	6735.4	35.8	12044.0	64.1
2005/06	14384.9	6686.2	46.5	7698.6	53.5
2006/07	15885.5	11339.1	71.4	4546.4	28.6
2007/08	18912.4	11283.4	59.7	7629.0	40.3
2008/09	29300.6	20320.7	69.4	8979.9	30.6
2009/10	36351.7	26382.8	72.6	9968.9	27.4
2010/11	49769.4	38546.0	77.4	11223.4	22.6
2011/12	57997.8	45922.2	79.2	12075.6	20.8
2012/13	51893.4	40810.3	78.6	11083.1	21.4
2013/14	47199.2	35229.8	74.6	11969.4	25.4
2014/15	60204.6	42205.8	70.1	17998.8	29.9
2015/16	63907.0	38291.4	59.9	25615.6	40.1
2016/17	65830.0	37820.3	57.5	28009.7	42.5
2017/18	150880	62550	41.45	88330	58.55

Source: Various Economic Surveys of Nepal

The Table 4.1 displays grants and loans and their respective proportion in total aid. During the pre-plan, first plan and plan gap year, all assistance was entirely in the form of grants. With the advent of the second plan, the loan component began to play a minimum role. Though the share of loan was reduced, comparatively, in the third plan to a mere 3 percent, it has shown as upward trend since then.

In the first decade of planned development, all the aid the country received was in the form of grants. Nepal started getting loans since July 1960, initiated by United States

and West Germany, to strengthen the Nepal Industrial Development Corporation (NIDC), which was set up to nourish private industrial. This meant that the country did not have any loan obligation to the international community in the early decades of its development process. But ever since, increasing amount of loan, both in absolute amount and in its share of total aid, has been permanent phenomenon in Nepal.

From the Table 4.1, the grant component was lesser than loan in FY 1988/89. After the FY 1988/89, the share of loan in total aid was increasing at the increasing rate. In FY 1992/93, Nepal received Rs. 14782.2 million, 26.1 percent of foreign aid in the form of grants and 73.9 percent in the form of foreign loans. In FY 1995/96, the foreign grant record the lowest, i.e. 19.6 percent, of the total foreign aid. In FY 2016/17 the total foreign aid was Rs. 65830 million in which 57.5 percent was foreign grants and 42.5 percent loan and grant by 41 times and loans by 16 times, compared to FY 1988/89. Shifting from grants to loans has aggravated the situation of public saving being diverted towards debt servicing as the burden of foreign debt is increasing.

From the Table 4.2 it was found that in 1989/90, total foreign aid was increased by 30.4 percent. In 1990/91 the increased in total aid was found in negative figure i.e. - 5.0 percent as compare to previous year. In FY 1990/91, 1994/95, 1998/99 2002/03, 2005/06, 2012/13 and 2013/14 the total foreign aid was found negatively decline as compare to respective previous fiscal year. In fiscal year 2008/09 the total foreign aid was found drastically increase during the period 2006/07 to 2011/2012 i.e. 10.4 percent to 16.5 percent, except 2012/13 which was -10.5 percent. In 2016/17 total foreign aid was increased by 3.0 percent.

After breaking isolation with the rest of the world in 1951, Nepal has been provided substantial amount of foreign aid. Regarding disbursement of the foreign aid specially over 29 years from 1988/89 to FY 2016/17, Rs 1460944.6 million have been committed of which loan disbursement was 52.9% of the total and grant disbursement was remaining 47.1% of the total as shown by table. From the table a quiet erratic trend of foreign aid commitment can be witnessed over the 29 years. In the year 2006/07, grant dominance can be seen over the loan disbursement.

**Table 4.2**  
**Foreign Aid Disbursements, Aid GDP Ratio and Change in Total Aid**  
Rs. in million

Years	Grant	Loan	Total aid	Nominal GDP	Aid/ GDP ratio	% Change in total aid	%of grant	% of loan
1988/89	923.4	1753	2676.4	44441	6.0	-	34.5	65.5
1989/90	1120.6	2370.9	3491.5	53215	6.6	30.4	32.1	67.9
1990/91	1078.3	2236.1	3314.4	61140	5.4	-5.0	32.5	67.5
1991/92	1984.2	3094.3	5078.5	11612.7	43.7	53.2	39.1	60.9
1992/93	1478.2	4188.7	5666.9	14493.3	39.1	11.5	26.1	73.9
1993/94	1798.8	4628.3	6427.1	16535.0	38.9	13.4	28.0	72.0
1994/95	1630	4360	5990	19159.6	31.3	-6.0	27.2	72.8
1995/96	1531	6269.4	7800.4	20997.6	37.1	30.2	19.6	80.3
1996/97	3273.9	5961.7	9235.6	23938.8	38.6	18.3	35.4	64.6
1997/98	2393.6	9163.6	11557.2	26957.0	42.8	25.1	20.7	79.4
1998/99	3937.1	7312.3	11249.4	28979.8	38.8	-2.0	35.0	65.0
1999/00	4825.1	9463.9	14289	33001.8	43.3	27.0	33.8	66.2
2000/01	5988.3	9043.6	15031.9	36625.1	41.0	5.1	39.8	60.2
2001/02	5402.6	11054.5	16457.1	39356.6	41.8	9.4	32.8	67.2
2002/03	4336.6	11852.4	16189	40563.2	39.9	-1.6	26.8	73.2
2003/04	5711.7	11812.2	17523.9	49223.1	35.6	8.2	32.6	67.4
2004/05	6753.4	12044	18797.4	53674.9	35.0	7.2	35.8	64.1
2005/06	6686.2	7698.6	14384.8	58941.2	24.4	-23.4	46.5	53.5
2006/07	11339.1	4546.4	15885.5	65408.4	24.3	10.4	71.4	28.6
2007/08	11283.4	7629.0	18912.4	67585.9	28.0	19.0	59.7	40.3
2008/09	20320.7	8979.9	29300.6	75525.7	38.8	54.9	69.4	30.6
2009/10	26382.8	9968.9	36351.7	90952.8	40.0	24.0	72.6	27.4
2010/11	38546.0	11223.4	49769.4	108342.0	45.9	36.9	77.4	22.6
2011/12	45922.2	12075.6	57997.8	124848.0	46.5	16.5	79.2	20.8
2012/13	40810.3	11083.1	51893.4	138748.0	37.4	-10.5	78.6	21.4
2013/14	35229.8	11969.4	47199.2	152522.0	30.9	-9.1	74.6	25.4
2014/15	42205.8	17998.8	60204.6	175874.0	34.2	27.5	70.1	29.9
2015/16	38291.4	25615.6	63907.0	188941.0	33.8	6.1	59.9	40.1
2016/17	37820.3	28009.7	65830.0	200728.0	32.8	3.0	57.5	42.5
2017/18	88330	62550	150880	260093	58.0	12.9	58.55	41.45

Source: Various Economic Survey of Nepal

While taken into account the disbursement of foreign aid, Nepal has received total of Rs 3621475 million since 1988/89 and over the 29 years. In the beginning of 80's disbursement of aid inflow shows a consistent increment up to 1989/90, but latter on shows an erratic trend within gaps of 3, 4 years. In 2006/07 Rs 15885.5 million was disbursed. Over 29 years from 1988/89-2016/17, 71.38% of the total foreign aid disbursement was from grant and 28.52% was contributed by loan to the total aid

disbursement. While viewing over year wise disbursement of foreign aid, except for a few years (1988/89 and 2006/07), the composition of foreign aid has been heavily in favor loans, more than 60% of the total aid was consisted of loan each year after 1988/89 up to 2017/18. Considerable shiftment to loan component from grant component can be seen from above table.

In 1995/96, loans occupied 80.4% of the total foreign assistance and the share of foreign grants remained the lowest position of 19.6% of the total external assistance in the same year. In 2016/17 it was 57.5% for grants and 42.5% for loan.

### **4.3 Foreign Aid Commitment and Disbursement**

Aid commitment shows the expression of the donors to provide financial support of specified amount under agreed terms and conditions for specific purpose, to the recipient country whereas disbursement is the actual transfer of financial resources.

Due to the delay in timely implementation of the projects, they are inefficient to disburse the committed amount of foreign aid. The main cause of the shortfalls in disbursements is the time lag because aid for the many project are committed in one year, and the committed aid is being disbursed in the subsequent years. As the returns from the investment in the economy were not obtained in the time, the foreign assistance, too, could not be fully utilized. The capacity problem for the Nepali government ever since it began to receive aid. It becomes clear if one goes to the gap between the commitment and disbursement of aid during the period 1988/89-1997/98, the absorptive capacity is found to be 54.3 percent only. The sector wise commitment and disbursement gap shows that lowest percentage of absorption was seen in power sector followed by social service (65.9) and agriculture (64.8). The following table shows the status of foreign commitment and disbursement.

**Table 4.3**  
**Status of Foreign Aid Commitment and Disbursement**

Fiscal Year	Total commitment	Annual percent change	Total Disbursement	Annual percent Change	Disbursement as percent of commitment
1988/89	5991.4	93.3	2676.4	-	44.7
1989/90	9504.2	58.6	3491.5	30.4	36.7
1990/91	8727.5	-8.2	3314.5	-5.1	38.0
1991/92	6449.6	-26.1	5078.5	53.2	78.7
1992/93	10403.0	61.3	5666.9	11.6	54.5
1993/94	15830.0	52.2	6427.1	13.4	40.6
1994/95	5665.4	-64.2	5990	-6.8	105.7
1995/96	21084.1	272.1	7800.4	30.2	37.0
1996/97	20526.7	-2.6	9235.6	18.4	45.0
1997/98	13172.2	-35.8	11557.2	25.1	87.7
1998/99	12876.9	-2.2	11249.4	-2.7	87.4
1999/00	16537.3	28.4	14289	27.0	86.4
2000/01	39643.0	139.7	15031.9	5.2	37.9
2001/02	32022.1	-19.2	16457.1	9.5	51.4
2002/03	18352.5	-42.7	16189	-1.6	88.2
2003/04	20448.0	11.4	17523.9	8.2	85.7
2004/05	31287.0	53.0	18797.4	7.2	60.1
2005/06	33227.7	6.2	14384.8	-23.4	43.3
2006/07	35202.7	30.0	15885.5	10.4	45.1
2007/08	37022.9	-45.0	18912.4	19.0	51.1
2008/09	49186.2	60.7	29300.6	25.1	59.6
2009/10	47975.2	-45.1	36351.7	-6.8	75.8
2010/11	96609.0	76.9	49769.4	17.3	51.5
2011/12	106096.7	32.8	57997.8	13.3	54.7
2012/13	98178.0	-2.4	51893.4	24.1	52.9
2013/14	115156.8	17.2	47199.2	2.7	41.0
2014/15	133445.0	15.0	60204.6	47.0	45.1
2015/16	225819.3	69.22	63907.0	6.1	28.3
2016/17	194504.2	-13.8	65830.0	3.0	33.8
Total	1460944.6		682412.2		

Source: Various Issues of Economic Survey, Nepal

The table 4.3 shows that the total commitment of aid, total disbursement of foreign aid and disbursement as a percent of commitment. In FY 1988/89 the total commitment was Rs. 5991.4 million. But the total disbursement was Rs. 2676.4 million which was 44.7 percent of commitment. In FY 1989/90, the percent of disbursement of foreign aid was only 36.7 percent. This shows the real situation of the donor countries in aid commitment and aid disbursement. In FY 1994/95, disbursement overflowed commitment. In this year, there was the restoration of the democracy so perhaps the donor countries disbursed the foreign aid in the amount which they committed. In the FY 2004/05 Rs. 18797.4 million was disbursed including bilateral as well as multilateral grant and loan, which is 60% of total foreign aid commitment. But in the FY 2016/17 Rs. 65830 million was disbursed including bilateral as well as multilateral grant and loan, which is 33.8% of total foreign aid commitment.

Only during ten fiscal years after 1999/00, more than 70 percent of aid commitments were disbursed. The fluctuation of total aid commitment and disbursement shows the poor performance in the foreign aid absorption. The rising difference between foreign aid and commitment and disbursement is due to the poor absorptive capacity as well as non-performance on the side of Nepalese counterparts. Donors seek to provide the assistance in their areas of priority. Main resources for slow disbursement are Nepal's weak negotiating power while aid procuring, weak institutional arrangements for project implementation including the slow process of staff recruitment, lack of staff motivation and incentives, highly centralized decision making process, rigidity in financial rules and regulation, delays in hiring and recruiting experts and consultants, both local and international, aid tying by donors, Nepal's failure to estimate aid requirements, etc.

Another main feature of foreign aid in Nepal is the constant shortfall of disbursement against commitment. Total aid commitment and disbursement were respectively Rs. 1460944.6 million and Rs. 682412.2 million over the 29 years from 1988/89 to 2016/17 as shown by table 4.3. Over this period of about three decades, disbursements have fallen short of commitment by about 60%. While taken into account the year-to-year comparison shows that in seven years out of 29 years, the disbursement-commitment ratio has remained less than 80%. Disbursement commitment ratio that is

in the least position in the FY 1989/90 and disbursement as given by economic survey was higher than commitment, so that disbursement commitment ratio is in the top position of 105.7% during the FY 1994/95. However, the relatively high performance in these years cannot be taken as the sign of effective aid utilization but it is because of very low growth rate in commitment that can be witnessed from the 1994/95's commitment in table given above.

#### **4.4 Sectoral Composition of Aid**

The strategic interests of some major donors as well as the development theory of the early 1940s and 1950s suggested that the developing countries that became independent during that period and were becoming restless for development should go for heavy and capital-intensive projects in order to maximize GNP per capital. In the case of Nepal, its dire need for the creation of socio-economic overhead facilities coincided with the donor's emphasis on the infrastructures or so-called "prestige projects" in line with this development theory. The sectoral priority attached by the Nepal government in each successive development plan shows that more than 30 percent of the resources estimated were invested in transport, communication and power generation projects.

Some general information on sectorial aid priority is available from 1990 onwards. The source wise annual aid disbursement indicated that the percentage share of agriculture in the seventies was very little compared to transport and communication and even social services for some years. Only when the food-shortage occurred had then the government shifted its development priority from infrastructure to agriculture. This can be seen from the following table:

**Table 4.4**  
**Sectoral Allocation of Foreign Aid in Nepal (1988/89-2016/17)**

(Rs. in Million; Figure in Parenthesis indicate percentage)

Fiscal Year	Total aid Disbursement	Agriculture; irrigation and Forestry	Transport, power and Communication	Industry and commerce	Social service	Others
1988/89	2676.4	1053.1 (39.3)	969.7 (36.2)	191.8 (7.2)	435.3 (16.3)	26.6 (1.0)
1989/90	3491.5	1298.8 (37.2)	1321.2 (37.8)	275.7 (7.9)	586.4 (16.8)	9.5 (0.3)
1990/91	3314.5	1037.6 (31.3)	1473.7 (44.54)	183.4 (5.5)	585.4 (17.7)	34.3 (1.0)
1991/92	5078.5	1226.3 (24.1)	2784.6 (54.8)	445.7 (8.8)	522.3 (10.3)	99.6 (2.0)
1992/93	5666.9	1466.8 (25.9)	3120.1 (55.0)	191.2 (3.4)	845.0 (14.9)	43.9 (0.8)
1993/94	6427.1	1489.7 (23.2)	267.9.1 (41.7)	656.9 (10.2)	1555.8 (24.2)	45.9 (0.7)
1994/95	5990	1253.2 (21.0)	2575.6 (43.0)	1390.9 (23.2)	667.9 (11.1)	102.4 (1.7)
1995/96	7800.4	1945.4 (24.9)	2485.1 (31.85)	2174.3 (27.9)	1191.6 (15.3)	4.0 (0.05)
1996/97	9235.6	1927.4 (20.86)	2939.6 (42.7)	696.9 (7.5)	2667.6 (28.9)	4.1 (0.04)
1997/98	11557.2	5519.1 (47.75)	4169.4 (36.07)	389.9 (3.4)	1468.6 (28.9)	4.1 (0.04)
1998/99	11249.4	3462.4 (30.8)	4574.9 (40.7)	480.3 (4.3)	2680.1 (23.8)	51.7 (0.4)
1999/00	14289	3399.6 (23.8)	8052.7 (56.4)	15.9 (0.1)	2636.2 (18.4)	184.6 (1.3)
2000/01	15031.9	2827.5 (18.8)	4504.5 (56.58)	23.4 (0.15)	36665.0 (24.4)	11.5 (0.07)
2001/02	16457.1	2852.1 (17.3)	8989.6 (54.6)	198.1 (1.2)	4417.3 (26.8)	-
2002/03	16189	3383.9 (20.9)	7892.2 (48.7)	404.7 (2.5)	4446.4 (27.5)	61.8 (0.4)
2003/04	17523.9	3209.8 (18.3)	8159.3 (46.6)	298.5 (1.7)	5794.0 (33.0)	62.3 (0.4)
2004/05	18797.4	3774.8 (20.1)	9235.1 (49.1)	19.9 (0.1)	5253.7 (30.6)	8.1 (0.04)
2005/06	14384.8	3285.8 (22.84)	5905.7 (41.05)	368.7 (2.56)	4685.8 (33.53)	138.8(0.88)
2006/07	15885.5	2177.9 (13.70)	7774.1 (48.08)	401.2 (2.52)	5321.0 (34.82)	211.3(0.92)
2007/08	18912.4	2429.6(12.84)	7570.8(40.03)	146.8(0.77)	8730.1(46.16)	35.1(0.18)
2008/09	23657.3	2595.7(10.97)	9860.0(41.67)	123.9(0.52)	10746.8(45.42)	330.9(1.39)
2009/10	29300.6	2396.3(10.87)	7142.5(32.40)	105.3(0.47)	11162.2(50.64)	1295.6(5.87)
2010/11	49769.4	3721.5(14.39)	6661.9(25.76)	116.8(0.45)	15181.0(58.71)	173.1(0.66)
2011/12	57997.8	3859.2(13.17)	6709.5(22.90)	78.7(0.26)	18193.1(62.09)	460.0(1.56)
2012/13	51893.4	2291.2(6.30)	6297.7(17.32)	160.7(0.44)	24695.7(67.93)	2906.4(8.00)
2013/14	47199.2	2491.3(6.80)	6497.8(17.40)	360.5(0.96)	24895.8(66.65)	3106.5(8.31)
2014/15	60204.6	3696.3(10.87)	7142.5(32.40)	105.3(0.47)	11162.2(50.64)	1295.6(5.87)
2015/16	63907.0	4221.5(14.39)	6661.9(25.76)	116.8(0.45)	15181.0(58.71)	173.1(0.66)
2016/17	65830.0	4359.2(13.17)	6709.5(22.90)	78.7(0.26)	18193.1(62.09)	460.0(1.56)

Source: Various Issues of Economic Survey, Nepal

In the case of the neighboring countries such as India and China certain road projects having strategic importance were proposed by them and accepted by Nepal. Other donors, who haven't direct strategic interests in Nepal, however political inconspicuously, provided aid for agriculture and institution building. All in all, donor countries were competing for "prestige projects" which have high extrinsic demonstration effects both for the donor community and the population of Nepal, a poverty-stricken country starving for fund and technology and an easy partner for "co-operation".

Another important factor why donors are competing in granting aid to Nepal is that the immediate effects of aid are sharply visible and direct. Since most of the heavy projects are concentrated in urban areas, that could draw sufficient attention of the elites and powerful section of its population as well as the tourists visiting Nepal. So, over a period of time that we find in Nepal is the growing number of donors and multiplicity of projects and sectors, ranging from infrastructure, agriculture, and family planning to rural development.

From the table 4.4, the main aid recipient sectors are agriculture; irrigation and forestry, transport; communication and power; industry and commerce, social service and other. In FY 1988/89, the total disbursed aid (Rs. 2676.4 million) was distributed to agriculture; irrigation and forestry at 39.3 percent of total, transport; communication and power 36.2 percent, industry and commerce 7.2 percent, social service 16.3 percent and other 1.0. Whereas in FY 1997/98 the highest portion, i.e. 47.75 percent, was allocated. The transport, power and communication sectors have always been receiving large amount of aid. In industry and commerce, the share of aid was relatively small than other sector. On the average, about 5.5 percent of the total aid has been utilized in this sector. The social service sectors have been given priority in subsequent years. In FY 2003/04, only 33.0 percent of total aid was disbursed while in FY 2004/05, 30.6 percent was disbursed in the social sectors. On the average the share has been 23 percent of the total aid. The transport, power and communication sector has utilized the highest portion i.e. 47 percent on the average.

The flow of foreign aid depends upon the priority of receiving country, if the aid is to attach with string. Due to the recipient own priority, there can be seen considerable fluctuation in the sectoral commitment and disbursement since 1988/89. Commitment

is the highest in the agriculture, irrigation and forestry. While gone through the ranking of commitment, power sector is in second; others sector is in third position, transport and communication sector have been given fourth priority. Similarly water supply and sewerage, health, education, rural development and industry and mining are in fifth, sixth, seventh, eighth and ninth positions respectively. In view of disbursement or utilization of foreign aid significant shiftment can be witnessed from the given table 3.5.

**Table 4.5**  
**Sectoral Commitment and Disbursement Gap**

(Rs in million)

Sectors	Commitment Amount (A)	Commitment (%)	Disbursement Amount (B)	Disbursement (%)	B as% of A
1.Agriculture, irrigation and forestry	65972	21.8	43261.2	24.2	65.5
2. Transport, power and communication	97522.4	32.5	84219.7	47.3	86.3
3.Industry and commerce	9271.8	3.06	8956.8	5.01	96.6
4. Social services	65750.2	21.7	30353.3	16.9	46.1
5.Rural Development	17137.1	5.6	11098.2	6.2	64.7
6. Others	46676.1	15.4	795.2	0.4	1.7
7.Total	302329.6	100	178684.4	100	

Source: Economic Survey, Nepal 2017

The problem of capacity to absorb aid in Nepal is very poor if we go into the gap between the aid commitments –disbursement of aid during 1989-2017.though there are certain practical difficulties in comparing the figures due to the technical assistance not being included in the aid volume shown by the government. But even allowing the commitment – disbursement gap, shows Nepal’s inability to utilize the large percentage of committed aid over the years. The sector wise commitment-disbursement gap shows the lowest percentage of absorption that was inferred in the others sectors, the agricultural sector which received second larger aid commitment is only able to absorb about 65.5% of the committed aid. But its share in the disbursed flow is not very high compared to others sectors those are mentioned above. However its share in the total commitment has been less than the share of sectors (2) and (3) mentioned in above table 3.5. The highest disbursement-commitment ratio is found in industry and commerce but the committed aid is in the lowest position compared to

the others sectors is self-explanatory in the table. Disbursement-commitment gap is high in social services of about 46%. If we take overall commitment and disbursement separately in the given periods 32.5% of the total committed aid was for transportation, communication and power like wise 47.3% disbursed aid was also for the same sector. It means that donors are really taking interest to invest in those sectors because these sectors are the backbone of the Nepalese economy.

### **3.5 Sources of Foreign Aid**

The post-Rana regime of Nepal stressed the importance of political non-aligned since the country is sandwiched between two giant neighbors China and India who were pursuing polar forms of government, that is, communism and democracy. Non-alignment may have helped Nepal in acquiring aid not only from numerous sources but also from heterogeneous economic system such as underdeveloped capitalist and Marxist. Three kinds of donors have been providing aid to Nepal over the past fifty years bilateral, multilateral and international non-governmental organizations (INGOS), the first refers to foreign government or their aid administering bodies in Nepal, such as United States' USAID, Japan's JICA, Germany's GTZ, Switzerland's SDC, Denmark's DANIDA, Finland's FINIDA, and the governments of India, China, UK, USSR, France, Australia, Austria, New Zealand, Netherlands, Kuwait, etc.

Aid channelized through international agencies is called multilateral aid. Multilateral aid includes the assistance which is received from international agencies or official groupings such as the World Bank (WB), ADB, IMF, UNDP, FAO, WHO, IDA, OPEC fund etc. The early multilateral sources were mainly the UN agencies, but after 1977/78, Nepal also received loan from the OPEC countries. The UN agencies provide mostly technical assistance and grants, whereas the International Development Banks dispense both hard and soft loans. And the third types include private organization such as Plan International, UMN, CARE, AAN etc. the volume of aid from bilateral and multilateral sources is presented in the following table:

**Table 4.6**  
**Foreign Aid from Bilateral and Multilateral Sources**

(Rs. in million)

Fiscal Year	Bilateral	Multilateral	Total	Percent of Bilateral in total	Percent of Multilateral in total
1988/89	1156.3	1520.1	2676.4	43.2	56.8
1989/90	1481.1	2010.4	3491.5	42.4	57.6
1990/91	1078.4	2236.1	3314.5	32.5	67.5
1991/92	2251.6	2826.9	5078.5	44.3	55.7
1992/93	1707.7	3959.2	5666.9	30.1	69.9
1993/94	2544.9	3882.2	6427.1	39.6	60.4
1994/95	2939.9	3050.1	5990	49.1	50.9
1995/96	3597.3	4203.1	7800.4	46.1	53.9
1996/97	3638.5	5597.1	9235.6	39.4	60.6
1997/98	2627.1	8930.1	11557.2	22.7	77.3
1998/99	3988.7	7260.7	11249.4	35.5	64.5
1999/00	3533.3	10755.7	14289	24.7	75.3
2000/01	6012.7	9019.2	15031.9	40.0	60.0
2001/02	6297.7	10159.4	16457.1	38.3	61.7
2002/03	4167.6	12021.4	16189	25.7	74.3
2003/04	4929.1	12594.8	17523.9	28.1	71.9
2004/05	2771.2	16026.2	18797.4	14.7	85.3
2005/06	4675.3	9709.5	14384.8	32.5	67.5
2006/07	10044.4	5841.1	15885.5	63.2	36.8
2007/08	8223.6	15514.4	23738	34.6	65.4
2008/09	10207.7	19092.9	29300.6	34.8	65.2
2009/10	9333.1	27018.6	36351.7	25.7	74.3
2010/11	22901.5	26867.9	49769.4	46.0	54.0
2011/12	25850.4	32147.3	57997.8	44.6	55.4
2012/13	32087.7	19805.7	51893.4	61.8	38.2
2013/14	26009.7	21189.6	47199.2	55.1	44.9
2014/15	29407.2	30797.4	60204.6	48.8	51.2
2015/16	21953.1	41953.9	63907.0	34.4	65.6
2016/17	22874.2	42955.8	65830.0	34.7	65.3

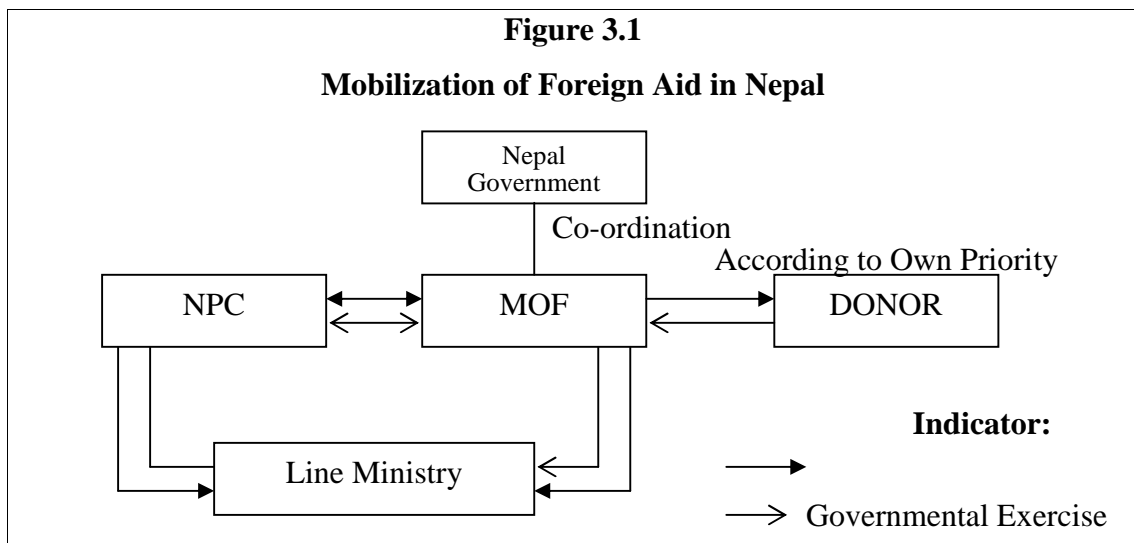
Source: Various Issues of Economic Survey, Ministry of Finance, Nepal

The table 3.6 shows that the bilateral and multilateral sources of aid and their respective proportions in the total aid inflow. In FY 1988/89, the total aid inflow to Nepal was Rs. 2676.4 million in which the bilateral sources was Rs. 1156.3 million, i.e. 43.2 percent of the aid and the multilateral sources was Rs. 1520.1 million, i.e. 56.8 percent of the total aid inflow. Bilateral sources were active in given aid in the form of grants till 1975. Since the mid-1970s however the multilateral donors generally the international banks have moved in with bigger aid package over taken in terms of total aid disbursed to Nepal. In FY 2005/06, the total aid inflow was Rs. 14384.8 million in which the bilateral contributed 32.51 percent and multilateral 67.49 percent of the total aid. Comparing the FY 1988/89 to 2005/06, the total aid

increased 5 times, whereas the rise in the volume of bilateral aid was 4 times and multilateral aid was about six times of bilateral aid, i.e. 6.4 times. From FY 1988/89 to 2013/14, in the year 2004/05 the share of bilateral aid remained at 14.7 percent i.e. lowest value in the observation of 29 years. In FY 2016/17 the total aid remained Rs. 65830 million in which bilateral is Rs. 22874.2 million and multilateral is Rs. 42955.8 million. The total aid was increased in 27 times, bilateral aid increased 28 times and multilateral aid increased 29 times, in 2016/17, taking FY 1988/89 as a base year.

#### 4.6 Mobilization of Foreign Aid in Nepal

In Nepal, Ministry of Finance (MOF) is the concerned government agency in the mobilization of aid. Besides ministry of Finance, there are other departments, which directly or indirectly play role to mobilize aid. The following charts show foreign aid mobilization in Nepal.



*Source: Ministry of Finance, Government of Nepal*

The above chart shows that according to own priority donors provide their aid through Ministry of Finance (MOF). MOF allocates the aid to the line ministry and national planning commission for utilizing in priority sector. When the government tries to mobilize the external resources, MOF goes to donors with own selected priority. In short, major co-ordination role has been played by MOF for mobilizing the foreign aid to Nepal. Various departments of different ministries of Nepal generally mobilize programs through INGOs.

## **Aid Negotiation Procedure**

Every ministry has planning and programming division headed by a chief planning officer who is responsible for

- a) Formulation of policy plan and programs
- b) Preparation of the annual budget
- c) Development of monitoring and supervision mechanism
- d) Coordination with donors. NPC, MOF and concerned agencies.

The ministry of finance is the central agency to approve external resources received by any agency from any foreign organization, institution and nation. In regard to the activities funded from external resources, the planning division of the concerned ministry prepares the proposal and forwards it to NPC for their approval and return to the MOF. The MOF and the donor agency appraise the proposal. After the adjustment, if any, the MOF negotiates with the donor. Sometimes, the donor agency itself prepares the project proposal and forwards to the MOF directly through concerned line ministry for negotiation.

Having received the necessary from the concerned line ministries, NPC, ministry of law, the ministry of finance negotiates with the donor.

In some of the areas, MOF authorizes the concerned line ministry to negotiate with the donor agency directly. Concerned ministry seldom adopts the practices of preparing its own project proposal for foreign aid. In most of the cases, the line ministries obtain the project proposal for the donor agency itself. The proposal is necessary suggestion and amendments; the concerned ministry forwards the proposal to the ministry of finance for negotiation.

MOF has brought out foreign aid. Policy in 2002 outlining the aid guiding principles and objectives and aid priorities for the short and long run, major policies, major strategies, major policy instrument and future agenda. But it does not appear that these are being strictly followed in permanent and utilization of aid.

#### **4.7 Different Donors and their Sector-Wise Involvement**

Nepal's first experience of foreign aid was the agreement of the point four programme in 23, January 1951, India followed capital assistance in 1952, joining the Colombo plan in 1952, participating in the first Non-Aligned Conference in 1955 and becoming a member of United Nations, Nepal attracted the interest of the developed as well as under-developed nations in her economic development efforts. All this further exposed the country to the outside world and opened up the door for diplomatic relations with a number of countries resulting in the inflow of foreign assistance from varied sources.

During the rule of late king Mahendra (1955-72) the number of countries with which Nepal had diplomatic relations increased and Nepal's foreign policy emerged out of an era of isolationism. In the conduct of its policy, Nepal followed the policy of non-alignment. Peace and relationship. Consequently, financial assistance from friendly countries was made valuable for the development activities in Nepal.

After USA and India, China emerged as the third leading bilateral donors. The other donor countries are: UK, USSR, Canada, Kuwait, Demark, Germany, Switzerland and Australia, etc. Japan has become the leading donor country among other bilateral sources. Nepal also receives aid from multilateral source specially Nepal aid group, ADB, UNDP World Bank, IDA, IMF, UNICEF etc.

#### **4.8 Technical Assistance**

Technical assistance is one of the major but sensitive forms of international aid. The OECD defines technical assistance as an addition to the flows which qualify as official development assistance and which comparison of grants (and a very small volume of loans) to nationals of development countries receiving education or training at home or abroad and the defray the costs of teachers, administrators, advisors, and similar personnel serving in development countries. It says, "Technical Cooperation" in a number of member countries also implies financial support to institutions both in the donor and in the recipient countries for research and training related development.

The supply of technical personnel or training to the nationals of developing countries is another important dimension of foreign aid objectives. The absorptive capacity of the developing countries is constrained by the lack of technological know-how, which hinders the process of breaking the socio-economic constraints to development. Technical assistance, through a product of the early forties, was pursued more vigorously after the Second World War. In a particular sense it was considered nothing but an investment in human capital formation required for attaining the postulated growth rate. In the period preceding the Second World War which emancipated many colonized countries, technical assistance was merely motivated by the paternalistic consideration of the colonial power to sustain its dominance over the colony.

In supplying the possessed stock of technical know-how and knowledge, it was the United States, which took lead in the late forties. It was first country to propose a technical assistance programme in both general and particular sense. In the general sense the first technical assistance was introduced in the early 1940s with its training programs in agriculture, health and education for Latin America. In the specific sense technical assistance emerged from the US president Truman's inaugural address of the point four Doctrines in 1949. And as stated in the "point four program" the first method of aiding economic development is a problem in "know-how" and "knowledge".

The transfer of technical know-how from the developed to the less developed countries has been for the economic reconstruction of many latter countries. Nepal, through escaped colonial rule but was subservient to the interest of the colonial power largely urged by the geo-political situation and to a lesser extent by the faulty policy of the rulers. The infusion of modern technology as a form of aid began in the mid-forties but it reappeared on a formal and regular basis only after the political change of 1951.

There are broadly two types of technical assistance free standing technical assistance and project-related technical assistance. In regard to the former, many donors have increased the local component in sourcing such assistance. Through increased recourse to local talent and expertise, technical assistance helps to build the capacities of local institutions and personnel, in addition to providing financial support to the

country. However, this process has further to go, and donors will be encouraged to hire local resource wherever possible for free standing technical assistance to build up local institutional and technical capacities.

USA was one of the first countries to provide technical assistance to Nepal. The earlier policy of the US government to support the Rana Government did arouse sufficient anti-US attitude in the immediate post-Rana period but the government of United States later accommodated with the changed circumstances in Nepal. It was the changes in political atmosphere that both Nepal and United States signed a point four program on January 23, 1951. And exactly one year later i.e., on January 16, 1952, the US headquarters for technical Cooperation Mission to Nepal was established. For the first few years, in 1950-54, the US supplied only technical assistance in the form of technicians and mission support. After 1954 some other forms of technical cooperation were also extended. These were commodity, contract services, training and other costs.

After the political change of 1951, then the government also requested the government of India for technical assistance in drawing up rules of procedures for the new administrative set-up. Technical assistance was made available from some other countries as well after Nepal participated as a full member of Colombo plan consultative committee in March 1952. Though Nepal obtained admission to United Nations in December 14, 1955, it was receiving some economic assistance and technical advice from a number of UN agencies. Diplomatic relations was expanded considerably in the fifties and sixties, the volume of technical assistance also increased rapidly.

Because of the relatively poor institutional, economic and technological base of Nepal in fifties and sixties, any form of aid received for implementing development project had to be accompanied by technical assistance. Technical assistance thus became an integral part of economic assistance to Nepal. It also became the major form of aid and an instrument of attaining the aid objectives of the donor country. The urgency of technical assistance for Nepal can be realized by the constraints posed by the absence of technical skill for implementing the industrial projects. As stated in the 1960 agreement "at the request of Nepal Government, the government of the people's Republic of China agrees to dispatch a necessary number of experts and technical

help to the Nepal in the construction of the items of aid to be specified under the present agreement.

Apart from those major donors, a number of OECD member such as Switzerland, Great Britain, Japan, West Germany, France, Australia and Canada as well as the United Nations agencies also provided technical assistance in the form of advisors, training and education to Nepal. Due to the paucity of facts and figures about technical assistance regarding the cost, nature and magnitude, it is still hidden under the shadow of financial and economic aid. Especially in the case of Nepal, the study on technical aid would be rather incomplete. Here again the problem is that of the unavailability of facts and figures. The amount of aid under technical experts and volunteers' costs are not adequately reflected in the aid figures published by the government of Nepal. One of the main reasons is that such a heavy percentage of technical components in the aid figures will greatly increase the aid volumes, which will have political as well as social implications.

A look at the description of technical aid reveals that the biggest donor, Japan, enlists only projects, not the quantum corresponding to each of the project. Forest, environment, health and transport seem to be the major focus of Japan's Technical Assistance (TA) to Nepal. United Kingdom's assistance is geared more to education followed by administration reforms. Over 90 percent of the US technical aid is related to empowerment of the private sector. Environment and governance constitute over four fifth of the Danish TA to Nepal. Norwegian TA to Nepal is exclusively directed to the implementation of local governance. Food for work constitutes the centerpiece of German TA. Among the bilateral donors, it is Australian TA, Which covers large number of projects ranging from women empowerment to specific loop development. Canadian TA is more focused on water resources development. Among other bilateral donors Dutch TA is concentrated towards forestry research, Austrian in tourism, Chinese in transport and Finish the topography.

Multilateral donors of Nepal can broadly be classified into the UN system financial institution and the INGOs, the UNDP, UNCDF, ILO, WFP, FAO, UNFPA, and WHO are the major UN agencies supporting the development efforts in Nepal. Of all the institutions, UNDP has the largest number of TAs in Nepal, covering activities such as capacity building, micro enterprises, and data system and bio-diversity

conservations. In term of amount allocated local development and local governance forms the largest component, followed by bio-diversity conservation, advisory service, parks and peoples, and micro-enterprise development. Abolition of Child Labour and employment for women are the main components of ILO support.

Among the Multilateral Financial Institutions (MFIs) there are mainly two: the ADB and the World Bank. Of these two MFIs, ADB has a much large number of TA and more evenly allocated than WB's; ADB provides more TA to the development of agriculture including irrigation and finance. Resettlement, population and environment, and drinking water follow this; almost all of the WB's TA is pledged to financial sector reform including that of the Auditor General's office.

There are 107 INGOs operating in Nepal (Ministry of Finance, Nepal Government). Most of them are found to be focusing their assistance to Nepal on health, community development, women and children income generation and forestry. According to social welfare council, there are 86 INGOs having general agreement with the council for the fiscal year 2013/14. They have the aggregate budget of Rs 1098.2 million. This figure constitutes 4.3 percent of the total foreign aid projected in the fiscal year 2002/03. Out of them, plan International Nepal has the highest budget.

#### **4.9 Contribution to the Development of Various Sectors**

The foreign aid received from different countries has been utilizing in following sector for overall economic development of the nation.

##### **4.9.1 Micro Level**

Right from the early year, foreign aid has been playing significant role in Nepal's economic developments, foreign donors have attempted to make overall development in various sectors, say from administrative development to infra-structural development.

##### **(i) Transportation and Communication**

Transport and communication are taken as complementary elements for the economic development of the country because the development of all industry, agriculture, trade

and several other aspects of country hinges on the degree of transport and communication development.

One area in which Nepal has recorded impressive achievement with the help of foreign assistance is the expansion of transport system in the Nepal. Perhaps this sector is the only area where most of the donors have involved themselves. India, China, USA, USSR, UK etc have undertaken road construction projects. In addition to these bilateral donors, the UNDP and the World Bank have also contributed to construction of the road network.

The transportation system has a positive impact on the socio- economic life of the country since it has attempted to unlock the dynamic forces of development by facilitating transportation of input and outputs, mobility of people and elimination of traditional socio-cultural values detrimental to progress. Harka Gurung, the former Vice Chairman of NPC also holds the view that the vicious circle of economic activity, no road no economic activity can be broken by “a simultaneous action of road construction and the comprehensive planning of regional economic activities”. Hence, the constructions of roads have been accorded high priority in the first four five year plans.

Tribhuvan Rajpth (116 km), Sunauli-Pokhara Road (200 km), Koshi area Road (42 km), East-West Highway with the eastern portion of 254km between Kakadhibi and Dhalkewar and the western sector of 250 km between Butwal and Kohalpur, Dakshinkail Road (19km), and Kathmandu-Godawair Road (16km), these roads have been completed by the India assistance.

Apart from the Tribhuvan international airport, a number of smaller airports in various sections of the country, namely, Bhairahawa, Biratnagar, Janakpur, Pokhara and Simra have also been constructed through Indian aid.

Chinese aid has mainly focused on transport and communication. Kathmandu-Kodari Highway (104km), Kathmandu-Pokhara Highway (174km), Kathmandu-Bhaktapur Highway (13km), Gorkha-Narayangha Highway (61km), Pokhara-Baglung Highway (73km), Kathmandu Valley Ring Road (28.2km). The United States embarked upon the building of a variety of roads encompassing the Hetauda-Bharatpur Road (83km),

Dhangadi-Dadelhura road in far western Nepal, similarly installment of the Hetauda-Kathmandu Ropeway (26km).

The transport and communication infrastructure mentioned above represents the symbol of the economic development efforts taken as the foreign assistance programmes. However, the development of transport network has some negative impact also. To the landlords and privileged group highways have facilitated movement for reinforcing their position of power and education of their children. Thus, despite the expansion in roads, the productive base of the areas opened up transport remains unsatisfactory. But the total positive impact has greater than negative impacts.

### **(ii) Agriculture and Rural Development**

On one side, increasing population has to be dependent on agriculture but on their side, the agriculture production is increasing at a diminishing rate (i.e., an increase in population > increase in agricultural productivity). So, the government has to increase agriculture productivity. Because of being poor, both farmers as well as government cannot provide necessary agricultural inputs and other facilities. In such circumstance there is no other way out, but to search for foreign help.

In spite of significance of agriculture in Nepal's economy, the performance of this sector is not up to the level of expectation. This sector contributes approximately 39 percent of GDP and account for 80 percent of total export. Considering the importance of this sector, the foreign donors have tried to provide better irrigation facilities. Better agricultural production is solely dependent on well-managed irrigation facilities. Almost all major and middle irrigation facilities are provided under foreign aid programme. Before 1954, the irrigated facilities were about 14700 hectares but it reached 181000 hectares in 1971 and 1104000 hectares land is irrigated in 2013/14. Besides providing fertilizers, better seeds, pesticides, and machinery tools, foreign donors have also provided technical assistance. Agriculture tolls factory established under foreign aid programme is also trying to bring a change in agriculture productivity.

Without proper facility of irrigation, agriculture productivity cannot increase whatever we expect. In Nepal, agriculture depends on monsoon. Agriculture productivity is also increase in agricultural production is highly owed to foreign aid.

In spite of massive inflow of foreign aid, Nepal would have faced serious food crisis from time to time (i.e. in 1955, 57 etc) and foreign donors have also used to provide food grains to meet crisis. A huge amount of money would have been spent only in importing foodstuff. If Nepal would not be able to receive any aid the problem would be more serious.

Most of US and India aid are used for agriculture and rural development, but the other's contribution in this sector is not satisfactory.

The growing social and economic disparity caused by the urban-based growth favoring development strategy supported by development aid changed the mind of both development economists and aid institutions in the early seventies in favor of rural development. Nepal received considerable support from the donor countries and agencies for financing integrated rural development projects.

The Swiss government financed the first integrated rural development project. It was the first comprehensive development programme in the hills of Nepal. In the first phase, i.e. from 1974/75 the total Swiss contribution to the project was 144.233 thousand rupees without salary of experts. After this, Nepal has been receiving substantial assistance for rural development projects from both multilateral sources. But the result of these projects cannot be found satisfactory.

### **(iii) Power Development and Industrial Establishment**

Industrial development is a sign of development country and industrial development mainly rests on power. Industrial as well as power development hinges the economic development of the country. So, Nepal, is also trying to develop the basic industries and to mobilize her power resources.

If we view over the industrial development of Nepal, whatever we have achieved the contribution of foreign assistance is big because almost all the so-called big industries are established with foreign assistance. These industries introduced the new pattern in

the industrial composition and modern technology in the manufacturing activity. A large number of industries established by foreign donors generally show a breakthrough from agro-based industry to diversified activities. Foreign assistance directed to these industries is a burning example for marching a head to the self-sufficiency through mass production.

The contribution of foreign donors in the domain of power development is very significant. When the first-five year plan started the economy possessed 2.077 MW of hydroelectric power and 4.203 MW of diesel-generated power. It is significant to note that almost all the hydropower projects are fully assisted or partially coordinated by foreign donors. The country has a total hydropower potentiality of 83 thousands megawatt of which 373.6 megawatt (0.5 percent of the total capacity) has been exploited by the end of the FY 2014/15.

Besides Balaju, Patan, Hetauda and other industrial estates, cigarette, cement, shoe and leather, brick and tile, agricultural tools factory etc. are also the outcome of foreign aid. Similarly, foreign donors have provided sufficient base in development of tourism industry. Due to their kind cooperation, more facilities are provided to tourists.

Nepal Government has introduced Renewal Energy Subsidy System 2000 with the objectives of sustainable development of alternative energy and insures energy supply in rural areas, development of small industry and professions through energy technology and thus uplift economic and social conditions of the poor people and to maintain regional balance and to reduce environment problems. Nepal government has introduced Renewal Energy subsidy Guidelines 2014 to efficiently mobilize and streamline grant fund received from different donor agencies.

#### **(iv) Development of Social Sector**

Foreign aid has played a great role in providing more educational and health facilities as well as in implementing family planning successfully. Although net effect cannot be measured quantitatively due to the absence of statistical information, yet it has exhibited a great change in the quality of life in the country. Different donors have provided a lot of assistance in developing this social sector.

Any way foreign aid is responsible to bring a change in education field. Due to the provision of different educational facilities, foreign donors are successful in uplifting the literary rate; for example literacy rate of Nepal, which was 4.4% in 1954, reached up to 11% in 1971. Similarly it reached on 53.7% consisting female literacy rate as 42.5 percent and male 65.1 percent, according to the population censure 2011.

In the health sector, different donor agencies and institutions have been contributed. Before implementation of the first five year plans the number of hospitals were 23 and 24 dispensaries, but in FY 2013/14 it reached 83 hospitals, 10 health centers, 700 health posts, and 200 primary health centers. The number of hospital beds before 1954 was about 649 where as this number reached up to 2013/14.

#### **4.9.2 Macro Level**

The macro perspective of analyzing the role of aid is considered as an instrument to fill up the resource gaps of the recipient economies. This resource gap can be defined in terms of savings, foreign exchange and technological skills.

##### **i. The Saving Gap**

Growth of a country depends upon investment and the less developed countries face a serious problem in providing the requisite savings. The gap between level of investment and saving is so wide that it is not possible to achieve sustainable growth rate if Nepal is entirely dependent on own domestic savings. It is in the context that foreign aid seems to be almost on indispensable condition of development. The function of aid, as viewed any the recipient countries, is to raise the investment rates by supplementing domestic savings with foreign resources to an extent that the additional saving generated is large enough to provide the basis for a significant increase in the marginal saving rate.

In the Nepalese economy, the nature of saving and investment gap has been rising subsequent year. The table in appendix shows that the gap between saving and investment has been increasing subsequently year to year. In FY 1974/75 the total investment was Rs. 2402 million and gross domestic saving was Rs. 1662 million. The saving gap was Rs. 740 million. Foreign aid plays the important role to fulfill the

saving gap. Observing from FY 1988/89 to 2016/17, the lowest amount was Rs 436 million in FY 1988/89. In this year, the total foreign aid disbursement was 556.9 million. In FY 1994/95 the saving investment gap was Rs 13560 million. Comparing the FY 1988/89 the gap increased about 95 fold in 1994/95. Observing the foreign aid disbursement, from FY 1988/89 the aid amount was increased in 90 fold in 1994/95. This shows that foreign aid is considered as an instrument of saving gap.

## **ii. Foreign Exchange and Technology Gap**

Domestic savings are not perfect substitute of financial outlays beyond a point on account of what is described as the structural balance of payments problem of the less development countries. As most of the less-development countries conspicuously lack the requisite equipment, know-how and skills, a given rate of development will imply a certain volume of import needs. It is in this context that foreign aid helps in meeting out the exchange gap. The role of external assistance in Nepal on the overall foreign exchange situations has been extremely favorable. Nepal's export earning has not been able to meet more than seven months of imports. In this situation, foreign aid has played the important role in Nepal.

The analyses of the savings gap and the foreign exchanges gap deals with the needs for capital aid. The less development countries like Nepal are not only poor in capital resources but deficient in technical know-how and skills. It is mainly due to poor technology and the underdeveloped infrastructure that the absorptive capacity in the less developed countries is low.

By technology we generally mean a combination of technical knowledge and skills. Given that a higher level of technology implies more efficient utilization of resources and therefore, a higher output, the problem of raising the level of technology is one of the pressing know-how and skills in the form of technical assistance.

### **4.10 Burden of Foreign Aid**

The loan component of foreign aid generates the burden to the future generation of the recipient country. The exchange rate depreciation is further aggravating the debt burden of the external loan. If the productivity of the economy doesn't increase with

the inflow of foreign loan, the country may be eventually falling in serious debt trap. The term debt trap denotes the situation when government is unable to pay the interest and principal obligation by revenue. In other words, it refers to a situation when debt is repaid only by resorting to fresh borrowing. A lower rate of interest would have reduced repaid only by reporting to fresh borrowing. A lower rate of interest would have reduced the volume of net borrowing in the period required for repayment of the debt. A longer maturity for the debt and hence amortization payments would have reduced the annual amount of gross and net borrowing but extended the period of net indebtedness.

The fundamental case for soft loans is that low-income countries with large populations, low productivity as a consequence of low level of education and skills, and perhaps relatively poor natural resources as well require a relatively long period of net resource inflow in order to assist them in making structural changes which are essential to sustained growth. This is particularly true of investments in human resources and certain type's economic and social overhead capital. Similarly, the structural changes required for an expansion of exports will take time as a largest volume of investment resources are directed to export industries with the help of foreign, but again export performance should not be looked upon in terms of long run constant or gradually rising rates of growth.

Debt servicing of foreign loans entails double burden. First, debt servicing has the primary claim upon the allocation of national budget to the extent priority economic activities such as irrigation; drinking water, health, education, road and electricity are scarcest resources, the foreign exchange. It curbs the capacity to import more useful things such as medicine, books, machinery and capital goods etc. this impacts the long run potential of the rational economy.

Though Nepal has been borrowing external capital only since the early 1960s debt servicing began only in the late 1960s. A few other direct loans were not matured until the mid-1970. Nepal's debt servicing burden was reduced to some extent by the conversion of some loans into grants. Although Nepal has been receiving foreign loans with very low rate of interest and the time of maturity period is very long, i.e. from 25 years to 40 years, the debt dynamic has growing consequently. The table 3.7 shows the glance of foreign loans and debt servicing situation.

**Table 4.7**  
**Foreign Loans and Debt Servicing**

(Rs in million)

<b>Fiscal year</b>	<b>Net Outstanding Debt</b>	<b>Repayment</b>	<b>Interest Payment</b>	<b>Total Debt service</b>	<b>GDP</b>	<b>Debt service as % of GDP</b>
1988/89	9203.2	69.2	120.3	189.5	44441	0.4
1989/90	10330.2	160.5	125.2	285.7	53215	0.5
1990/91	15171.9	250.6	236.4	487	61140	0.8
1991/92	20826.0	297.5	293.5	591	11612.7	5.1
1992/93	29216.9	388.6	312.7	701.3	14493.3	4.8
1993/94	36800.9	701.8	421.8	1123.6	16535.0	6.8
1994/95	59505.3	589.0	497.5	1086.5	19159.6	5.7
1995/96	70923.9	942.2	722.7	1664.9	20997.6	7.9
1996/97	87420.8	1252.9	879.0	2131.9	23938.8	8.9
1997/98	101966.8	1468.2	1020.5	2488.7	26957.0	9.2
1998/99	113000.9	1828.2	1156.5	2984.7	28979.8	10.3
1999/00	128044.4	1987.7	1316.6	3304.3	33001.8	10.0
2000/01	132086.4	2102.4	1247.0	3349.4	36625.1	9.1
2001/02	161208.0	2780.2	1421.0	4201.2	39356.6	10.7
2002/03	169465.9	3196.5	1549.0	4745.5	40563.2	11.7
2003/04	190691.2	3681.1	1640.3	5321.4	49223.1	10.8
2004/05	21550.6	4500.6	1700.8	6201.4	53674.9	11.6
2005/06	214827.5	3167.6	1210.7	4378.3	58941.2	7.4
2006/07	216628.9	7538.8	2055.7	9594.5	65408.4	14.7
2007/08	249965.4	7869.4	2145.3	10014.7	67585.9	14.8
2008/09	277040.4	10120.3	2373.7	12494	75525.7	16.5
2009/10	256243.3	10743.0	2458.1	13201.1	90952.8	14.5
2010/11	259551.8	11218.1	2321.9	13540	108342.0	12.5
2011/12	309287.1	13532.4	2830.8	16363.2	124848.0	13.1
2012/13	333441.5	14190.1	3003.2	17193.3	138748.0	12.4
2013/14	346819.1	16724.6	3365.2	20089.8	152522.0	13.2
2014/15	343261.8	17041.8	3036.1	20077.9	175874.0	11.4
2015/16	379311.1	9477.5	1719.4	11196.9	188941.0	5.9
2016/17	32711.39	9490.0	1749.6	11239.6	200728.0	5.6

Source: Various issues of Economic Survey of Nepal

The Table 4.7 shows that the net outstanding debt was only Rs 9203.2 million in FY 1988/89. Repayment was Rs 69 million; the component of interest payment was 120.3 million. The total debt servicing was Rs 189.5 million. Before FY 1988/89, the component of interest payment was not introduced in the debt dynamics. In FY 1994/95, the total debt service was Rs 1086.5 million. Comparing the FY 1988/89 to 1994/95 the total debt service increased 0.6 times. In FY 1994/95, the net outstanding debt was Rs 59505.3 million. The net outstanding debt increased 20.64 times compared to FY1988/89. The total debt service was Rs 1086.5 million in 1989/90 which increased 6 times over the initial period 1988/89. In every subsequent year, the

debt dynamics is increasing .Up to FY 1988/89; the amount of repayment was less than interest payment. After 1989/90, the repayment started leading the interest payment. In FY 2004/05, the amount of net outstanding debt was Rs 201550.6 million, repayment was Rs 4500.6 million and an interest payment was Rs 1700.8 million. This shows that the net outstanding debt increased 421 times, repayment increased 303 times and total debt service increased 418 times.

In FY 2016/17, the net outstanding debt accounted in Rs. 379311.1 million. If we divided it by our total population 26.2 million, we get the per capita external debt of Rs 14588.8. This shows that every Nepali has Rs 14588.8 of external loan in his/her share. In 1961/62, when the population of Nepal was 9.4 million foreign loan per head was Rs 0.10.

Faster depreciation of the Nepali rupee vis-à-vis convertible currencies, say the US dollar, for example, automatically increases the burden even without any new borrowing. Acharya (2002) has shown that, between 1994 and 2001, Nepali foreign debt increased by 105 percent in term of the Nepali rupee and by 37 percent in terms of the US dollar. This result is a difference of 68 percent. During the same period, the Nepali rupee had depreciated by 64 percent. This means that about two-third of the increase in Nepal's loans between 1994 and 2001 was not actually borrowed rather it was accounted for by the fall in the value of rupee.

# **CHAPTER-V**

## **CONTRIBUTION OF JAPANESE AID TO THE ECONOMIC DEVELOPMENT OF NEPAL**

### **5.1 Introduction**

The geographical situation of Nepal and Japan is totally different. Nepal is a land locked country whereas Japan is a sea locked country. But, the spiritual ties between Nepal and Japan have their roots in ancient times, for Shakyamuni Buddha was born in Nepal and the Buddhist religion flowed north, entering Japan in the 6<sup>th</sup> century A.D. that Nepal had contact with Japan directly or indirectly. The teaching of Lord Buddha had a great impact in Japan, and it will continue to influence the Japanese society in the days to come. In modern times, Nepal and Japan have bilateral relations for more than one hundred years. In 1899, the Buddhist monk, Ekai Kawaguchi visited Nepal on his search for the origins of Tibetan Buddhism and stayed in this country seeking a chance to reach Tibet. In 1999, Nepal and Japan commemorated the centennial of Ekai Kawaguchi who was the first Japanese to enter Nepal in 1899 on his way to Tibet. He was not only the first recorded Japanese visitor to this Himalayan Kingdom, but also established the strong spirit of friendship and cooperation which the two countries enjoy today. He visited Nepal five times in total. The first exchange between Japan and Nepal was cultural purpose. The purpose of Ekai, Kawaguchi's travel was to collect the original Sanskrit Buddhist sutra of Buddhism and their Tibetan translations. After the Meiji restoration many young Japanese Buddhist monks were alarmed at the decline of Buddhism in Japan, and some of them wished to enter Nepal or Tibet in order to acquire original Buddhist sutra.

In April 1902, the three years after Kawaguchi's visit, the government of Nepal sent eight Nepali students to Japan for higher studies. The students were the first Nepali nationals to land in Japan. Incidentally, they were also the first Nepali to go overseas for study under government scholarship. It was Prime Minister Dev Shamsher Rana who planned to send Nepali youths to Japan. He learned a lot through books and people about Japan since 1868, and he was impressed to know about the Meiji Ishin (Meiji restoration) policy, modernization programme and Meiji construction. All these developments of Japan inspired him to adopt a policy to send Nepali youths to

Japan for studies. Unfortunately, Dev Shamsheer could not implement his plan during his very short period of 144 days rule. However, the next Prime Minister Chandra Shamsheer Rana sent the students to Japan in April 1902. Upon their return to Nepal in 1905, all eight students were employed in their respective fields; they minted copper coins, improved the arsenal and manufactured light weapons.

In 1905, during his second visit to Nepal, Kawaguchi wrote a 75 page long letter to Prime Minister Chandra Shamsheer Rana. The letter was full of patriotic feelings recommending to the Prime Minister of Nepal the promotion of education, vocational schools exploration of mines and production of electricity, construction of roads, trade, banks and modernization of administration. This was the beginning of personal exchanges between the two countries. Based upon these direct encounters a century ago, the two countries now enjoy wide ranging bilateral relations conducted in a lasting spirit of friendship and co-operation.

Nepal and Japan have friendly trade relationship since a long time. The history of cooperation between Japan and Nepal is based on friendship and amity. The economic cooperation between Nepal and Japan is not as long as the economic cooperation between Nepal and other donor countries like India, USA, and China etc. Japan's economic assistance to Nepal is traced back to 1954 where Nepali trainees were accepted under the Colombo Plan. Then after the economic cooperation between Nepal and Japan is expanding rapidly in comparison to other donor countries. Even before the establishment of the diplomatic ties, Nepal was benefited by the low-priced Japanese goods in pre-second world war days.

Japan has been constantly showing keen interest in Nepal's economic development. For the past several years, Japanese assistance to Nepal in the form of technical cooperation and grant aid has totaled nearly US \$ 110 million annually.

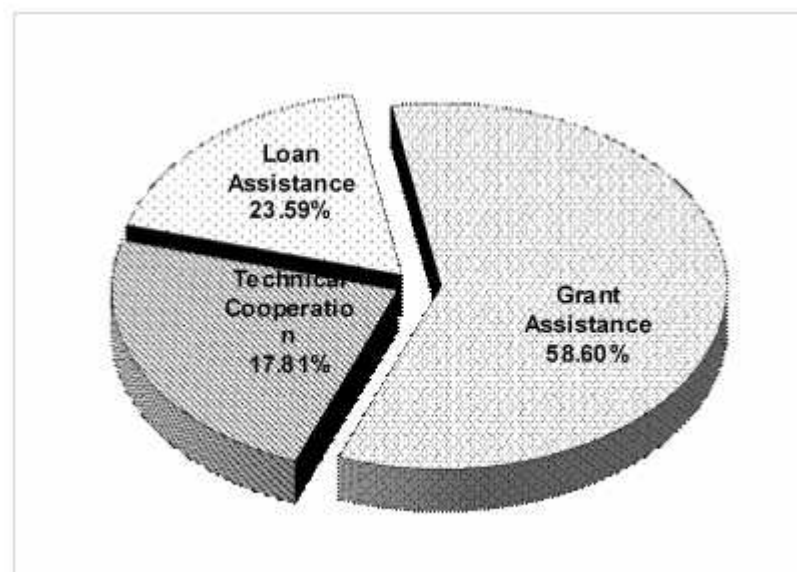
After the establishment of diplomatic relation between Nepal and Japan in 1956 Japanese aid was coming to Nepal. Since then Japan started to take interest in the development activities of Nepal. By the same year, Japan began to provide technical assistance through Overseas Technical Cooperation Agency (OTCA). From 1970, Japan's economic cooperation to Nepal has not concentrated only on technical assistance but also on grant and loan assistance. In 1974 OTCA was merged into

newly created statutory organization the Japan International Cooperation Agency (JICA). Since then the technical assistance is gradually coming through JICA and its branch agency Japan Overseas Cooperation Volunteers (JOCV) in Nepal. In the later part of 1970's Japanese Official Development Assistance (ODA) to Nepal increased rapidly. Japan is providing assistance through ODA, JICA, JOVC and OECF. Nepal Industrial Development Corporation (NIDC) was the first recipient of Japanese loan assistance worth Rs. 17.24 million. It was followed by several projects including the construction of Kulekhani Hydro Electric Project.

Up to 1982, Japanese economic and technical cooperation extended towards Nepal amounted to Rs. 210.72 billion out of which 50 percent was provided under grant assistance. As of 1995, Nepal has received more than a dollar consisting of loan and grant under the Japanese ODA (Japan's ODA Report, 1995). Nepal was the 15<sup>th</sup> largest recipient of Japan's bilateral aid (based on cumulative aid net disbursement up to 1997, Japan's ODA Annual Report, 1998).

The following pie chart shows the percentage of loan assistance, grant assistance and technical assistance and the table shows the total amount of Japanese aid to Nepal from the fiscal year 1969/70 to the fiscal year 2001/02.

**Figure 5.1**  
**Distribution of Japan's ODA to Nepal**



*Sources: Embassy of Japan, Kathmandu, 2017.*

**Table 5.1**  
**Distribution of Japan's ODA to Nepal**

As of April 2004

Types of Assistance	Amount of J ¥.00	Total in NRs million
Grant Assistance	158,699,533	21373.6
Technical Cooperation	48,221,000	11464.22
Loan Assistance	63,889,000	39614.3
Grand total	270,809,533	69452.12

*Sources: Embassy of Japan, Kathmandu*

Under the Japanese cooperation, priority has been given to human resources development, agriculture development, social sector, health and improvement of economic infrastructure and environmental conservation. Japan has realized that Nepal is in desperate need of economic cooperation and her aspiration that is extended both bilaterally and multilaterally has been centered on several areas that come under the priority of Nepal government. Over the last forty years, Japan's cooperation has been in tune with her priorities. On the basis of studies and research concerning development conditions and tasks and development plans in Nepal, as well as policy dialogues between Japan and Nepal, including the High-level mission on Economic and Technical Cooperation sent to Nepal in November 1992, Japan has given priority to assistance in the following areas.

**a. Human Resources Development**

Fostering human resources is indispensable for development on a country's own initiative, and efficient management and use of resources. Consequently, Japan provides technical cooperation in areas such as project implementation and management.

**b. Social Sector**

Nepal has a high incidence of diarrhea caused by unclean water. This is also one cause of the country's high infant mortality rate. Japan continues to implement assistance in areas including water supply and health and medical services Japan is

providing assistance in family planning as well as primary health care, including maternal and child care.

### **c. Agricultural Development**

Agriculture is the main occupation of the people in Nepal, and Japan provides assistance in areas such as improving agricultural infrastructures, as well as development and diffusion of agricultural production technologies in order to increase employment opportunities and raise the income of low-income farmers.

### **d. Economic Infrastructure**

In order to achieve greater effectiveness for economic cooperation in the above two sectors, improvement of basic infrastructure is particularly important, in areas such as power generation, roads, bridges, water supply and communication. Moreover, disaster prevention is required to maintain these facilities, including preventing mudslides. Consequently, Japan is also pursuing cooperation in maintenance and management of these facilities including disaster prevention measures.

### **e. Environment Conservation**

Given Nepal's population growth and poverty, the country has a considerable problem with environment degradation, particularly deforestation. Japan places priority on assistance for the proper utilization of natural resources and for environmental improvement.

Kulekhani Hydropower plants, Sajha Yatayat, Nepal's Radio Broadcasting Network, Tribhuvan University Teaching Hospital, Rural Telecommunications and Sindhuli road construction are some of the examples of Japanese cooperation that have made substantial impact on the lives of the Nepalese people. Equally worth mentioning are the establishment of National Tuberculosis Center, Reconstruction of Kanti Children Hospital, Construction of New Bagmati Bridge as well as the bridges at Kathmandu Valley and Modernization of Tribhuvan International, Airport which are carried out under the Japanese assistance.

With a view to promoting the welfare of rural Nepalese, Japan has also provided Grant Assistance for Grassroots Projects (GGP) that directly supports NGOs and INGOs working at the grassroots level. While helping develop rural areas, technical cooperation projects such as disaster prevention, primary health care, T.B. Control, Community Development and Forest/Watershed Conservation and Greenery Promotion are being implemented by JICA whose representative office was established in Nepal in 1978. JICA and JOCV offices were amalgamated into one in 1983. Japan had also provided Emergency Food Aid to Nepal in 1995-a scheme meant for supplying rice as an emergency relief to the people affected by drought.

Japanese assistance has also been directed towards the promotion and preservation of Nepalese cultural heritage. It is worth recalling that the master plan for the development of Lumbini, the birthplace of Lord Buddha, was designed by a Japanese architect Kenzo Tange.

Though Japan began to have economic cooperation with Nepal by providing loan assistance, nowadays bilateral assistance is more significant than loan assistance because of inability to pay loan amount with interest in fixed period. Thus, as Japan has been providing grant aid in these days, Japanese assistance to Nepal, recently, has been both encouraging and promising for the socio-economic development of Nepal. It is significant to observe that has no strategic and political motives attached to her aid program, rather it is a unique example where a donor really wants to assist the recipient on the humanitarian grounds.

## **5.2 Organizations and Agencies for Cooperation**

There are many organization and agencies through which Japan has been providing assistance to Nepal. Some of them are as follows.

### **4.2.1 Japan International Cooperation Agency (JICA) and Japan Overseas Cooperation Volunteers (JOCV)**

Japan International Cooperation Agency (JICA) was established in August 1974 through a special act of the government Japan. In Nepal, JICA was established in 1978. Japan's quest for international economic cooperation and her endeavor towards

providing technical cooperation to the outside world dates back to 1954, when it became a member of Colombo Plan. The agent for technical cooperation, Japan Overseas Cooperation Technical Agency (JOCTA), which was instituted in 1962, was transformed into JICA.

JICA extends technical cooperation and facilitates grant aid with the objective of supporting self-reliance and sustainable development in developing countries in line with the ODA charter.

JICA is focusing on human development and the establishment of economic and social infrastructure. Through this it aims to contribute to the economic and social development of developing countries' nation building endeavor.

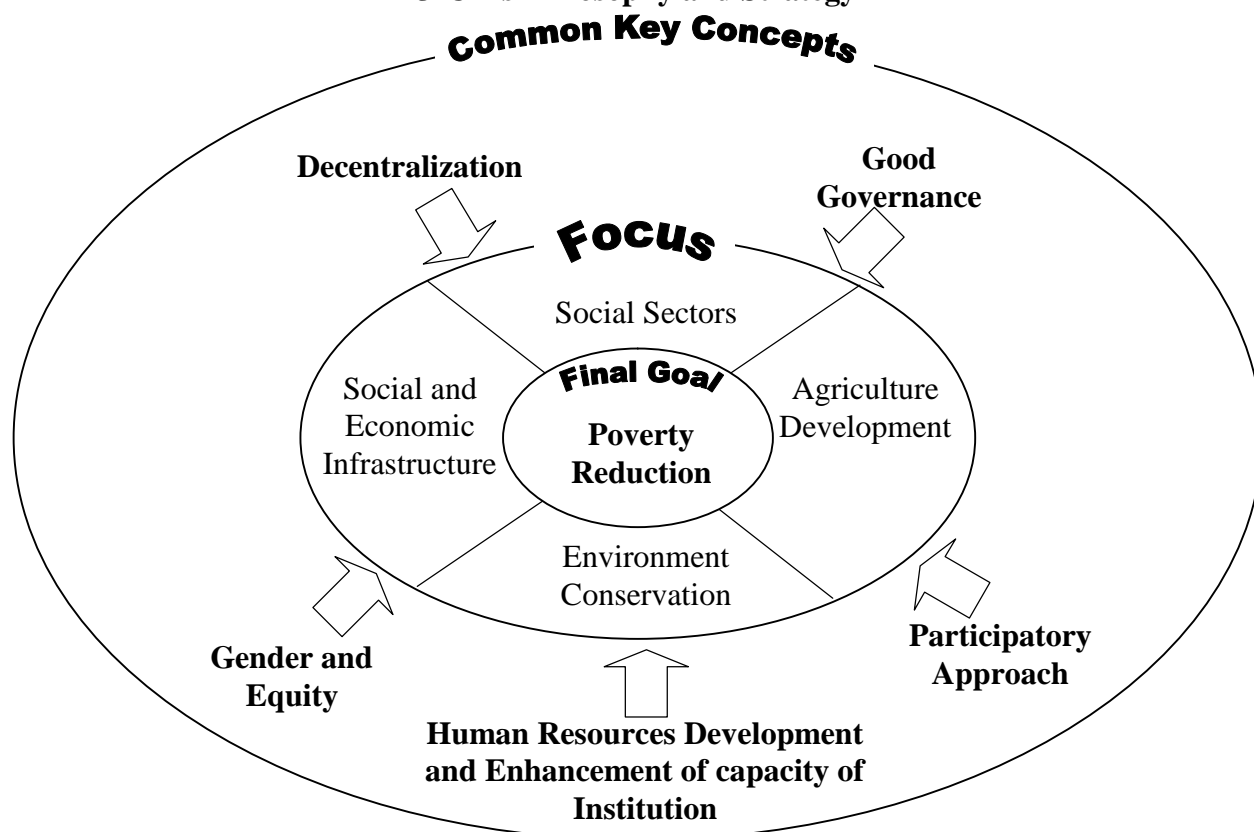
### **Japan International Cooperation Agency (JICA) Activities**

Keeping economic cooperation as the mainstay of international cooperation, JICA has pursued economic and social infrastructure development as its policy or activities. To encourage developing countries relieve from aid dependency and impede the self-help effort of such countries, JICA has always been supporting them by providing guidance and advice to the counterparts from behind. In recent years, JICA has tried to address the development issues of the developing countries through various four approaches. a. Regional and country specific approach, b. Project cycle management approach, c. Integrative approach and d. Cooperative approach.

JICA's philosophy and strategy is focused to contributing to human resources and socio-economic development for autonomous, sustainable development of Nepal. According to Japan's ODA charter Principles, JICA has been intensifying its activities to the cause of national building endeavor of Nepal with the following strategy is shown in the figure.

Figure 5.2

JICA's Philosophy and Strategy



Final goal	Focus	Common key concepts
Poverty reduction	<ul style="list-style-type: none"> <li>) <b>Social Sectors:</b> Cooperation stressed on education; sanitation and supply of safe-drinking water.</li> <li>) <b>Agriculture Development:</b> improvement of agriculture infrastructure; technological development and its adaptation.</li> <li>) <b>Improvement of social and economic infrastructure:</b> improvement of basic economic infrastructure like electricity, road, bridges and communication system management and maintenance of infrastructure including countermeasures for preventing disasters</li> </ul>	<ul style="list-style-type: none"> <li>) <b>Human resources development and enhancement of capacity of institutions:</b> to enhance the capacity as base of all the development activities.</li> <li>) <b>Gender and Equity:</b> to ensure benefit and equal involvement of under privileged people/women.</li> <li>) <b>Participatory approach:</b> to empower people in comprehending and solving their own problems.</li> <li>) <b>Good governance:</b> to ensure ownership, equality, transparency, accountability and efficiency.</li> </ul>

	<p><b>Environmental Conservation through sustainable development:</b> Proper utilization and management of natural resources and betterment of environment.</p>	<p><b>Decentralization:</b> to promote efficiency of development and good governance.</p>
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Source: Japan International Cooperation Agency, Nepal Office

Human Resource Development includes, training for Nepalese professionals and counterparts in Japan and other types of technology transfers, dispatch of experts for technical back stopping and provision of equipment for skill handover. Project Type technical cooperation integrates the technology transfer program covering dispatch of experts.

Grant aid program constitutes a major portion of Japan’s bilateral ODA without repayment obligation. Out of many forms of grant aid categories recognized by Japan, JICA has been commissioned to execute three types. They are General Grant Aid, Fishery Grant Aid and Grant Aid for Increased Food Production. The philosophy of providing Grant Aid is in the field of Basic Human Need requirement.

Volunteers and senior volunteers are dispatched to work in various development fields hand in hand with the recipient countries’ counterparts. Disaster relief cooperation includes an emergency relief upon request as well as short and long term cooperation as warranted. Development study covers from Master Plan Studies on technical subjects to other types of feasibility studies. It also involving in immigration Services, empowerment of the people, improving access to social and socioeconomic infrastructure, sustainable development and environmental conservation and upraising people’s living standard

JOCV was established in Nepal in 1970 as the eleventh host country. Over the years, JOCV has played an active role as a partner in Nepal’s socio-economic development process, which can be said to be the main reason for increasing demand of Japanese Volunteers year by year. The office of JICA and JOCV in Nepal were amalgamated into one roof in 1983. Since then Resident Representative of JICA Nepal Office has been made responsible for carrying out both activities together.

Under the Japanese technical cooperation through JICA, about 1700 Nepalese have been trained in Japan and about 1400 Japanese experts and nearly 600 JOCV members have been sent to Nepal from 1971/72 to 1995/96. They are concerned in vegetable growing, fruits processing, mathematics education, public health and sanitation, pharmacy, tailoring, midwifery etc. of JICA's program.

### **5.2.2 Overseas Economic Cooperation Fund (OECF)**

Overseas Economic Cooperation Fund (OECF) was established in 1961 and is responsible for providing Yen loans in Public cooperation. The objective of OECF is to contribute to industrial development and economic stability of the developing countries. The fund is considered with bilateral loan on the government level. This fund has provided loan assistance to Kulekhani Hydropower Project. OECF cuts off loans to underdeveloped countries when the country's income surpasses a per capita GNP of US \$ 1000.

### **5.2.3 Export Import Bank of Japan (EIBI)**

Export Import Bank of Japan (EIBJ) was established in 1951 in Japan, which is a public cooperation oriented bank. The bank extend loans with a grant element of less than 25 percent to foreign government. The objective of the bank is to promote economic exchange between Japan and other countries for the economic cooperation only part of business undertaken by the bank.

### **5.2.4 Other Organizations**

Besides of JICA, OECF, EIBJ, there are also other organizations that are concerned with economic as well as technical cooperation from Japan to the developing countries. These are namely: The Overseas Fisheries Cooperation Foundation (OFCF), Japan Overseas Development Cooperation (JODC) and The Metal Mining Agency of Japan (MMA).

There are some private organization also which are helping developing countries also which are helping developing countries with the economic cooperation. These are: The Association for Promotion of Industrial Cooperation (APIC), International Development Center of Japan (IDCI), Association for Overseas Technical Scholarship

(AOTS). The Internal Management Association of Japan (IMAI), The OISCA Industrial Development Body etc. These organizations are induced by the government to carry out some specific cooperation projects in the developing countries like Nepal.

### 5.3 Pattern and Trend of Japanese Aid

Nepal has been receiving foreign aid from various countries as well as agencies, The pattern of foreign aid varies from projects to projects and donor to donor. In other words, the structure of foreign aid corresponding to different sources is different and depends upon the policy of donor countries. Some aids are tied-up to projects, while others in the form of commodity assistance and some of the assistance are simply in the form of technical assistance. But broadly these various forms can be grouped into the three headings: grant assistance, loan assistance and technical assistance. Today, Japan is in the top position in providing foreign assistance to Nepal. The following table shows the pattern and trend of Japanese aid to total foreign aid from the fiscal year 1975/76 to the fiscal year 2002/03.

The increasing trend of Japanese aid is clearly seen from the above table. But the percentage of Japanese aid out of total foreign aid is quite fluctuating. In the initial phase up to FY 1977/78, the amount of Japanese aid inflow is very small. After the fiscal year 1978/79, the amount of Japanese aid inflow is in increasing trend. From the fiscal year 1975/76 to 2002/03, the highest inflow is in the fiscal year 1994/95, which is NRs. 6928.3 million and is 61.6 percent of the total foreign aid to Nepal during that year. The least Japanese inflow is in the fiscal year 1977/78, which is only Rs. 1.2 million and is only 0.1 percent of the total foreign aid to Nepal during that fiscal year.

**Table 5.2**  
**Pattern and Trend of Japanese Aid to Total Foreign Aid**

Rs. in Million			
Fiscal year	Total foreign aid	Total Japanese Aid (grant + loan)	Percentage of Japanese Aid To Total Aid
1988/89	2676.4	11.0	0.4
1989/90	3491.5	18.3	0.5
1990/91	3314.4	1.2	0.0
1991/92	5078.3	28.6	0.6
1992/93	5666.9	50.4	0.9
1993/94	6427.1	126.0	2.0
1994/95	5990	89.9	1.5
1995/96	7800.4	338.6	4.3

1996/97	9235.6	277.6	3.0
1997/98	11537.2	231.8	2.0
1998/99	11249.4	659.4	5.9
1999/00	14289	929.0	6.5
2000/01	15031.9	1104.6	7.3
2001/02	16457.1	897.7	5.5
2002/03	16189	1069.5	6.6
2003/04	17523.9	1781.9	10.2
2004/05	18797.4	1757.4	9.3
2005/06	14384.9	3501.4	24.3
2006/07	15885.5	1575.9	9.9
2007/08	18912.4	6928.3	36.6
2008/09	29300.6	5295.5	18.1
2009/10	36351.7	4994.4	13.7
2010/11	49769.4	1746.6	3.5
2011/12	57997.8	2894.5	5.0
2012/13	51893.4	8394.1	16.2
2013/14	47199.2	7090.3	15.0
2014/15	60204.6	5326.2	8.8
2015/16	63907	2802.2	4.4
2016/17	65830	5922.3	9.0

Source: i) Various Economic Survey of Nepal  
ii) Foreign Aid Division, Ministry of Finance  
iii) Various Issues of Japan's ODA Annual Reports. MOFA, Japan.

Since the fiscal year 1975/76, Japan has been continuously providing grant, loan and technical assistances for socio-economic development of Nepal. In 1996, Japanese grant aid and technical cooperation to Nepal amounted to Rs. 5319.5 million. In spite of the government assistance basis, the Japanese agencies are also contributing in the areas of health services, pipeline and rope-line network, medical services, education, Japanese language, mountaineering expedition etc, which are not mentioned in this study.

#### **5.4 Grant Assistance**

Since 1951, Nepal has started to receive grant aid from foreign countries as well as different multilateral institutions. United States was the first donor country to provide grant aid to Nepal. After then, India also started to contribute grant assistance to Nepal. Japan has been providing grant aid since 1970. After some years, Canada, Germany, Italy, Britain, Russia and China have also been providing grant aid to Nepal. Today, more than twenty countries and multilateral agencies are providing grant aid to Nepal in the form of bilateral as well as multilateral grant. In the phase of

first twenty years, out of total aid inflow in Nepal, grant aid is major component. It took big area in the platform of foreign aid. Since 1972/73, the trend and pattern of foreign grant to Nepal has been reducing. That is, foreign grant is gradually being replaced by foreign loan and technical assistance.

From 1988/89, to 2016/17, Nepal received a total grant assistance of NRs. 409004.80 million. Total aid is in increasing but the percentage of grant aid out of total foreign aid is decreasing gradually in each year. Up to the fiscal year 1960/61, 100 percent of the assistance received by Nepal is in the form of grant. In the fiscal year 1961/62, the percentage of grant is 99.5, the percentage decreased slowly in the fiscal years 1967/68 and 1968/69. After then, the foreign grant was also moving seriously to then negative way. In 1991/92, the share of grant out of total foreign aid to Nepal was only 19.6 percent. The share of grant seems increasing slowly but with fluctuating rate. In total aid, 33 percent is covered by grant aid.

Japanese grant aid is directed in various field such as fisheries, disaster relief, cultural activities, debt relief as part of the general grant aid, food aid, increase in food production etc. and also in general grant aid. The fields covered by general grant aid are medical and public health, education and culture, agriculture, public welfare and environment improvement, communication and transportation, export promotion and infrastructure development in least developed countries.

Nepal has been receiving grant assistance from Japan only after 1970s. The percentage of Japanese grants aid out of total grant aid to Nepal from the fiscal year 1988/89 to 2016/17 is illustrated in the following table 4.3.

**Table 5.3**  
**Share of Japanese Grant to Total Grant**

NRs. in million			
Fiscal year	Total foreign aid	Total Japanese grant Aid	Percent of Japanese grant aid to total grant
1988/89	923.4	11.0	1.2
1989/90	1120.6	18.3	1.6
1990/91	1078.3	1.2	0.1
1991/92	1984.2	28.6	1.4
1992/93	1478.2	50.4	3.4

1993/94	1798.8	126.0	7.0
1994/95	1630	86.9	5.3
1995/96	1531	52.0	3.4
1996/97	3273.9	199.9	6.1
1997/98	2393.6	68.1	2.8
1998/99	3937.1	331.0	8.4
1999/00	4825.1	282.8	5.9
2000/01	5988.3	233.9	3.9
2001/02	5402.6	133.0	2.5
2002/03	4336.6	500.0	11.5
2003/04	5711.7	296.9	5.2
2004/05	6753.4	11.0	0.2
2005/06	6686.2	78.6	1.2
2006/07	11339.1	170.6	1.5
2007/08	11283.4	555.8	4.9
2008/09	20320.7	145.5	0.7
2009/10	26382.8	531.9	2.0
2010/11	38546.0	1746.6	4.5
2011/12	45922.2	2894.5	6.3
2012/13	40810.3	1029.8	2.5
2013/14	35229.8	3793.8	10.8
2014/15	42205.8	5326.3	12.6
2015/16	38291.4	2802.2	7.3
2016/17	37820.3	4209.5	11.1
Total	409004.8	25716.1	

Note: “-“Indicates the non availability of the data.

Source: i) Various Economic Survey of Nepal

ii) Foreign Aid Division, MOF

iii) Various Issue of Japan’s ODA Annual Report, MOFA, Japan

Since, 1988/89 to 2016/17, Japan has provided grant assistance amounting Rs. 25716.1 million to Nepal. Japan has been contributing to Nepal according to the priority given by government. Japan has been providing three types of assistance to Nepal; grant, loan and technical assistance. Among them, grant assistance is more importance. Out of total assistance is more importance. Out of total assistance, provided by Japan to Nepal, this occupies first position.

The above table reflects that in the fiscal year 1988/89, the total grant assistance received by Nepal was Rs. 923.4 million in which Japan had shared the amount of Rs. 11 million, i.e. 3.1 percent of the total assistance. In the fiscal year 1989/90, the

Japanese grant assistance was 18.3 million. Since the fiscal year 1989/90 the amount of Japanese grant aid is increasing but the percentage of Japanese grant aid out of total grant aid to Nepal is fluctuating each year. After the fiscal year 1991/92, the percentage of grant aid provided by Japan out of the total grant aid to Nepal is only 0.7 percent. Over the period of last 29 years (from the fiscal year 1988/89-2016/17), Japanese grant assistance 27.2 percent out of total grant assistance received by Nepal. So that the magnitude of Japanese grant is quite fluctuating.

Thus, Japan is very much interested to help by playing effective role in the grant assistance to the development process of Nepal. Up to now, the government of Japan is providing different types of aid to the different sectors of the Nepalese economy, specially concerning different purposes for the betterment of mass poverty-ridden Nepalese people and for the expansion of stagnant economy like Nepal.

### **5.5 Loan Assistance**

Nepal has been receiving foreign assistance since 1951/52 but loan assistance entered into Nepal only in the fiscal year 1961/62. Different friendly and helpful countries in the world are providing loans to Nepal for various purposes. In fact, for an underdeveloped country, the advantages of grant aid seems more than the loan but the loan with low interest rate and long loan repayment period, may be considered as good as grant. The table No. 2 reflects total inflow of loan aid from different countries and agencies.

The percent of loan assistance to the foreign assistance is very low in the initial stage (1961-1969). The percentage of loan assistance out of the total foreign assistance is 28.3 in the fiscal year 1973/74. The percentage loan assistance is increasing from 1971/72 and the loan amount reached 80.4 percent in the fiscal year 1991/92 and 79.3 percent in the fiscal year 1993/94. In grand total, 67 percent of total assistance is covered by the loan assistance.

History of Japanese loan assistance to Nepal is not long even though there is high significance of Japanese loan assistance. Japanese loan assistance is only directed bilateral loan provided by the government and it is usually called Japan's ODA loan. This is classified as a form of ODA in accordance with the criteria of Development

Assistance Committee (DAC) of Organization for Economic Cooperation and Development (OECD), and it fulfills most of the following prerequisites.

- This cooperation should be done by official agencies to developing countries.
- This cooperation should be administered with the promotion of the economic development and the welfare of the developing countries as its main objective.
- This cooperation should be concessional in character and contain a grant element of at least 25 percent.

Japan started to provide loan assistance to Nepal since March 1970. It was provided to Nepal by Export Import Bank of Japan through NIDC for the industrial development of Nepal. The second and third loan assistance was provided to Kulekhani Hydro Power Project I and II respectively from Overseas Economic Cooperation Fund (OECF) for the power generation system. Though Japan started to provide loan assistance from the 1970s, it was not received by Nepalese government up to 1981/82.

Now we can analyze the Japanese loan assistance comparatively with the total loan assistance received by Nepal. In other words what kind of contribution has been doing in the total assistance by the Japanese assistance in the certain period. Below Table 10 simply shows the Japanese loan assistance and its percentage share in the total loan assistance received by Nepal within the period of 1988/89 to 2016/17.

**Table 5.4**  
**Share of Japanese Loan to Total Loan**

Rs. in million			
Fiscal year	Total foreign Loan aid	Total Japanese loan aid	Percentage of Japanese aid to total Loan aid
1988/89	1753	-	-
1989/90	2370.9	-	-
1990/91	2236.1	-	-
1991/92	3094.3	-	-
1992/93	4188.7	-	-
1993/94	4628.3	-	-
1994/95	4360	-	-
1995/96	6269.4	286.69	4.6
1996/97	5961.7	77.7	1.3
1997/98	9163.6	163.7	1.8
1998/99	7312.3	298.4	4.1
1999/00	9463.9	646.2	6.8
2000/01	9043.6	870.7	9.6

2001/02	11054.5	0	0.0
2002/03	11852.4	569.5	4.8
2003/04	11812.2	1485.0	12.6
2004/05	12044	3746.7	31.1
2005/06	7698.6	3422.8	44.5
2006/07	4546.4	1401.3	30.8
2007/08	7629.0	6372.5	83.5
2008/09	8979.9	5150.0	57.4
2009/10	9968.9	4462.5	44.8
2010/11	11223.4	0	0.0
2011/12	12075.6	0	0.0
2012/13	11083.1	7364.3	66.4
2013/14	11969.4	3296.4	27.5
2014/15	17998.8	2215.4	12.3
2015/16	25615.6	1951.0	7.6
2016/17	28009.7	3961.3	14.1

Source: i) Various Economic Survey of Nepal  
iii) Various Issue of Japan's ODA Annual Report, MOFA, Japan

Table 5.4, it is seen that the share of the Japanese loan assistance in the total loan is not so much. In the fiscal year 1995/96, Japan provided Rs. 286.9 million loan assistance to Nepal, which covered only 4.6 percent of total foreign loan. The Japanese loan assistance was not obtained in the fiscal year 2001/02. After 1990/91, the Japanese loan assistance has increased but in fluctuating rate. But in the fiscal years 2010/11 and 2011/12 again Japan has not provided loan assistance (Foreign Aid Division, MOF/Nepal). In the fiscal year 2016/17 the Japanese loan assistance totaled Rs. 3961.3 million, which covers 14.1 percent out of total foreign loan assistance.

## 5.6 Technical Assistance

Donor countries have assisted Nepal not only in terms of financial aid but also in the form of ideas, knowledge, skills and technology. Technical assistance is very important to the national development of countries like Nepal. Technical assistance is aimed at bringing up personnel which are technically required in taking a positive part in the task of nation is economic and social development in developing countries.

Technical cooperation is the aid whose aim is to develop the human resources that lay the foundations of developing countries' efforts to build their nations. The term "technical assistance" is related to the Human Resources Development. It is the fundamental force to drive the country along the path of peace and prosperity. In the

context of Nepal, “Human Development” required for the process of nation building is far high but it is below that of the demand line. In such circumstances, the existing inadequately trained human resources may not suffice to meet with the growing challenges for all round development. Technical assistance is very important to the national development management to carry out more efficient plan and project. The task of technical cooperation is “The Development of Human Resources” for the nation building of the developing countries.

Technical cooperation comprises a wide variety of activities, accepting students from abroad as well as the publication and supply of technical literature and materials in local languages. The organizations carrying out technical cooperation are also of a wide variety including those carried out on government basis. Those related to private companies are active in developing countries and those are apart of missionary activities of religious institutions.

In Japanese case, officially bilateral technical cooperation is executed by the Japan International Cooperation Agency (JICA). Schemes of technical cooperation include acceptance of trainees, dispatch of experts, provision of equipment, project type technical cooperation, development studies and dispatch of Japan Overseas Cooperation Volunteers (JOCV). Technical Cooperation financed by ODA funds including accepting students from developing countries as well as studies and research Jointly conducted by auxiliary organizations affiliated to ministries and agencies of Japan. In addition to these, technical cooperation also includes that of local governments and of non-governmental organizations (NGOs), which receive government subsidies. Japan has been providing technical assistance to Nepal since 1954, prior to other kinds of assistance. Japan provides technical assistance through different sources. But after the establishment of JICM in 1970, Japan is mainly providing technical assistance to Nepal through its executing organ and organization. JICA and Japanese volunteers are sent through JOCV, which was established on 1972. The following table reflects the flow of Japanese technical assistance to Nepal.

**Table 5.5**  
**Japanese Technical Assistance Inflow to Nepal**

Rs. in Million

Fiscal year	Total Technical Assistance	Japanese Total Assistance	Percentage of Japanese TA to Total TA
1988/89	192.2	57.3	29.8
1989/90	248.3	37.5	15.1
1990/91	220.5	38.6	17.5
1991/92	183.09	50.9	27.8
1992/93	214.5	62.0	28.9
1993/94	212.6	75.5	35.5
1994/95	309.1	77.6	25.1
1995/96	516.3	104.3	20.2
1996/97	279.8	84.8	30.3
1997/98	551.8	190.4	34.5
1998/99	1752.5	315.4	18.0
1999/00	2192.9	342.1	15.6
2000/01	1743.2	399.2	22.9
2001/02	1195.5	374.2	31.3
2002/03	181.8	66.2	36.4
2003/04	4370.8	1228.2	28.1
2004/05	3356.6	1728.7	51.5
2005/06	3808.9	1531.2	40.2
2006/07	3365.5	1484.2	44.1
2007/08	5983.4	1699.3	28.4
2008/09	3953.3	1387.62	35.1
2009/10	3344.5	1173.9	35.1
2010/11	5107.7	2216.7	43.4
2011/12	5314.2	1865.3	35.1
2012/13	5475.3	2190.1	40.0
2013/14	753.6	354.9	47.1
2014/15	2091.4	502.3	24.0
2015/16	2325.2	685.4	29.5
2016/17	2914.6	981.6	33.7

Note: TA = Technical Assistance

Source: i) Various Issue of Japan's ODA Report, MOFA, Japan

From the table 5.5, it is clearly seen that Japanese technical assistance is increasing smoothly except in few years. During the period up to the fiscal year 1996/97, Japanese technical assistance is totaled to Rs. 11335.62 million. Japan is cooperating to Nepal through technical assistance annually by supporting the ideas, machinery and money values. In Japanese technical assistance, Japan's training program, experts dispatch program (Number of Japanese Experts), Survey mission, equipment supply and JOCVs are elucidated in money value.

Under the Japanese Technical Assistance, the major agency, JICM, is running several types of technical program in Nepal. Since its establishment, its office at Kathmandu, is providing following programs.

- ) Training program
- ) Expert dispatch program
- ) Equipment supply program
- ) Project type cooperation
  - o Janakpur Agriculture Development Project.
  - o Western Region Basic Health Development Project.
  - o T.U. Medical Education Project (1980).
  - o Cottage Industries Development Project.
  - o Development Survey program
- ) Japanese Overseas Cooperation Volunteers (JOVC)

### **5.7 Japanese Aid Distribution by Sector (Grant Assistance)**

Nepal and Japan established diplomatic relation in 1956, Japanese ODA to Nepal, however, aid started to flow gradually from mid-sixty over the period of the last three decades, the volume of Japanese aid to Nepal has increased and it covers all the major sectors of our economy. An analysis of the Japanese assistance of the last one and half decades confines that the volume has steadily gone up and the areas of cooperation are in line with the priority as set by successive development plans.

Japan has made available generous assistance to almost all the sectors of our economy. Major beneficiaries of Japanese ODA are agriculture, industry, water

supply, power and communication sectors. From the fiscal year 1988/89 to 2016/17, the committed amounts of foreign assistance provided by Japan are given in the following table 5.6.

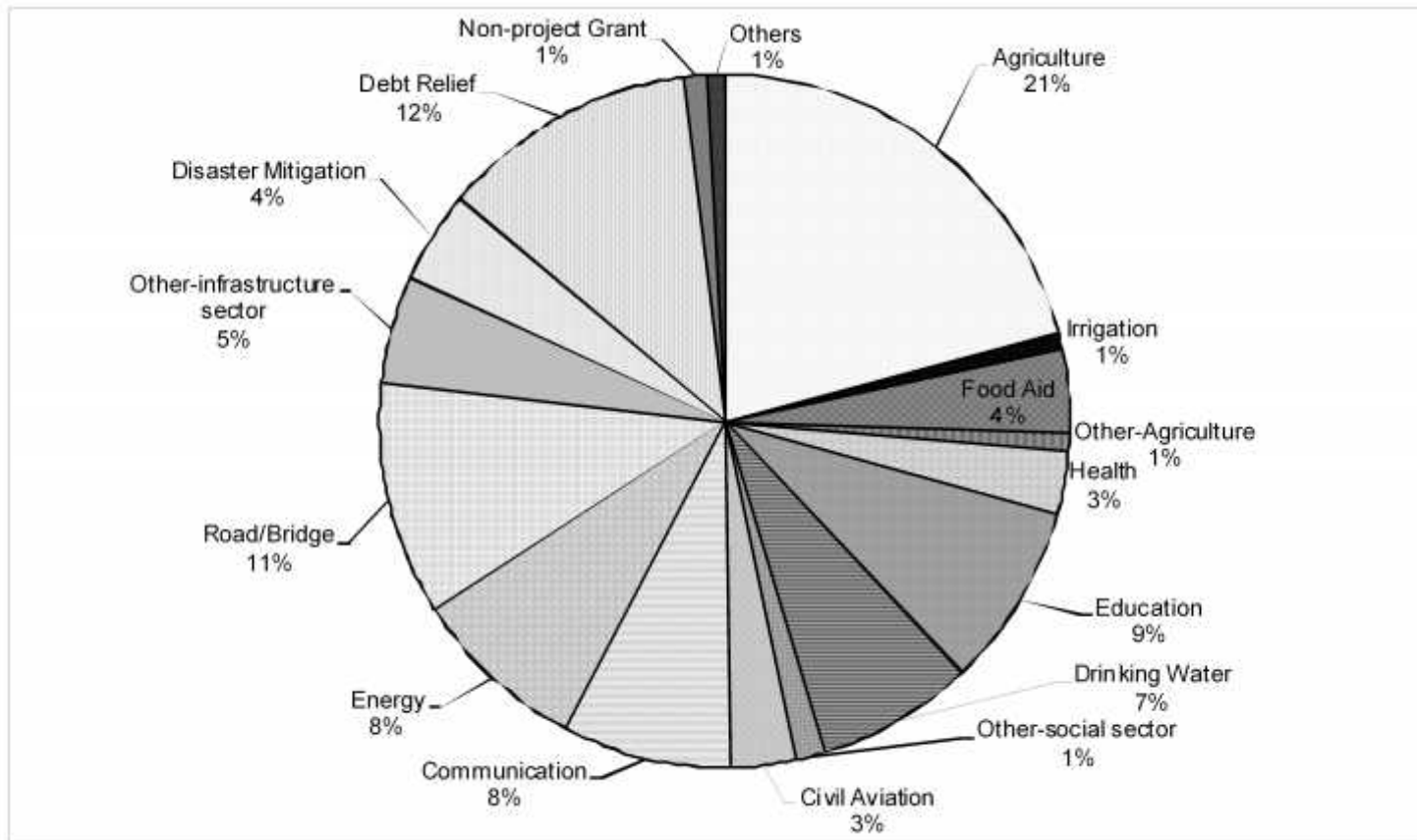
**Table 5.6**  
**Japanese Aid by Sectors (Grant Assistance)**  
**(1988-2017)**

Sectors	Amount of JY	Amount NRs million	Percentage (%)
Agriculture	34035900	52362.9	21.0
Irrigation	1202000	1849.2	1.0
Food Aid	6298440	9689.9	4.0
Other-Agriculture	1456000	2240.0	1.0
Health	4708000	7243.1	3.0
Education	13958000	21473.9	9.0
Drinking Water	12049000	18536.9	7.0
Other-social sector	2253000	3466.2	1.0
Civil Aviation	4831000	7432.3	3.0
Communication	12946000	19916.9	8.0
Energy	13398000	20612.3	8.0
Road/Bridge	17734000	27283.8	11.0
Other-infrastructure sector	8108000	12473.8	5.0
Disaster Mitigation	7072000	10880.0	4.0
Debt Relief	19528678	30044.2	12.0
Non-project Grant	1800000	2769.2	1.0
Others	1241174	1909.5	1.0
<b>Total commitment</b>	<b>162619192</b>	<b>250184.1</b>	

Source: Embassy of Japan, Kathmandu 2017

The above table reflects the Japanese aid to the different sectors. Japanese grant assistance has highly concentrated in Debt Relief Measures, Transport, Agriculture, Power and Water Supply. Japanese grant assistance has been provided to the industrial sector also but in very little amount. The Japanese assistance is in the form of grant assistance in total Rs. 250184.1 million by sector distribution in the fiscal year 1988/89 to 2016/17.

**Figure 5.3**  
**Sectoral Distribution of Grant Assistance**



Source: Embassy of Japan, Kathmandu 2017

## **5.8 Evaluation of Japanese Aid in Nepal**

Japan is one of the major donor countries among other countries because the analyzing from above submitted data we can say that Japanese aid is more significant in comparison with total aid inflow. Japanese aid is increasing gradually year by year and the amount of Japanese assistance in the development expenditure of Nepal is quite discernible. Japanese assistance of Nepal has been concentrated on infrastructure development of Nepal. It is also true the Japanese aid has been playing more effective role for the economic development of Nepal. Japanese assistance to Nepal has been mainly directed to agriculture, power generation and distribution, health, transportation, education, communication, development of human resources, environmental preservation and so on. The large scale of Japanese grants assistance also distributed on debt relief of Nepal, which is also important to relief from the burden of external debt. Thus, Japanese assistance covers almost 40 percent of development field of Nepal. So, Japanese assistance has occupied large area of Nepal's development.

### **5.8.1 Impact on Agricultural Development**

The Nepalese economy is agro-based economy. Ultimately 43 percent of GDP is only contributed by agricultural sector. Almost 90 percent of people are engaged in agricultural sector. So we can say that it is not possible to develop the Nepalese economy without developing agriculture. A 15.1 percent of the Japanese grant assistance from the fiscal year 1988/89 to 2016/17 has been disbursed to the agricultural sector (Table 4.7). This shows that like all other donor countries Japan is also taking interest in agricultural development of Nepal.

Nepalese agriculture farming depends upon monsoon and irrigation facilities have not been sound in effect. About one thousand pump set, none ring machines, Shallow tube wells program had fulfilled the shortages in the districts of Terai through Japanese grant Aid in 1970. Japanese technical assistance in the agricultural sector has influenced the farmers to cultivate by modern improved farming techniques. Similarly the teaching and volunteer's services of Japanese agriculturists in different districts of Nepal benefit Nepalese farmers. Japanese assistance has brought demonstration effect and extension of agricultural techniques to Nepalese farmers through the agricultural

program through Janakpur Agriculture Development Project. It has provided new ideas of farming, storing, and selling. The status of that region's farmers is changing. Japan also provided agricultural experimental farming in Rapti zone by way of providing equipment and experts under the Colombo Plan.

### **5.8.2 Impact on Economic and Social Infrastructure**

Japanese assistance has brought great change improvement of technology, good network of transport system and setting up of basic key industries are necessary in the process of development. This means that infrastructure development is the foundation of economic development. There should be direct effect to infrastructure development in order to attain the faster rate of economic growth. Japan is also playing a vital role in building infrastructure for the creation of economic and social development of Nepal. For the development of socio-economic infrastructure, Japan has been providing machinery and equipments for the construction of Sindhuli Road. Kulekhani Hydroelectric Project is also a vital undertaking of Japanese assistance in the infrastructure development of Nepal, which has been constructed under Japanese assistance. Japanese assistance on power transmission and distribution system in Kathmandu has brought regularity in electricity.

In transportation improvement projects, Japan has been providing buses, trucks and repair shops, which have been very useful for the social life of Nepalese people in Kathmandu Valley. Japanese contribution to Medium Wave Radio Broadcasting Network Improvement projects has played a significant role for the communicative development of Nepal. Radio Nepal was able to broadcast in Medium wave only after completing this project. For the educational development, Japan has been providing materials and equipments for the construction of primary schools in regions of Nepal. Japan also providing assistance for the primary education in Nepal through JICA, which is effective in 75 districts since 2001. Japan has also provided assistance to Janak Education Material Center and Tribhuvan University. Japanese assistance to Tribhuvan University Teaching Hospital is a landmark in social development of Nepal. Japan has also been providing higher level of education in medical science. With the help of this cooperation basic status of Nepalese people is changing gradually.

### **5.8.3 Impact on Industrial Development**

Industrial development is also essential to improve Nepalese economy. Industrialization is pre-requisite for economic development as the history of advanced countries shows. Industrialization is also necessary in order to provide employment to the under-employed and unemployed in the agricultural sector. Thus, industrial development is essential for the Nepalese economy in order to attain the rapid growth rate. It is necessary to reduce the increasing pressure of population in agriculture sector by diverting it from agriculture to industrial sector. Most of the big industries have been established with the help of foreign assistance in Nepal. Technicians and tools are also imported from foreign countries. Thus, Nepal has been utilizing foreign assistance in effective manner.

Japan also cooperated in the field of industrial development. Nepal Industrial Development Cooperation (NIDC) and Udayapur Cement Factory are the major industries, which have been benefited by Japanese assistance. Japan is also contributing in the development of different small scale industries in Nepal. Japan is conducting cottage industries development projects for the hand made paper and readymade garments. They are also providing ideas for the development of grassroots projects in Nepal.

### **5.8.4 Impact on Capital Formation**

For the developing countries like Nepal capital formation is regarded as one of the important factors on the process of development. Capital formation or accumulation is an important and key element in economic development. Capital is an essential tool for financing the development budget in developing countries. Japan has been providing both financial and human capital to Nepal. Japanese financial assistance has been used in different fields of development. Japanese training facilities have been advantages in building human capital formation. Japan has been providing different types of assistance in the form of grant, loan, commodity and technical assistance as well as equipment and machinery in order to increase the capital. The nature of Japanese aid has multidimensional effects. So we should utilize foreign aid and change total status of our living standard among the other Asian countries.

The most remarkable event in the field of development of foreign aid to Nepal has been the emergence of Japan as the most important bilateral aid donor. Role of Japanese aid has become very important after 1975. Japan has provided different types of cooperation through JICA, OECF, EIBJ and other institutions in Nepal. Japanese assistance has been increasing, which consists of grant assistance, loan assistance and technical assistance to Nepal. Among them, grant aid is very important for Nepal. Japanese assistance to Nepal covers most of the sectors, such as Agriculture, Power Generation, Health, Transportation, Education, Communication, Human Resource Development, Environmental etc.

The impact of Japanese aid on Nepalese economy and society has been found very significant. But foreign aid should be utilized only for those sectors and projects which are for those sectors and projects which are more vital for the socio-economic upliftment of the society from which the majority of the population, the poor section in particular, may be benefited.

## CHAPTER-VI

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 6.1 Summary

Foreign aid is widely accepted means for the development of various sectors in the developing countries. Since the fiscal year 1951/52 to up to now, the foreign aid has played an effective and vital role in the socio-economic development of Nepal. In the developing countries like Nepal, due to the deficiency of capital, the adequate mobilization of internal resources could not have been made without foreign aid in order to accelerate the rate of economic development and growth. If utilized efficiently, foreign aid can play a vital role in the overall development efforts of the country like Nepal. The purpose aid to the developing countries should be to accelerate their economic development up to a point from where a self-sustaining required rate of economic growth can be achieved. So function of aid for a development program should not be to raise standard of living in the recipient countries directly but enable them to make the transition from economic stagnation to self-sustaining economic growth Foreign aid aiming at the following developmental works will have effective results.- to utilize internal resources to the maximum extent possible, to invest aid in private and public sectors of maximum social and economic progress and to invest in capital formation.

But every developing country can not be able to utilize increasing external aid effectively. In Nepal, economists and policy makers have realized the problem of foreign aid indigestion during the past few years.

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. Japan has been providing bilateral assistance to those sectors, which came in priority bases. Japan has been adding to Nepal in different fields in a friendly manner since 1954. Up to 1975, Japanese assistance was not regular. Only after 1975, Japanese grant assistance is increasing in a regular manner. The volume of Japanese assistance increased sharply from 1980 and now, Japan became the biggest supporting country to Nepal.

Since, 1988/89 to 2016/17, amount of total foreign aid received by Nepal Rs. 213892.6 million out of which Rs. 79149.1 million (37.0 percent) consists of grant aid while Rs. 134743.5 million (63.0 percent) consists of total loan aid foreign aid to Nepal has mostly emphasized on transportation, power and communication sectors, that is 49.6 percent out of total aid disbursement has been added to these sectors 13.9 percent of the total aid has been disbursed to agriculture, irrigation and forestry sectors, 34.0 percent has been disbursed to social sector and 2.5 percent has been disbursed to industry and commerce sector. It is clearly visible that the foreign aid has not been utilized fully according to the percentage of foreign aid commitment. The disbursement as percent of commitments from the fiscal year 1988/89 to 2016/17 is only 56.2 percent.

Out of total foreign aid Rs. 213195.6 million, Japanese assistance contributed Rs. 55274.2 million (26.0 percent). Since the fiscal year 1988/89 to 2017/18. Under the Japanese aid, grant inflow from Japan is Rs. 21373.6 million, which is 27.2 percent out of total grant aid from 1988/89 to 2016/17. Similarly, total Japanese loan aid is Rs. 39614.3 million, which is 29.5 percent out of total loan to Nepal. Japan has also co-operated in the form of technical assistance of amounts Rs. 19136.12 million from the fiscal year 1988/89 to 2016/17, which includes not only money but also ideas, values, technologies and technical machinery.

Due to limited internal revenue mobilization there was growing reliance on foreign assistance for development expenditure. There appeared three significant trends in foreign assistance during this period. Firstly, there was a gradual increase in the share of foreign assistance in the development expenditure. Secondly, the foreign assistance received by the country recorded a progressive decline in grant assistance and a commensurate increase in loans. This resulted in an increased burden on the economy of the payment of foreign debts and their interest. Thirdly, compared to the amount of loans sanctioned by foreign donor countries and agencies, their actual utilization remained considerably low.

## **5.2 Conclusions**

Studies on foreign aid to Nepal have shown that a large proportion of most of foreign assistance recycle back to the donors in the form of consultant fees, salaries of foreign

employees, and expenditures on foreign tools and machines (usually prescribed by the donors). Many donors' forward terms and conditions, some of which even question our dignity, pride, and policy-making freedom. Furthermore, inflow of aid creates inequality of income, facilitates by making easy money available for it, gives rise to demonstration effect leading to conspicuous consumption by some unaffordable household, and so on.

The government has been allocating huge sums for debt repayments every year. In doing so, it is actually taking away resources from possible investment in education, health, infrastructure building, power generation, communication and other vital sectors of the economy.

Foreign aid for nearly last 60 years has remarked an integral part of the Nepali economy. There has been many fold increase in the quantum of aid to Nepal. During this period there has been some improvement in the physical and socio-economic indicators of Nepal. Numbers of hospitals and health posts have increased. Some hold true in the case of the government supply of drinking water, electricity, telephone facility, and road access. Nevertheless, all these facilities remain quite beyond the reach of a large mass of the people.

With the policy of liberalization, donors are gradually pushing Nepal to replace grants by concessional loans, concessional loans by commercial loans, and supplement this by FDI (Foreign Direct Investment). If this happens, which is very likely, the country will have no resources for the economic development of Nepal.

Foreign aid in Nepal appears to be less effective on focusing on the needs of majority of the people and also maintain accountability. It has been unable to address the specific problems of equity and justice and to ensure propriety in the process of aid utilization.

Underutilization has been the serious problem than the availability of the foreign aid. Corruption has become a menace of foreign aid. After the change of each government the key staffs of aid-funded projects are also changed immediately. The motive behind this may be for the corruption.

Foreign aid is expected in each and every field of development activity. There are no proper criteria for selecting the foreign aid. The form of foreign aid ranges from provision, and from the project for building infrastructure to the field of the huge capital investment projects.

Foreign aid has covered many fields like, Agriculture, public health, Education, Transportation, communication, Electrification, Industrialization, public administration, poverty alleviation, emergency relief as well as family planning and various allied training programs and export services for socio economic development in Nepal. Foreign aid plays an important role in the development of Nepal; everywhere that foreign aid transmits money but, also ideas, values and technologies. In Nepal this linkage between aid and development has become more propounded. After all talk and action about development in the country started virtually simultaneously with the in flow of foreign assistance. The records of Nepal's development performance have thus become indistinguishable from that of foreign aid.

Thus, Nepal is facing a paradoxical situation in that she can neither promote her economy without aid, nor she has been able to avoid the risk of becoming the victim of aid intoxication. Meanwhile, aid for long periods has created a separate social group, namely, the rental class.

### **6.3 Recommendations**

In long period of receiving foreign aid to Nepal, some weaknesses still can be noted which can be score in future. On the basis of conclusions of this study, following recommendations are suggested.

- ) Unless there is a substantial improvement in our absorptive capacity, it will be very difficult to utilize foreign aid. As such concrete steps should be taken towards the solutions of present obstacles (like delay in the approval of tender, weakness in administrative management and coordination, and impractical financial rules and regularities, etc) to enhance the absorptive capacity.
- ) In order to the foreign aid utilization and to boost up production without loss of time, a substantive portion of foreign aid that will be available in each year should

be channelized towards activities directly contributing to the increasing in production. This approach will greatly aid in the speedy cultivation of foreign aid and in attaining the objectives of increasing production and of meeting the minimum basic needs of people.

- ) Long run planning of development and construction should be formed and according to this, the utilization of aid should be continued and expanded.
- ) It would be better to have more aid in the form of soft loan but payable in the long term with low interest rate.
- ) Foreign aid while being accepted and reconciled should be used fairly. It should be motivated towards long run benefit for the nation and national interest.
- ) Authorized and fairly institutional development should be the main motto for the effective monitoring and evaluation.
- ) Foreign aid policy should be aimed to reduce the typing of aid so that the utilization of foreign aid gets maximum benefits.
- ) Japanese aid should be used for socio-economic upliftment of Nepalese people.
- ) Gestation period for providing Japanese aid should be fixed and Japanese aid should also be monitored and evaluated.
- ) Liberal economic policy should be adopted and local government institutions, public and NGOs should be involved in mobilizing the Japanese aid.
- ) Nepalese contractors and labors should be involved for different projects under construction of with Japanese aid.
- ) Foreign aid should be taken as a supplement to domestic resource.
- ) Nepalese technicians should be used in order to control the large scale of expenditure of foreign technician.
- ) The project type technical cooperation provided by Japan through its executive agency JICA seems to be very much effective and promising at present. Instead of loan assistance, it will be better to provide technical assistance.
- ) Data and information on Japanese aid provided for sectoral distribution and information about Japanese technical assistance are not available in Foreign Aid Division of MOF/N which create problems to research works.

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