

CHAPTER I

INTRODUCTION

1.1 General Background

Nepal has been a recipient of foreign assistance since 1951. In the earlier time, aid used to be almost in the form of grants. The bulk of assistance used to be directed toward developing agriculture, transportation, and infrastructure and power generation. When Nepal first received foreign aid; the donor at the time was the United States of America. It begins with the signing of an agreement with the United States of America under its 'Point Four Program' in 1951. Since then, the United States had provided technical assistance as well as capital aid in order to help implement projects in virtually every sector of economy. Thus the evolution of foreign aid dates back to the early period of colonization, when the United Kingdom provided economic assistance to its colonies. Aid is also a continuity of the United States 'Dollar Diplomacy' in Asian and Latin America during 1st world war. Only after the Second World War, foreign aid was systematized, primarily in the form of the Marshall plan. Major development partners during the 1950's were China, USA, India, Japan, Britain, Switzerland and New Zealand. However the Soviet union and New Zealand no longer provide aid to Nepal. Marshall Plan was a U.S. sponsored program (1948-51) to provide economic aid to European countries after World War II. The idea of a European self-help plan financed by the U.S. was proposed by George Marshall in 1947 and was authorized by congress the European Recovery program. It provided almost \$ 13 billion in grants and loans to 17 countries and was a key factor reviving their economies and stabilizing their political structures. The plan's concept was extended to less-developed countries under the point four programs. The first capital assistance came from India in 1952 and US in 1956 the only two donors to Nepal till 1956 (Poudyal, 1992).

Indian assistance in Nepal began since 1951. Basically the bulk of India assistance has gone into three main types of activities- improvements of transport and communication, rural development through the scheme of village and local development (Pant, 1962). Beside these, India has also helped in Civil Aviation,

Irrigation, Hydropower, Drinking Water, Health, Development of Industrial states, Telecommunication and livestock. A very significant part of Indian aid has been in the form of training facilities in various technical fields for Nepali nationals under the Colombo plan.

Nepal joined the Colombo plan in 1952 and gradually attracted the interest of other friendly countries in her economic development efforts. In the first instance, assistance provided under the Colombo plan by various countries was in the form of technical aid. Later the flow of capital aid also started to grow steadily. After joining the Colombo plan, Nepal got many opportunities to have aid from USSR, China, UK, France, Germany, Canada etc. which to contribute considerable amount of aid for various projects in Nepal. After the late 1970s, Nepal has been receiving foreign aid from Nepal Aid Group (Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Switzerland, Sweden, Saudi Arabia, United Kingdom, USA and eight multilateral donors as: ADB, WB, IMF, IFAID, OECD, FD, UNDP, IDA). Besides these Nepal has received foreign aid from other bilateral as well as multilateral agencies like: IBRD, SFP, WHO, UNICEF, UPEC fund, DAC etc.

When the Cold -war began, foreign aid became an integral part of the foreign policy of donors and recipient countries. Up until the end of the cold war in 1990, motives for foreign aid ranged from idealism, generosity and international solidarity to political expediency, ideological confrontation and commercial self-interest (HDR, UNDP, 1994). Also during that time, all other aid was in the form of grants. The bulk of assistance was directed toward developing agriculture, transportation, power generation and infrastructure like communication, industry, education and health. Until the mid-1960s, Nepal depended mostly, if not totally, on foreign grants for all its development projects and most of the grants were on bilateral basis. Beginning in the 1960s, some bilateral assistance was in the form of loans. The loan share of foreign aid was 40.34% for the year 2003/04 and 30.65% in 2004/05. Similarly the year 2009/10 and 2010/11, this ratio is decreasing as 22.55 % and 20.82% respectively. Similarly the year 2012/13 this ratio of Grant aid and loan assistance is 46.81% and 53.19% respectively.

Japan continued its support to Nepal in the field of economic cooperation that dates back to year 1956. Since that period, Nepal has been remarkably recognized as of the

major recipient countries of the Japanese aid in South Asia. Japanese assistance to Nepal has substantially increased after visit of their majesties king Mahendra and Queen Ratna to Japan in 1970. Japan has been contributing to Nepal according to priority given by Government of Nepal.

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 2007, the last meeting of Nepal aid group (now Nepal development forum) was held in Kathmandu, that was concluded with a pledge of US \$ 860 million to make available, the basis of aid utilization and performance results under poverty reduction program. In this meeting Government of Nepal had committed itself to poverty reduction goals and strategies, reform of the public expenditure management, effective management of the reform program implement effective management of the reform program implementation and public accountability and transparency.

Foreign aid has covered many fields like agriculture, public health, education, transportation, communication, electrification, industrialization, public administration, poverty alleviation, emergency relief, family planning and various programs for socio-economic developments in Nepal. Foreign aid has been playing a comical role toward fulfilling Nepal's development aspirations. It has remained instrumental in bringing about substantial improvements in the state of socio-economic development of the country. Hardly any sector of the economy exists which has untouched by foreign aid.

The concept of foreign aid is not sufficient in itself. Many writers and national and international institutions have given various definitions regarding the philosophy of foreign aid. Rosentain- Rodan distinguishing foreign inflow and aid said "Aid refers only to those parts of capital inflow which normal market incentive do to provide. It consists of long terms loans, grants, soft loans, sale of surplus products of currency payments and technical assistance."

History show that Nepal started receiving foreign aid in the forms of money and technical assistance after signing a four-point program with the USA on Jan 23, 1951. During the 1950's Nepal received aid in the form of grants for development of agriculture, transportation, infrastructure and power generation. In the first few years,

Nepal received only grants. After 1983/84, Nepal started receiving foreign loans, which is now 2/3 of the total development assistance.

Nepal needs a big push for the achievement of sustainable higher economic growth, macroeconomic stability and welfare to the people who are almost poor and some of them poorest of the poor, when we observe back the weak performance of the planned development over 56 years and its huge resources expenses. This widening development demand and supply gap does not mean zero development. It means that we could not accomplish the desired level of development so that Nepal remains in LDCs status.

In Nepal, domestic capital resources are inadequate to meet the financial requirement for the economic development. The present level of capital formation is too low and any substantial increase in saving and tax is not possible due to extreme low level of income and wide spread poverty. Tax base is very low; most of the taxes are indirect in nature which limits the possibility of mobilizing the tax revenue. Similarly, there is very little scope of public borrowing because of very low-income per capita, under development of money and capital market, etc. Deficit financing is also discarded because of its inflationary pressure on the economy. At this critical co, the condition the only alternative to pull the economy out of the vicious circle of poverty is the foreign assistance. Thus, foreign assistance is gainful for the acceleration of the growth mechanism in the under developed countries. In fact, it is supplement to fulfill the deficiency of the domestic capital.

Foreign aid has remained an integral part of the Nepalese Economy since the 1950s. Its importance is ever increasing due to the widening saving- investment and budgetary gaps. Foreign aid also helps to meet the gap between excess of imports in and exports of goods and services. Indeed, hardly any economic activities in Nepal, particularly relating to Nepal Government do not have an element of foreign aid attached to them; aid is all- pervasive to the country. Significant economic, social and political policy making itself is planned and conducted with foreign assistance. This horizontal and vertical pervasiveness in national economic management transcends into non-economic spheres of Nepal too, including social, political and regional dimensions and through its overall redistributive effects.

Long-term economic development which requires transforming the structure of production and trade is the main objective of international aid program. Recently, the distributional aspects of this process have been stressed by both donors and recipients implying that greater weight should be given to the reduction of poverty than to the mere growth of total income. Recipients and donors can agree on the broad objective of international aid long-term development and efficient use of resources.

Many economists and policy makers said that foreign aid plays a vital role in breaking the vicious circle of poverty that operates in an underdeveloped country. There is a great urge among the people of UDCs to break this vicious circle of poverty and to accelerate the rate of economic growth so as to raise their living standards. The high rate of economic growth, however, requires high rate of investment. But being poor their own saving are too low to permit them to undertake sufficiently high rate of investment required to get the economy out of low-level equilibrium. The foreign aid can play a critical role by supplementing the domestic savings and thereby ensure the desired rate of investment. Thus without foreign aid the growth rates will be lower and the economy may remain caught up in the vicious circle of poverty.

Foreign aid flow to Nepal was canalized by the formation of the Nepal Aid Group (NAG) comprising Japan, USA, France, India, Netherlands, Kuwait, ADB, IMF, IDA etc in 1976 (now called Nepal development forum). The NAG provides Nepal with 98.5% of the total volume of foreign aid. One of the topmost donor countries is Japan. Nepal and Japan are Asian nations with long and traditional background and have shared common value of life. Nepal and Japan established their diplomatic relationship in 1956. Nepal has been receiving Japanese aid in financial as well as technical terms in various sectors. We have witnessed the contribution of foreign aid in various aspects of the economy. Creation of institutions, building up of a pool qualified and skilled manpower, creation of socio economic infrastructure networks in the country are some of the areas where development partners have played distinct role (Ghimire, 1995).

Nepal shifted to constitutional monarchy and parliamentary democracy in 1990, moving towards democratization. However, with the inception of an armed Maoist movement start in 1996 engaging in terrorist activities and calling for the total abolition of the monarchy and the establishment of a communist state, the domestic

situation up to the present has been unstable. Nepal is a least developed country with the lowest income levels in the south Asian region and, as such, faces issues like poverty and social disparity. In this context, Japan, as Nepal's largest ODA provider has extended its assistance, focusing on regional development through improvements in the social sector and agriculture, which are priority issues of development.

Nowadays, government of Japan took various opportunities to call strongly on the government of Nepal to improve the situation for human rights in the country from the perspective of the importance of restoring basic human rights and freedoms have been curtailed in Nepal, Japan will give careful consideration to economic cooperation based on the assessment of trends in the status of human rights in the country. With the view to contributing to alleviating poverty and social disparities which are at the root of the Maoist insurgency, Japan provided its ODA to Nepal after February 2005 to increase food production (contributing funds for the purchase of fertilizers) and also provided food aid (contributing funds for the purchase of rice). When making such contributions, Japan continues to call on the government of Nepal to improve the condition of human rights in the country. Japan also provides support to the first constitution Assembly election in 2007 as well as second constitution Assembly election in 2014 for the political stability for Nepal, which is the main prerequisite for the development of Nepal. Japan contributes more support at the time of Maoist government in Nepal which shows that the aid of Japan is not the political interest in Nepal.

1.2 Statement of Problem

Nepal is a developing country in the world. Being a poor country Nepal is trapped in a vicious circle of poverty it has low level annual income, low level of living standard, low level of productivity, high rate of unemployment, low ability to pay tax, high gap between revenue and expenditure, high dependency on agriculture sector and so on. It is widely accepted that the foreign aid has played a crucial role in the development of developing countries like Nepal. They are moving around the vicious circle of poverty. To breakdown this type of vicious circle of poverty, country needs to be raise the income level of people engaged in agriculture, which requires capital and technical investment. Given the country's economic crisis, the Japanese official development assistance is important for Nepal. The problem is whether the Japanese

official development assistance (ODA) has been provided according to the needs and the priorities of Nepal and the Nepali people. Can a nation overcome to breakdown the vicious circle of poverty by the help of foreign aid? Another question is whether it has increased dependency or not. When we study about the Japanese aid inflow in Nepal, it seems to be controversy that on the one hand, the disbursement of the Japanese aid has been increasing steadily resulting and increase in expenditure, while on the other hand Nepal has been facing a problem of under spending at the same time. It may happen due to inefficiency of administration, non-availability of suitable contractor and resulting delays in the implementation of projects and also over calculation of donor countries.

Another problem arising while utilizing foreign aid is uncertainty of magnitude and character of foreign aid over the period of time. Elements of uncertainty have adverse effects. We can see whether there is transparency on the implementation of foreign aid, foreign aid helps to attain high and sustainable economic growth and to raise the living standard of the people if there is no leakage. Another fact is that foreign aid is motivated by some political motives which will lead to deep suspicions and prejudices against nationalism and sovereignty of developing nation which is more sensitive. To sum up, there are various problems in effective use of foreign aid by developing countries like Nepal such as Political instability, Rapid Growth rate of population, widespread poverty, Illiteracy, Weak institutional system, Leakage/corruption etc. What is the inflow of foreign aid to Nepal? What is the Trend of Japanese aid inflow in Nepal? Where is the sectoral allocation of Japanese aid to Nepal?

Japan has been providing different aids since 1956 now days Japanese aid covered the top position among the donor countries. The trend of Japanese aid inflow to Nepal in terms of its volume and sector wise allocation of Nepalese economy is concerted as major analysis subjects to the study.

1.3 Objectives of the Study

The major objective of the study will be to analyze the nature and magnitude of Japanese aid to Nepal in the economic development. The specific objectives of the study are the followings:-

1. To analyze the inflow of foreign aid to Nepal.
2. To observe the trend analysis of Japanese aid to Nepal.
3. To explore the sector wise aid from Japan
4. To Study about utilization of Japanese aid to Nepal.

1.4 Significance of the study

The basic objective of the efforts of any government comes to be the overall development of the economy thereby, rising the living standard of the people. The objective are set in its periodic plans and policies. The periodic plans have been financed with the help of foreign aid. Thus foreign aid can play vital role for the development of country. In Nepal industrial development is low and agriculture is also suffering from many problems. So that national output has not increased much, on the other hand population is increasing rapidly in as developing countries. These entire problem show that there is a need of strong fiscal and monetary policy, which is able to lead the economy from poverty to prosperity. So it is difficult to Nepal to grow rapid development of nation of country without foreign assistance. For the overall development of nation countries need much aid. Nepal gets much aid from outside as a form of grant, loan, technical assistance, scholarship etc. Nepal receiving foreign aid since 1951/52. Japan is a one of the major donor country for Nepal. Before 1950, Japan was involved in the reconstruction of her war ravaged economy. At that time, it was neither possible nor feasible for her to assist other countries, especially the underdeveloped economies. However, Japan being an original and independent member of the United Nations and also seems of its specialized agencies, contributed regularly her small subscription towards the collected international funds for the economic development programs. Japan joined the Colombo Plan in October, 1954; she gradually increased and strengthened her assistance which was limited mainly to technical assistance in earlier years.

Japan is highly developed country, which has a long tradition of entrepreneurship, hard work, dedication, technological development and overall attainment of physical well being. The economy of Japan has already attained the final stage of growth i.e. Age of high mass consumption of the Rostow's Growth Model a long time ago. Government industry cooperation a strong work ethic, mastery of high technology and a comparatively small defense allocation (about 1% GDP) have helped Japan advance with extraordinary rapidity to the rank of the largest and most technological powerful economy in the world after US.

Nepal is landlocked country whereas Japan is a sea locked country. In modern times, Nepal and Japan have bilateral relations for more than one hundred years. In 1899, the Buddhist Monk, Ekai Kawauchi visited Nepal on his search for the origin of Tibet Buddhism and stayed in this country seeking a chance to reach Tibet. In 1999, Nepal and Japan commemorated the centennial of Ekai Kawauchi who was 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.

The potential for the expansion of further cooperation between Nepal and Japan is very great. Nepal is facing serious backwardness in each and every sector of the economy and society. To alleviate poverty, to meet basic needs and to upgrade standard of living is not an easy task for Nepal. To meet such goals, there is urgent need to invest heavily in social sector, agricultural sector, industrial sector as well as infrastructural sector of Nepal in coming days. In such a situation one cannot ignore the role of Japanese aid.

1.5 Limitations of the Study

This study “Trend analysis of Japanese aid to Nepal” has following limitations:

-) This study is based on limited secondary data and informations no attempts have been made to examine the reliability of data to get specific conclusion or result.
-) This study is concerned with historical background of foreign aid to Nepal.
-) Mainly this research is concerned with the Japanese aid to Nepal.
-) The study is limited to analyze the contribution of Japanese aid in the different fields of development of Nepal from 1975/76 to 2012/13.
-) Foreign aid is used for to fulfill the resource gap of total expenditure and total revenue
-) The study omits the political and social effects, which are not quantitatively measurable.
-) This study generates information only on trend, structure and contribution of Japanese aid to Nepal.

1.6 Organization of the Study

The present study is divided into five chapters. The first chapter is devoted to the introduction by mentioning the basic matters like the problems, objectives, and Limitation of the study. The review of the literature is in chapter second. The chapter three is related to research methodology, Research Design, Data Processing and analysis of data, Chapter four covers trend and structure of Japanese aid, contribution of Japanese aid in Nepal and Major Finding. Chapter five covers Summary, Conclusion and Suggestions.

CHAPTER II

REVIEW OF THE LITERATURE

2.1 Conceptual Review

Foreign aid is generally considered important after the Second World War with the growing independence of many developing countries along Marshall Plan to uplift the economy .It has global significance especially in the developing countries. So, the scope of foreign aid has become more prominent and significant.

In the field of foreign aid Nepalese as well as foreign writers have written several books, booklet, journals and articles. Similarly, students of economics have submitted dissertations referring to foreign aid for the partial fulfillment of the master's degree and several articles in the local newspaper are being published.

2.1.1 Review of Foreign Aid

Foreign aid can be defined as the transfer of real resources from developed to less developed countries on concessional term. It is usually planned either to promote economic development or to provide humanitarian relief in emergencies. Aid is that concept which refers to the flow of capital and technical resources from the government of donor country to the government of recipient country. It includes bilateral and multilateral grants, concessional loans and technical assistance.

Since the second World War, foreign aid has been one of the most prominent policy tools that high income countries use for assisting low income countries to increase economic growth, improve population well-being and facilitate institutional development. In a 1970 resolution, the United Nations General Assembly specified that rich countries should aim to give 0.7% of their GNP to poor countries in the form of official development aid (ODA). “In recognition of the special importance of the role that can be fulfilled only by official development assistance, a major part of financial resource transfers to the developing countries should be provided in the form of official development assistance. Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7 percent of its

gross national product at market prices by the middle of the decade.” (UN 1970, paragraph 43)

Outlying the objectives of foreign aid in "International Aid for underdeveloped countries", Rosenstein Rodan (1961), one of the development economists as well as a very famous writer of economics, speaks about the external supply of capital. He states the purpose of an international program of aid is to accelerate economic development of countries up to a point where a satisfactory rate of growth can be achieved of self-sustaining basis. He also includes technical assistance as part of aid, although it is not a normal capital inflow, because it is a form of transfer of skills, which can result in economic growth. According to him, foreign aid assumes much importance as means to break "the vicious circle of poverty and to accelerate the growth rate." He argued that foreign capital inflows and foreign aid are not synonymous concepts. "Aid properly speaking refers only to those parts of capital inflow which normal market forces do not provide."

Rosenstein Rodan asserted that a reasonable amount of aid is determined by the absorptive capacity of the development countries' economy. He pointed out that aid should be for generating capacity or efforts and ideally aid was therefore to be allocated where it would have the maximum catalytic effect in mobilizing additional national resources. He listed out the major achievements of aid, which are: increase in life expectancy, fall infant mortality, the rate of growth, development of socio-economic overheads etc. Thus in the context of aid impact, Rodan opined that, aid has a positive role for development in the recipient countries.

G.M. Meier (1970) in his book "Leading Issues in Economic Development" writes that capital accumulation is regarded as a core process by which all other aspects of growth are possible. His major findings include:

-) Capital increases investment and investment needs more saving or foreign assistance.
-) In his view, foreign aid might have some limited use; aid should be given to those who help themselves. In short run, calculation of aid requirement through the industrial assumption needs to be looked at very carefully. Over the long run, it is not much of use; indeed it may be more harmful.

Meier finally concludes that public financial aid that is concessional finance or the grant equivalent in the capital flow has two fold functions. It supplements the LDCs low domestic saving and hence helps till the resource gap or saving gap is filled and also provides additional foreign exchange and thereby helps filling the foreign exchange gap.

2.1.2 Review of Foreign aid to Nepal

Mendal, (1986), in his book " Japan as a Model for developing Nations" has examined that " from 1951 until now, Japan's record can be used by currently developing nations as a guide" .In his view the developing countries should take lesson from Japan's development. Like almost all developing countries, Nepal is characterized by vicious circle of poverty at present. It can be broken out only by foreign assistance in the view of Tont Hagan, Mr. Hagen in his book "Nepal the kingdom of Himalaya's " has written a short chapter, 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.

S.R. Poudyal (1983), in his book, "Impact of foreign aid of Nepal's development" writes, "Foreign aid plays an important role in economic development of Nepal. In view of large share that it occupies in the total development expenditure of the country, foreign aid in Nepal is not only important but also essential. It thus important for Nepal to maintain political stability, non alignment and its territory free from the area of international tension so as to keep up and promote the flow of foreign aid and international goodwill."

He also examines the basic features of foreign aid in Nepal and assesses 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 prospect of raising internal capital. The growing dependence on aid indicates that the country suffers from diseases of aid psychosis whereby the compulsion is felt to go asking for more foreign aid. He remarks that the increased dependence on aid without the expansion in the product base may eventually prove harmful to the country. According to him attention should be centered on the following three issues-

-) He suggests 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.
-) He suggests that the country should try to shift the concentration of foreign aid from transportation infrastructure to the industries.
-) 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 these has led to wastage of such foreign assistance which retards the growth process.

Shree Ram Poudyal examines the effect of overall foreign aid (Grant plus loan) in the savings and growth of Nepalese economy. He employed the techniques of simple and multiple regressions with the time series data taken from the secondary sources covering the period 1964/65-1981/82. He found a positive effect of foreign aid on Gross Domestic products. His conclusion was that foreign aid to Nepal positively contributed to the country's GDP growth, but substituted domestic savings.

He also made a descriptive data analysis to know the contributing share of foreign aid in the total government expenditure. His study found that there was more than 50% contribution of foreign aid to financing the development plans. There existed a gap between foreign aid commitment and disbursement, and aid utilization capacity of Nepalese economy was the main problem in this regard. His data analysis also found a noticeable shift of foreign aid from transport and industry towards agriculture, power and social services.

Devendra Raj Pandey (1983), said that why in spite of these major accomplishments in the infrastructural field and increasing investment even in the productive sectors of the economy, should there be almost a consensus that overall poverty is increasing rather than subsiding in the country? This is the principle issue which all the five accompanying papers have tried to address. Their assessment is that agriculture has not benefited, the poor have been bypassed; the women have not even been understood, the relations of production and distribution of power have gotten worse and the technical assistance has not contributed to the improvement of administrative

capability. It is understood and agreed that aid to Nepal is for the socio-economic upliftment of its people, unlike the "economic support aid" that some major powers provide to support their client states. With the record of foreign aid's performance having been what it is, there is no alternative to taking steps in the direction suggested above; and the proposals are far from being radical. If the status quo is maintained any further, it will reinforce the arguments of Mishra and Sharma that foreign aid has been only an instrument of collusion between the urban elite and their rural counterparts and the country's ruling class and the donors. If this is the case, development aid to Nepal will be no different from the "economic support aid", of the type mentioned above. From the point of view of the needs and the problems of the Nepali people, such aid might as well be stopped altogether. The advantage would be that the contradictions can be settled internally, however painful a process that might be for some of us.

He further said- It is apparent that if foreign aid's role in the financing of Nepal's development effort remains unchanged, the future direction of Nepal's development will depend upon the donors even more than in the past. This is not to ask the donors that they assume the responsibility for Nepal's development. This would be absurd. This is only to alert them of the immense influence that they carry, knowingly or unknowingly, on the course that Nepal's development has taken and will take in the future. Taking an attitude of "meanwhile we plod along" has been counter-productive as far as Nepali people, the apparent beneficiary, are concerned.

In the process of economic development, a country may be faced with the situation where its domestic savings are short of investment requirements and where its import needs are larger than its export capacity for the purpose of attaining a targeted rate of economic development. By the help of foreign aid it can fulfill its desire of development filling the gap between savings and investment. So, foreign aid plays a supplementary role to solve the foreign exchange problem, the saving gap problem and technology gap problem which are hindrances for such countries at the initial state of economic development.

Mr. Dharmdasani in his book "Dynamics of foreign aid in South Asia (1988) - a case study of Nepal" writes Nepal has been taken as a main component in the study regarding to foreign aid. In which, an attempt has been made to analyze the nature, dimensions and implications of Nepal's dependence on foreign aid to sustain her

development process. The central theme of the study is that within the prevailing structure constraints of Nepal society, the process of development has itself contributed to the growth of external assistance.

The study has analyzed the data relating to foreign aid. In this context the study examined the role of foreign aid in the process of plan development up to 6th plan. Dharmdasani has also examined the inflow of aid from India, USA, China, Soviet Union and other small institutional donors. He has also analyzed the impact, impediments and implications of foreign aids in Nepal. On his study about donors of Nepal he says only a few countries among the bilateral donors in Nepal have contributed in a manner that can lead to self sustain growth.

In his conclusion, he pointed out that Nepal will have to be self-reliant and it has to find its' own development ideas not to remain at the perpetual mercy of the political and economic compulsion of the aid donors. He emphasized that instead of visualizing the future without aid; Nepal should cease to be dependent on aid as the prime mover of the economy.

There is a little doubt that aid helps to shift, and not merely alleviate, the burden of development financing. Nevertheless, some of the assumptions of the fungibility argument are too simplistic. First, it assumes a process of competitive 'bidding' between donors and recipients for the same projects which is unrealistic. Donors hold their own priorities which are as much determined by commercial opportunism as they are by objective considerations of the development needs of recipients. Second, the arguments makes the assumption that recipients governments hold finite lists of investment projects, whereas the existence of aid may allow an expansion in the whole sphere of investment possibilities. For example, major projects of technical complexity and requiring substantial capital inputs might not be considered feasible without donor involvement. Third, a growing proportion of aid is provided in non-project form, and therefore is not directly targeted at lists of investment projects. Finally, fungibles arguments are less applicable where aid finances almost the totality of the development budgets like Bangladesh, Somalia. (Stephen, 1990)

Dhungana, B. (1981), in his article " Foreign aid, A Free lunch for Nepal" puts forward the view that there is not even one sector which is free from foreign assistance. In his article, he has shown beautifully that the percentage of external assistance in different plan period of Nepal. Because of small resource flow foreign

aid has only marginal effect in recipient countries. He further adds that the net investment out of the gross foreign assistance come only about 25 percent.

Foreign aid holds critical importance for the Nepali economy. Its economic importance resides not only in the fact that foreign aid provides resources for the national budget; rather, it also helps bridge the gap between national savings and investment. Foreign aid also helps meet the gap between excess of imports in and exports of goods and services. Indeed, hardly any economic activities in Nepal, particularly relating to HMG do not have an element of foreign aid attached to them; aid is all pervasive to the country. Significant economic, social and political policy making itself is planned and conducted with foreign assistance. This horizontal and vertical pervasiveness in national economic management transcends into non-economic spheres of Nepal too, including social, political and regional dimensions and also through its overall redistributive effects.

Lately, foreign aid in Nepal has begun to be watched with critical reservation. It is publicly held that it has not brought about the economic and social development that it had promised. On the contrary, aid is held to have widened gaps in economic opportunities between the rich and poor. Foreign aid has also been charged of propelling the pace and magnitude of corruption in the country.

2.2 Report Review

Nepal is a land lock country with a population of about 30 million and per capita GDP of us dollar 721 per annum. The mainly concentrated in rural areas. Nepal's economy is dominated by agriculture, which accounts for over one third of GDP and engages more than two thirds of the population. Administratively Nepal is dived into 5 development regions, 14 zones, 75 districts, 191 municipalities and 3276 VDC. Nepal has been receiving external resources for over six decades and aid continuous to play an important role in her socio economic development. Nepal is a least developed country where the annual growth rate of GDP at factor cost is 2.3 percentage, opportunities of employment and income generation are merge due to the deficiency of socio-economic infrastructure. Most people of Nepal (i.e. around 78%) involve in traditional agriculture and more than 23.8 the total population lives below poverty line. The contribution of agriculture in GDP is 35.38 percent average of 12th plan. Nepal started planned development efforts from 2013 B.S by formulating and

implementing various development plans with major objectives of poverty reduction, improvement in the living standard of the people, equal distribution of income and wealth and maintaining economic stability with high rate of growth. The targeted economic growth is at least 6% 13th five year plan. The major objective of Japanese aid is to alleviate poverty and achieve sustainable higher economic growth rate through effective utilization of foreign aid.

Paudel (2006), did the thesis on "Foreign aid to Nepal with Special Reference to Japan." The board objective of the study was to analyze the impact of Japanese aid to Nepal. The specific objectives were to analyze the trend and structure of Japanese aid to Nepal and to analyze the impact of Japanese aid in the economic development of Nepal. The study based on secondary data. He concludes that Japanese aid to Nepal is in the form of grant, loan and technical assistance. Technical assistance is being provided in the form of equipment supply, training to Nepalese personnel and dispatch of Japanese expert to Nepal. He also mentioned proportion of loan has been increasing consistently with commensurate decline in grants, which imply that increasing debt burden.

Narayan Khadka (1991), in his book "Foreign Aid, Poverty and Stagnation in Nepal" analyzed the micro-economic performance of foreign aid in Nepal. He used the secondary time series data from 1961 to 1985 and employed descriptive method. The main objectives of the study were to examine the socio culture and political constraint to development, find the source wise and sector wise allocation of aid over the past three decades, and evaluate the micro-economic impact of aid on Nepalese economy. His findings were that:

-) Aid has not been effective for alleviating poverty in Nepal. On the contrary, aid has created socio-economic dualism by favoring urban-based and growth maximization development priorities.
-) It caused dualism between urban and rural areas in terms of consumption of public goods, (i.e. distribution of benefits), attitudes and life styles which are the consequences of economic and spatial inequities.
-) Neither aid neither contributed to maximization of the GDP nor helped establish institutional and political mechanism through which the distribution of benefits would trickle down. Hence aid failed to alleviate poverty and

development of the economy. Since it failed to encompass the majority population who live in the rural areas.

He has made some recommendations based on his major findings and concluded that external financial assistance makes the domestic economy more vulnerable to external shocks. Furthermore, he suggests that independent economic policy should be made regarding foreign aid so that it can mobilize in proper direction for the development of poor segment of the economy. Making the domestic economy more vulnerable to external shocks, contributing to evaporation of aid money, creation of aid elitism and it prevented in the introducing of desirable political reforms in the system of government.

Keshav P. Acharya (1998), in his report "A review of foreign aid in Nepal" says that although foreign aid did not substantially contribute to the economic development of Nepal, the important of foreign aid cannot be denied, because the domestic resources mobilization of Nepal is still very low to fulfill the investment requirement. In this respect new visions and new ways of aid utilization have to be through from both donors and recipients countries have to use these aids in the related or concerned sectors optimally not considering aid as a free gift.

He further stressed on the effective utilization of foreign aid after making list of priority of the urgent needs; of the recipient countries and most urgent projects will bar to be selected with full of enthusiasm for implementing effectively so that it can generate sufficient resources to back the aid. Corruption is burning problem, which is gradually destroying our economy. So that it should be minimized or checked even from the top level to the grass level by introducing anti-virus programs. Transparency and dedication should be maintained in the economy to deal with these viruses.

He study while discussing various factors affecting the utilization rate of foreign aid in Nepal, also discuss composition of aid (in the form of loans or grants), sources of aid (multilateral or bilateral), proportion of aid tying, government inefficiencies using time series data the study, then proceeds to examine contribution made by foreign aid indifferent facets of economic development in the country looking at its association with national output, saving, growth and trade. This study finds that national output and aid are positively associated as well it presents how foreign aid may affect national savings relatively by using views of some radical economists.

The mathematical measurement of the contribution of foreign aid may be derived from its marginal rate of productivity and elasticity. These are found to be 0.7 and 0.69 respectively for the 1975 to 1997 at 1983/84 prices. This means that one-rupee's equivalent of foreign aid raises productivity at the margin by a mere 70 paise. So, if the government spends one hundred rupees of foreign aid on various sectors, the value added in national output will only be seventy rupees; means thirty rupees is wasted. These parameters reflect the fact that aid is not been utilized very effectively. (Action Aid Nepal, 2003)

Dhungel (2006), did the thesis on the topic "Trend and Pattern of Japanese Aid." The major objective of the study was to analyze the contribution of Japanese aid in the economic development of Nepal. The specific objectives were to analyze the inflow of a foreign aid in Nepal, to analyze the trend and pattern of Japanese aid in Nepal, to analyze the contribution of Japanese aid in the economic development of Nepal and to suggest and recommended to improve effectiveness of foreign aid especially Japanese aid in the development of Nepalese economy.

Adhikari B. (2006) conducted a research on the topic "A History of Japanese official Development Assistance to Nepal." The purpose of this research was to analyze the Japanese Official Development Assistance (ODA) and shading lights on it's role in the process of economic development of Nepal. The study traced the Japanese aid trend to Nepal since the last half of the 1960's and examined in what ways Japan has managed to emerge as a major donor. He concluded that the flow of japanese aid in Nepal is significant, accounting for 40% of the total aid inflow in the country, Japanese ODA is increasing gradually year by year, and the amount of assistance in the development expenditure of Nepal is quite important. Japan is interested to boost of the agriculture sector of Nepal, because agriculture dominate the Nepalese economy and without its development the economy of the country may not be moved up. He also concludes that the Japanese economic assistance was strongly correlated with the recipients perception as well as donors motivations. From the donor side, it reveals that the motives of Japan have clanged gradually in accordance with the economic problems eccountered at home and international economy.

G.C. Gagan (2013) did the thesis on the topic "Japanese aid to Nepal 1990/91-2010/11". The major objective of the study was to analyze the trend and magnitude

and impact of Japanese aid in GDP. The specific objectives were to analyze the sector allocation and proper utilization of Japanese aid.

The researcher used the descriptive, quantitative and analytical research tools were used for study. The major finding were the correlation between Japanese aid and GDP is- 0.007 and since last decade Japan hat not provided loan and the effect of Japanese aid on GDP seems negligible. Japan has extended its assistance to grassroots projects the various sector in Nepal.

2.3 Research Gap

In this study, researcher tries to analysis carries out the data FY 1975/76 to FY 2012/13 of total aid, the total Japanese aid, priorities and sectoral allocation of Japanese aid to Nepal. There is several research works conducted on the foreign aid and few research works on Japanese aid to Nepal. They have not provided any information analysis about the sectoral allocation and what exists in the past and explores in the depth information which could be fruitful for better setting and achievement of Japanese aid to Nepal. Other research has provided impact and general introduction of aid, comparison of aid. But this research has tried to fulfill this research gap of total aid, total Japanese aid, sectoral allocation and priorities of Japanese aid to Nepal. So this study would be fruitful for those interested persons, parties, students, teachers, civil society, government officials academically and policy perspectives.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Most of the data and information are concerned with the past phenomenon of the performance either they are descript, tabulated and opinions. So this study is based on historical data. This study is based on analytical research method and explanatory by nature. The main point of this study is to find out the trend analysis of foreign aid with reference to Japanese aid towards the economic development of Nepal.

3.2 Source of Data

The present study is basically based on secondary data which is collected from the different sources.

Source of Secondary data

The secondary data of this research were collected from the following different sources.

- ❖ Publications ,budget speeches and Economic survey of various fiscal year of Government of Nepal ,Ministry of Finance (GON/MOF)
- ❖ Published documents of National planning Commission (NPC)
- ❖ Different publication of Central Bureau of Statistic (CBS)
- ❖ Published and Unpublished reports, articles and dissertations on the concerned subjects.
- ❖ Various books written by Economists and Scholars
- ❖ Publish report of JICA UNDP, NRB etc along with various magazines, newspapers and websites related to foreign aid and others.

3.3 Methods of Data collecting Procedure

The major secondary data relating to foreign aid is collected from Ministry of Finance International Economic Cooperation Coordination Division (IECCD), Embassy of Japan Nepal and Japan International Co-operation Agency (JICA) etc.

The data and Information are taken from available reliable sources for the authenticity of study and the sources are given in the relevant places.

Various facts have been collected from published and unpublished articles, booklets magazines provided by Ministry of Finance and National and International agencies such as CBS, NRB, JICA, UNDP, WTO etc

3.4 Data Processing Procedure

The collected data through secondary sources were tabulated in different ways according to the requirement of the study. Then the data of various years are compared on the basis of average, ratios and trend analysis.

3.5 Data Presentation and Analysis

In the process of data analysis, data are presented with the help of tables, bar diagrams, pie chart, and other diagrams and analyzed in descriptive manner according to the requirement of the study. The description is given the table so that it will be easy to understand.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Foreign Aid in Different Economic Plans of Nepal

Nepal is the country having dominated by villages. Around 86% people live in rural areas (CBS 2012). The economy of the country is agro-based, about 36.1% GDP is generated by agriculture. Major items of export are agriculture goods. Due to lack of technician, suitable conditions, proper facilities, our economy is underdeveloped. Hence without development of the scientific policy in land, labor and utility of agriculture products, the economy of Nepal cannot be developed in positive way. Nepal is one of the least developed countries facing a problem of under utilization of natural resources and other so much problems, such as lack of infrastructure development, low productivity, low rate of per capita income, low domestic resource mobilization poverty etc. Thus Nepal needs foreign assistance. In order to improve the living standard of people, Nepal needs to make new concept. So the government has started to make plan for economic development of Nepal since 1959. Up to the year 1956-2002, tenth periodic plans had implemented and the interim plan (2008-2010) is under implementation. In the periodic plans, the plans have tried to solve the different problems of people and initiate various concepts of development through the concept of planned economy.

The priority sector of different plans seems to be different. The first four plans emphasized the development of infrastructure, especially roads and electricity. However, achievement of the plan targets was poor. Under the 5th and 6th plans, emphasis shifted towards agriculture and industry sectors, poverty reduction has been explicitly stated as a development objective since the sixth plan (1980-1985), poverty alleviation was one of the major objective of the eight plan (1992-1997), the first National plan formulated after restoration of multiparty democracy in the year 1991. The ninth plan (1997-2002) adopted poverty alleviation as its sole objective. The tenth plan was the first plan of the 21st century. Based on the experiences of the ninth plan, programs promoting poverty alleviation and social justice were implemented more effectively in the tenth plan. About minimum 44 percent to maximum 100

percent of development expenditure was covered by foreign aid in various plan periods. Thus foreign assistance has played a significant role in the process of development of the Nepalese economy in different plans to solve the different problems of the economy. The following table shows the contribution of the foreign aid in public sector development expenditure of the different plan period.

Table 4.1
Share of Foreign Aid in Development Expenses in Different Plans in Nepal

(Rs. in millions)

Plan Period	Development Expenditure	Foreign Aid	Foreign Aid as % of Development Exp.	Percent of Japanese aid to total development expenditure
1 st Plan (1956-61)	382.9	382.9	100.0	-
2 nd Plan (1962-65)	614.7	478.3	77.8	-
3 rd Plan (1965-70)	1639.1	919.8	56.1	-
4 th Plan (1970-75)	3356.9	1509.1	45.0	-
5 th Plan (1975-80)	8870.6	4264.1	48.1	1.23
6 th Plan (1980-85)	21750.0	13260.0	61.0	5.39
7 th Plan (1985-90)	48345.4	23978.5	71.6	13.32
8 th Plan (1992-97)	111919.8	74355.0	65.5	19.91
9 th Plan (1997-02)	215154.4	114290.0	53.1	11.82
10 th Plan (2002-07)	234030.0	134620.0	57.5	5.31
Interim Plan(2008-10)	178990.0	140660.1	27.5	6.63
12 th three year plan 2011-2013	364340.00	175180.00	17.17	3.01
13 th plan 2014-2016	329976.00	189455.00	13.83	-

Source: Different plans, NPC and GON various issues of Economic survey, MOF/GON

The contribution of foreign assistance as a percent of development expenditure had gradually declined from 100% in the first plan to 45% in the fourth plan. The percent has been fluctuating after the fourth plan. In the fifth plan it has 48% while in the sixth plan it increased to 61%. No specific improvement in the period. Only 39% of total available foreign aid was utilized in the sixth plan period. In the 7th and 8th plan

period, the percentage of foreign aid out of development expenditure was 71.6 and 65.5 respectively. In the 8th plan period, it was decreased. During the ninth plan period, total foreign assistance is estimated to be 114290.0 million (at 1996/97 price). The tenth plan financed 57.5 percent of total development expenditure. In interim plan, the total development expenditure is 178990 million which 27.5% of the total expenditure. Similarly in 12th and 13th plan the total foreign aid in development expenditure is 17.17 and 13.83 respectively.

4.2 Resource Gap and Need for Foreign Aid

The gap between expenditure and revenue collected always remains anti-problems in the areas public finance. Nepal has been experiencing a serious and growing resource gap in her finance. Resource gap is the difference between expenditure and revenue. Like other less developed countries Nepal also encircled by the “Vicious circle of poverty”. Expenditure is more than revenue on one hand and population grow higher rate of population growth on the other hand which make difficult even to maintain the same speed of economic growth. From appendix II During 1980 to 2012 total expenditure is Rs 2899204.05 million and collection of revenue is Rs 2112285.70 million this shows that total resource gap is Rs 786918.35. Foreign aid is used to fulfill the resource gap between expenditure and revenue.

To fulfill the development plan outlay and narrow the resource gap the role of foreign aid considered to be a significant instrument. In an initial stage of development, foreign aid is indispensable. It is an economic necessity of development process. Even the highly developed countries of today received foreign aid in the initial stage of their development. In the form of aid, donors’ country gives training to the people of the recipient country in various subject or gives idea to solve the problem arising in the country, and also handed over capital in cash to the developing country for construction of projects and for development according to the need of the country.

4.3 Trends in Foreign Aid

The Marshall plan heralded the first systematic effort to provide foreign assistance as a post World War II strategy for restructuring war devastated western European countries. In those days USA and the erstwhile Union of Soviet Socialist Republics (USSR) completed with one another in extending foreign aid to newly independent

countries. Critics say that foreign aid at that time was used as a political instrument by both capitalistic and socialist blocs to gain political influence in their favor. The official rationale for providing aid was, however, to bridge the capital deficiencies and increase GNP figures in recipient countries.

In Nepal, the annual economic survey of the Ministry of Finance (MoF) presents only about a part of the total amount of annual incoming aid because the budgeted figure does not include the technical assistance that is provided by donors, and the contributions of International Nongovernmental Organizations (INGOs). However, researchers and academicians as a whole tend to refer to MoF data, as do parliamentarians and the mass media. In this study too, our trend analysis is based on MoF data. We make a subsequent attempt to include technical assistance and INGO contributions.

Trends in aid inflow over the past half century show four distinctive features. First the magnitude of aid has increased rapidly. The quantum of aid has more than tripled in each successive decade. In a period of 63 years (1975/76 -2012/13), the amount of aid coming in has risen to more than Rs. 646466.70 million. Table 4.2 presents the total amount of foreign assistance coming into Nepal in different decades.

Table 4.2
Magnitude of Foreign Aid in Different Decades

(Rs. in millions)

Description	1950s	1960s	1970s	1980s	1990s	2000s	2010s
Foreign Aid in Rs.	202.1	1738.8	34563.6	25323.5	14384.8	33227.7	107971.05
Foreign Aid in US\$	26.3	201.8	491.85	165.9.	220.4.	527.4	1300.86

Source: The Economic Survey, Various Years (GON/ MoF) Development cooperation report

Second, the composition (components, sources and sectoral disbursements) of foreign aid has been changing overtime. In terms of the future burden, the loan component of aid has been increasing. In terms of source, the share in total of multilateral loans has been increasing. Similarly, sectoral allocations of aid too have been changing.

Third, foreign aid is being used to finance an increasingly wide range of economic and social activities. One hardly finds any government endeavors any more that do not entail some element of aid. In fact, aid is being taken in to manage records of aid. Fourth, the country's absorptive capacity has been perpetually low. Foreign assistance data for the period 1975/76-2001/02 shows that on average less than three fifths (58.5%) of committed foreign aid was actually disbursed in this time. In FY 1990/91, when actual disbursement exceeded commitments was exceptional year. In recent years however, overall absorptive capacity improved to 88.21% in 1998/99 and 100.78% in 1999/00. It subsequently decreased to 60.08% in 2000/01 and 43.29% in 2001/02. In total commitment is Rs 969962.50 and total Disbursements is Rs 646466.70 66.64 percent out of total commitment .This fall is the outcome no doubt of political instability, lack of commitment on the part of the government, bureaucratic delays, the absence of institutionalization in development administration, corruption and the poor management of development projects.

In the FY 2012/13, of the total foreign aid receipt, the share of bilateral and multilateral aid as 49.60% and 50.40% respectively. Share of bilateral and multilateral aid in FY 2011/12 was 53.90% and 46.10% respectively.

4.4 Components of Foreign Aid

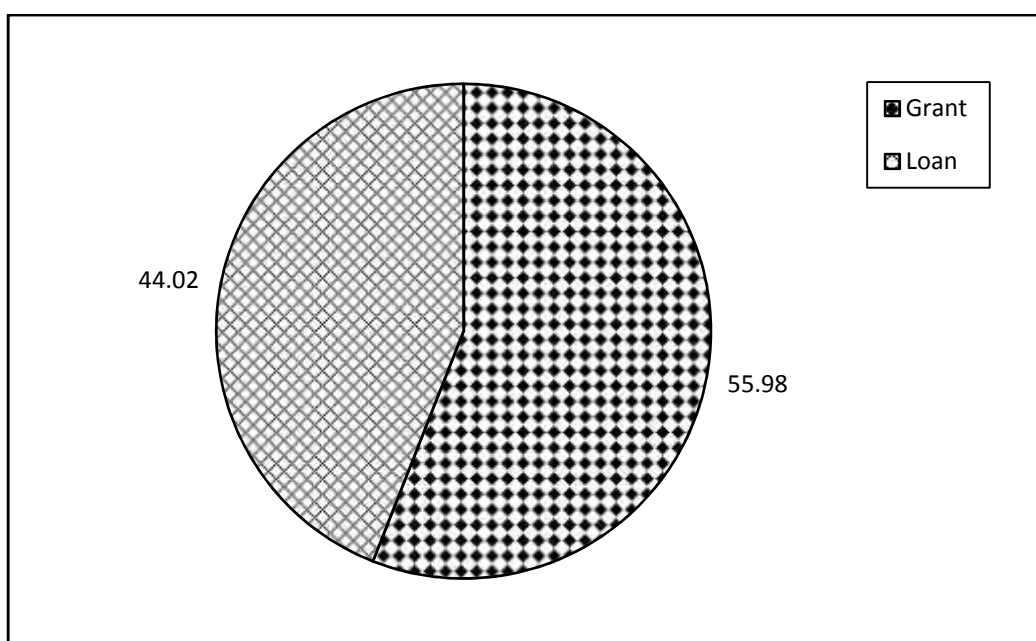
Along with an increase in its magnitude, the structure as well as composition of foreign aid has also changed over time. Below we present trends in sources (bilateral versus multilateral), components (grant versus loan) and sectoral disbursements of aid coming to Nepal.

4.4.1 Grants and Loans

Trends and composition of aid over time show that grant components have been declining progressively, whereas loan components have been increasing (Annex I). Although grant started coming in systematically from 1951 onwards, the first loan was acquired only a decade later, in 1962/63. When Nepal first received loan in 1962/63, it was just 0.55% of total aid disbursement. We can see substantial increase in foreign aid then after. However is the figure showing the composition of foreign aid flow in Nepal in different fiscal year. The picture can also be seen in the table annexed in annex I.

Analysis the trend from the annex I what we can infer is that the share of grant in the aid is gradually decreasing and conversely in the cash of loan. The loan component in foreign aid has been rising since 1970/71. It remained significantly lower than the grant component until 1982/83. As donors began to perceive extensive misuse of grant aid as compared to loan aid, the share of the loan component began to rise.

Figure 4.1
Share of Foreign aid in Grant and Loan



Share of foreign grant and loan occupied 69.35% and 30.65% of the total foreign aid during 2007/08. Figure 4.1 shows that total aid received Rs. 646466.70 million in 1975-2012 the share of grants and loans are 55.98% and 44.02% respectively this can be seen from annex I

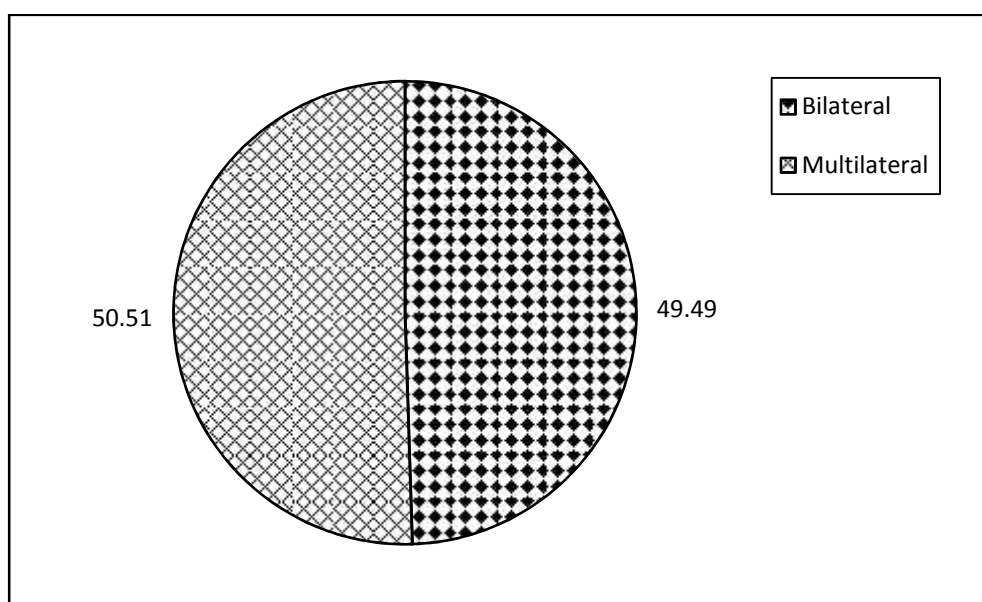
4.4.2 Bilateral and Multilateral Aid

Trends in foreign aid to Nepal show that multilateral assistance is gradually replacing bilateral assistance. Until 1956, aid was only being provided by India and the USA. Later other countries began contributing. China from 1956 onwards, the erstwhile USSR from 1959 and other countries including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Israel, Japan, Kuwait, The Netherlands, New Zealand, Norway, Saudi Arabia and Switzerland followed suit. Japan has been the largest bilateral donor for the past several years.

The Asian Development Bank (ADB), the World Bank and UN agencies are Nepal's major multilateral donors. ADB provided its first loan, an amount of US\$ 6.1 million, in December 1969 for the project entitled "Air Transport Development". Technical assistance had been provided a year earlier in the form of the first advisor to the Agricultural Development Bank of Nepal. The volume of aid inflow to Nepal through bilateral and multilateral sources is studied with the help of annex III.

The bilateral and multilateral sources of aid and their respective proportions in the total aid inflow. In FY 1975/76, the total aid inflow to Nepal was Rs. 505.6 million in which the bilateral sources was Rs. 330.7 million, i.e. 65.40% of the total aid and the multilateral sources was Rs. 174.9 million, i.e. 34.60% of the total aid inflow. Bilateral sources were most active in giving aid in the form of grants till 1975. Since the mid 1970s, however, the multilateral donors generally the international banks have been moved in with bigger aid packages over taking in terms of total aid disbursed to Nepal. In FY 1982/83, the total aid inflow was Rs. 2075.90 million in which the bilateral contributed 45.6% and multilateral 54.4% of the total aid increased 4 times, whereas the rise in the volume of bilateral aid was 3 times and multilateral aid was about 6.4 times of bilateral aid. From FY 1975/76 to 2000/01, in the last year the share of bilateral aid remained at 14.70 percent i.e. lowest value in the observation of 28 years. In FY 2002/03, the total aid remained at Rs. 15885.5 million in which bilateral is Rs. 10044.4 million and multilateral is Rs. 5841.2 million. The total aid was increased 30.4 times and multilateral aid increased 33.4 times in 2002/03, taking FY 1975/76 as a base year. The total aid inflow to Nepal during 2012/13 was Rs. 646466.70 million out of which multilateral aid consisted of Rs. 326520.90 million 50.51% and bilateral aid consisted of Rs 319945.80 49.49% million

Figure 4.2
Foreign aid from Bilateral and Multilateral



4.5 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 shows the time lag. Aids for many projects are committed in one year and committed aid is disbursed in subsequent years.

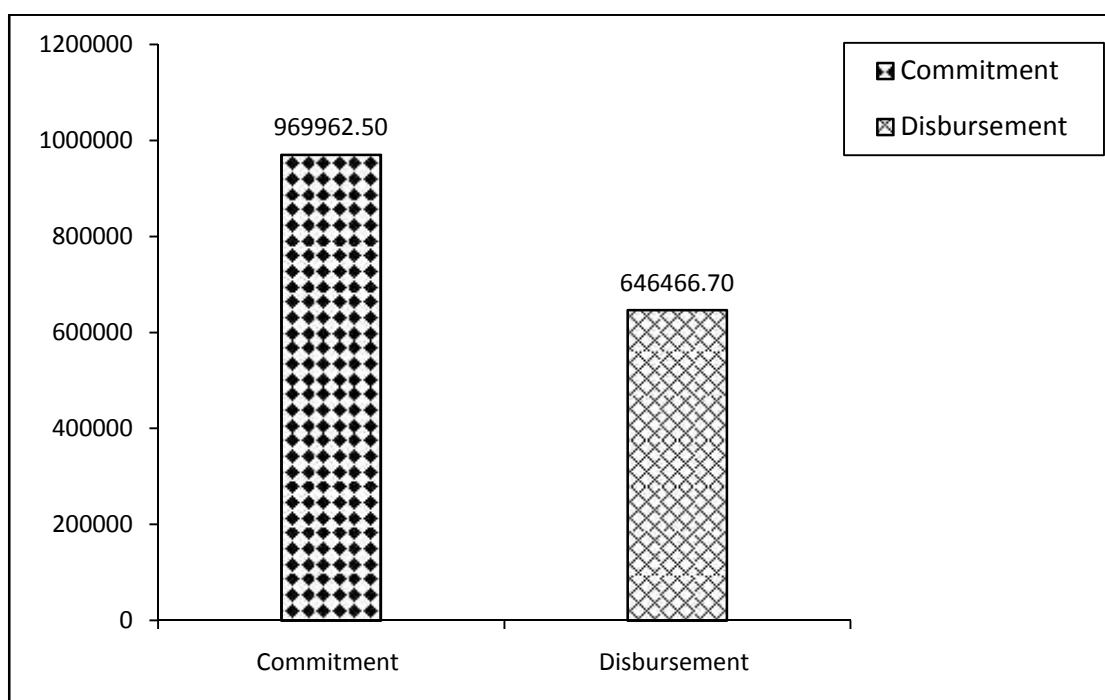
Between 1975/76 and 2012/13, aid commitments have always exceeded disbursement except in 1990/91 and 2005/06 when the amount committed was quite low. The proportion of disbursements to commitments over the last 38 years is usually quite low and erratic. There has been an improvement, however between 1993/94 to 1995/96 and 1998/99 to 1999/00 when the ratios of disbursement over commitments has become almost 90% in each of those years. Foreign aid commitment in FY 2004/05 stood at Rs. 38952.3 million and total disbursement is Rs 22657.30 million 58.17%.

The annex IV shows that in 1975/76, 35.7% aid is used in the total commitment aid. The percent of disbursement of foreign aid is again in low position with only 29.1% in 1976/77. Then, the percentage is fluctuating. The optimum aid is utilized in the year 1990/91 at 105.7 percent. At last in the year 2012/13 the percent has come to 48.47% of foreign aid disbursement in the total foreign aid commitment with bilateral as well

as multilateral (grant and loan). In total commitment is Rs 969962.50 and total Disbursement is Rs 646466.70 million 66.64% of commitment. It seems that hung parliament could not utilize the whole committed aid in Nepal.

Figure 4.3

Figure Aid Commitment and Disbursement



4.6 Japanese Aid in Nepal

Nepal has been receiving foreign aid from both the bilateral and multilateral sources. The pattern of foreign aid varies from projects to and donor. In other words, the structure of foreign aid corresponding to different sources is different and depends upon the policy of donor countries. The vital source of aid to Nepal is grant and loan both from bilateral and multilateral source. Japan has a significant share in the total aid flow to Nepal. Table 4.3 shows the total amount of Japanese aid from the fiscal year 1975/76 to the FY 20012/13

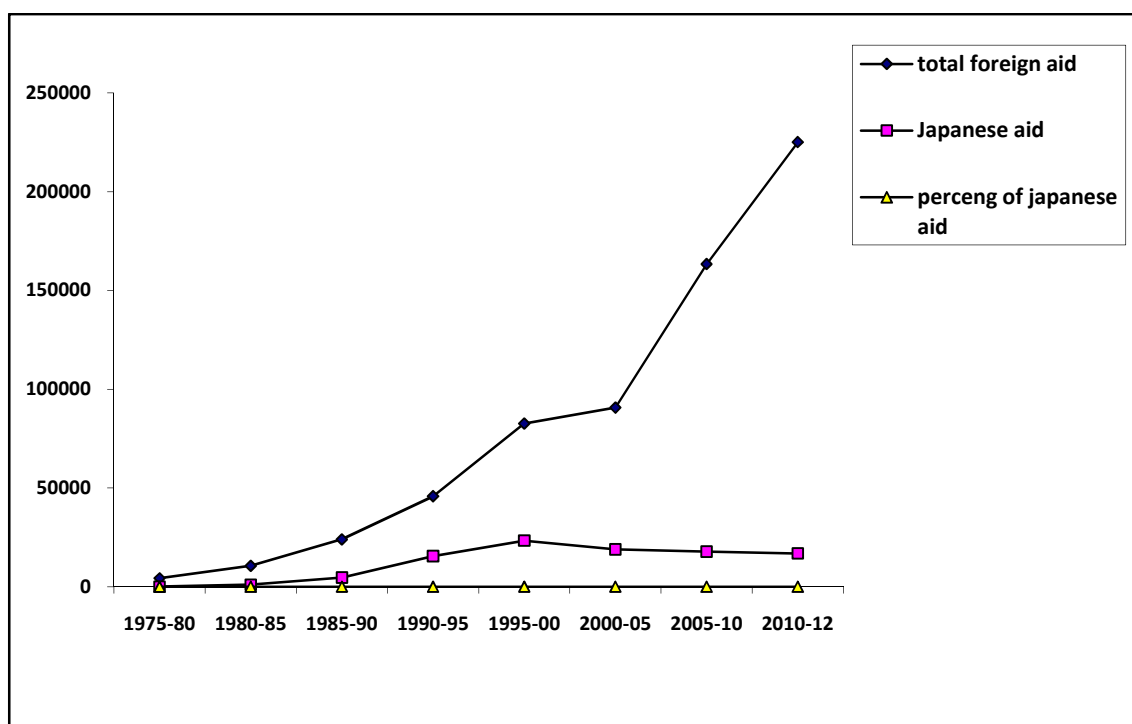
Table 4.3
Inflow of Total and Japanese Aid in Nepal

(Rs. in million)

Fiscal Year	Total Foreign Aid	Total Japanese Aid (grant + loan)	% of Japanese Aid to total
1975-80	4240.8	109.5	2.58
1980-85	10565.2	1060.9	10.04
1985-90	23978.4	4660.2	19.43
1990/95	45832.6	15540.90	3.89
1995/00	82580.02	23325.10	28.02
2000/05	90638.40	18938.5	20.89
2005/10	163317.80	17802.8	10.90
2010/2012	225047.68	16854.07	7.48
total	646466.70	98132.47	2.58

Source: 1) Economic Survey: Various Issues and Development cooperation report

Figure 4.4
Foreign Aid and Japanese Aid (Rs in million)



The table and figure shows the trend of total foreign aid to Nepal and share of Japanese aid. In the period 1975 to 1980 of five years average foreign aid was 4240.8 million per year its goes to 10531.20 million in average at the period 1981.85 and its goes to 24278.2 million in average at the period of 1985 to 1990. The share of Japanese aid during 1975-2012 is total foreign aid is Rs 646466.70 and out of this Japanese total is aid grant as well as loan was Rs 98132.47 million which is the 15.71 % of the total foreign aid . This shows that Japan is a one of the major donor country for Nepal.

4.6.1 Japanese Grant Assistance to Nepal

Grant assistance is the provisions of funds without obliging the development countries to repay them. This type of aid is principally given to developing countries with relatively low per capita incomes. Nepal started receiving grant assistance since 1951 and the donor country was USA. India was the second country that provided grant assistance to Nepal. Currently more than twenty countries are providing bilateral grant assistance to Nepal. There are many multilateral agencies that provide considerable amount of grant assistance to Nepal. Major multilateral agencies are ADB, WB, EU, and IMF and so on. Table 4.7 indicates that the trend of foreign grant as well as Japanese grant to Nepal. Foreign grants are gradually being placed by foreign loan and technical assistance. Nepal has been receiving grant assistance from Japan only after 1970.

The annex VI reflects that in FY 1975-80, the total grant assistance received by Nepal was Rs. 2623.70 million. In which Japan had shared the amount Rs. 109.5 million i.e. 4.17 percent of the total grant assistance. Japanese grant portion increased with very fluctuating rate. But in 1991/92 it decreased very much as 7.23 percent to the total grants assistance. In FY 2001/02, the share of Japanese Grant Assistance is Rs 2029.7 increases sharply and reached 79.66 % of the total grant assistance Rs 6686.20 million.

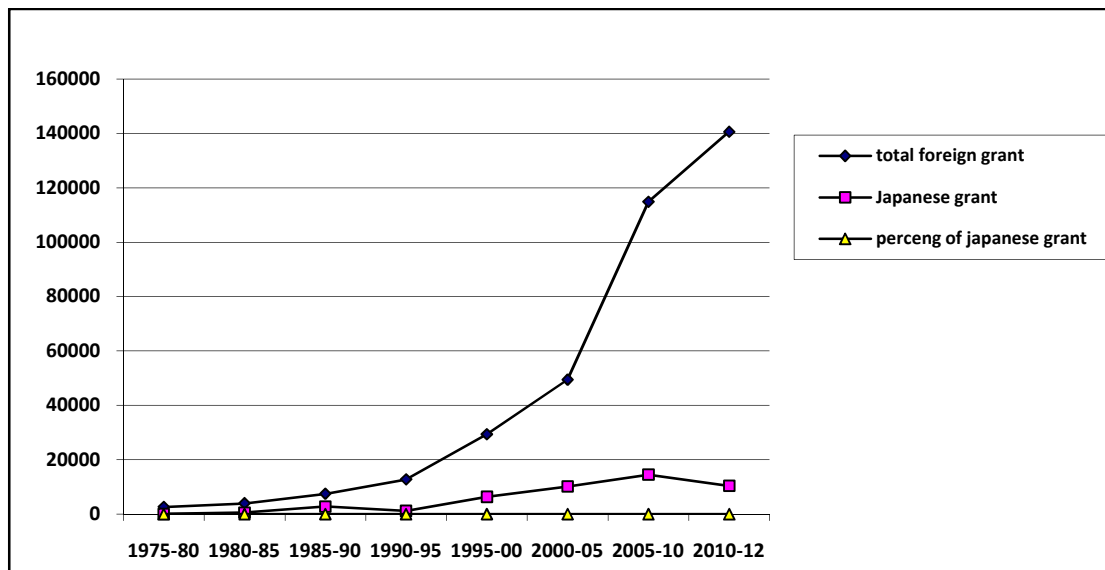
Table 4.4
Share of Japanese Grant to Total Grant

(Rs in millions)

Fiscal Year	Total Foreign Grant aid	Total Japanese grant Aid	% of Japanese grant in Total Grant Aid
1975-80	2623.7	109.5	4.17
1980-85	3951.1	532.9	13.49
1985-90	7459.9	2275.4	30.50
1990/95	12765.6	1212.6	9.50
1995/00	29353.42	6348.30	21.63
2000/05	49454.30	10169.90	20.56
2005/10	114877.80	14504.90	12.63
2010/2012	140633.48	10404.40	7.40
	358935.78	51769.71 (52.75)	14.30

Source: i) Economic Survey

Figure 4.5
Foreign Grant and Japanese Grant (Rs in million)



Above figure shows the trend of total grant to Nepal. After establishment of democracy by 1995/00 Grant assistance had increasing trend apart from the F/Y 1990/95 but if we study about Japanese grant assistance to Nepal against total grant assistance. We have lowest grant assistance. In F/Y 1975-80 and highest in 1985/90 i.e. 4.17% & 30.50 % of total grant assistance respectively in amount. It was 109.5 million & 2275.40 million respectively. In total foreign aid is Rs 361919.70 million

and Japanese grant assistance was Rs 51769.71 million 14.30 percent of the total foreign grant. If we study the trend it seems to ups &down in different Year.

4.6.2 Japanese Loan Assistance to Nepal

Japan provides ODA loans. The ODA loans, extends funds for development for long periods at low interest to developing countries. History of Japanese loan assistance is not long even though there is high significance is only direct bilateral loan providing government and it usually called “Japan 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 fulfils most of the following prerequisites (APIC, 1989):

-) 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 development countries as its main objective.

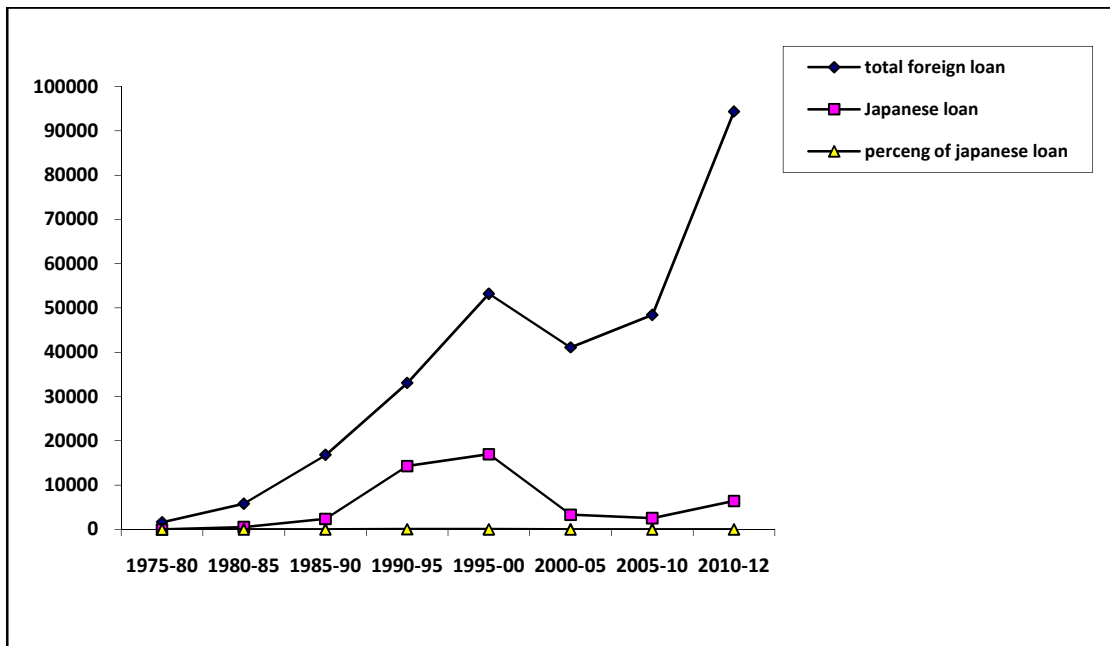
Japan started to provide loan assistance to Nepal from 1970s by export import bank of Japan through NIDC for the industrial development of Nepal. The second and third loan assistance was provided to Kulekhani Hydro Power project I and II respectively from Japan Overseas Economic Cooperation Fund (OECF) for power generation in Nepal. Loan assistance was provided to Udayapur Cement Plant Project in 1987. The share of Japanese loan to the total loan assistance to Nepal is presented in table 4.7 below.

Table 4.5
Share of Japanese Loan to Total Loan (Rs. in millions)

Fiscal Year	Total Foreign Loan	Total Japanese Loan	% of Japanese Loan to Total Loan
1975-80	1617.10	0	0
1980-85	5779.7	528.00	9.14
1985-90	16818.3	2384.8	14.18
1990/95	33067.0	14328.3	43.33
1995/00	53227.00	16976.8	31.90
2000/05	41104.1	3296.4	8.01
2005/10	48440	2558.00	5.28
2010/12	94414.2	6449.67	6.83
Total	299224.12	46362.76	16.29%

Source: i. Economic Survey of various years

Figure 4.6
Foreign Loan and Japanese Loan (Rs in million)



From annex VII shows the trend of loan paid to Nepal by Japan Govt. the F/Y 1997/98, 1998/99. Japan has not provided loan assistance. In F/Y 1994/95 the share of Japanese loan total loan reserved by Nepal is 87.15% which is Rs 6372.5 million out of foreign loan of Rs 7312.3 million. In the F/Y 1999/2000 the share of Japanese loan to total loan reserved by Nepal is 62.34% which is Rs 7364.3 million out of foreign loan of Rs 11812.20 million. It is lowest amount loan in the time period of 1990 to 2012 (i.e. after reestablishments of Democracy) In F/Y 2008/09 lowest 8.60 percent of total foreign aid. The trend fluctuation in providing loan assistance by Japan .If we study the trend we can get the loan provided by Japan was top in F/y 1994/95 is 87.15%. The total foreign loan was 284547.00 million out of this Japanese loan is Rs 46362.76 million 16.29 % of total loan aid.

4.6.3 Japan Sector Wise Assistance

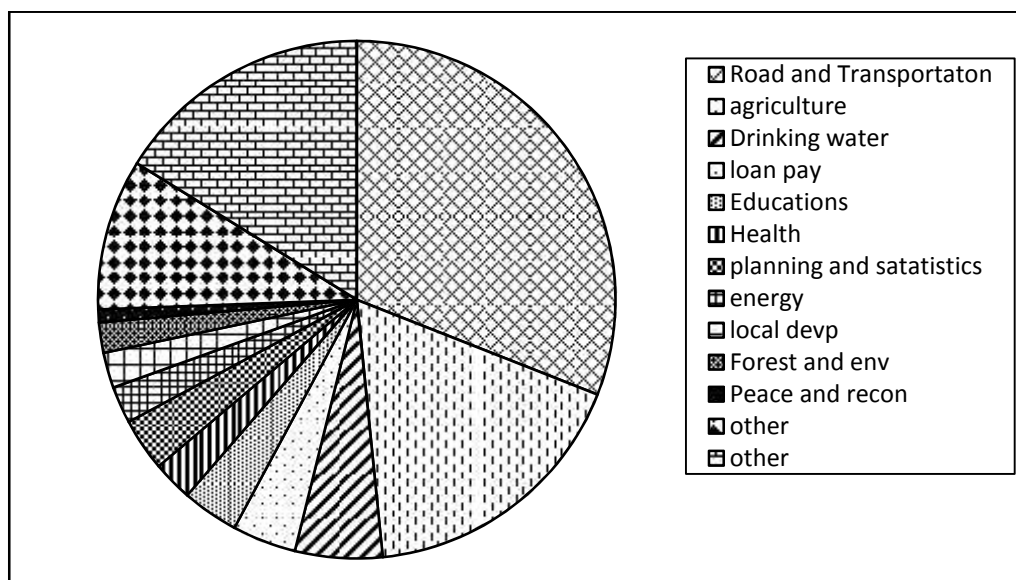
During the period 1975-2012, the volume of Japanese aid to Nepal has increased and its covers different sectors of Nepalese economy. Major Beneficiaries of the Japanese ODA are agriculture, road transportation, drf, alternative energy, communications, educations, food aid, civil aviation and planning and statistics sectors.

The sectoral allocation, in the beginning Japan gives the priorities in agriculture 18.73%, education 8.66%, and food aid 5.30%, alternative energy 7.59%, Irrigation. 0.64, Civil aviation 7.40 and communications 7.40 but present Japan give priorities in road transportation 34.19%, Drinking Water 6.03%, External loan payment 4.40%, local development 2.45, Planning and Statistics 3.63%, Women, Children and Social Welfare 2.29 and Peace and Reconstruction 0.89% etc.

Sector wise Japanese assistance to Nepal from 1970-2012 is figure 4.2 shown in below. Sector wise percent is in annex VIII

Figure 4.7

Sector wise distribution of Japanese aid from 1970-2012



The Japanese aid to different sectors. Japanese grant assistance has highly concentrated in agriculture, debt relief, Road, education, communication, energy and irrigation .Japanese loan assistance is focus on energy, disaster management, infrastructure, road and transportation.

In total average sector wise distribution of Japanese aid was agriculture 19.24%, alternative energy 2.56, Communications 3.55, Drinking water 6.03, Disaster mitigation 1.26, Education 3.90, External loan payment 4.40, Forest 2.09, Health 2.77, Food aid 1.77, Local Development 2.4 5, Civil aviation 2.47, Planning and statistics 3.63, Road and Transportation 34.19, supply other age 6.63, Women, Children and Social Welfare 2.29, Drf 3.47 percent respectively. It is obvious that Japan has been providing assistance to Nepal to develop various sectors of Nepalese

economy and the trend of aid has been change with the passage of time (In detail show in annex VIII).

4.6.4 Japanese Technical Assistance to Nepal

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 development of countries like Nepal. The term “technical assistance” is related to the human resource development. It is the fundamental force to drive the country along path of peace and prosperity. Technical assistance is aimed at bringing up personal that are technically required in taking a positive part in the task of nations economic and social development in developing countries.

Technical assistance is very importance to the national development management to carry out more efficient plan and project. Japanese technical assistance covers wide area of activities, from accepting the students from Nepal as well as the supply of technique and modern equipment in different field like health, education, agriculture, hydropower, transportation and communication. The foreign development partners of Nepal are not only helping through the government agencies but also through the INGOs. It has an important role in the economic and social development of Nepal.

Technical cooperation financial 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, it also includes that the local government and of non-government organizations which receive government subsidies (Japan’s ODA, 1996). Japan has been providing technical assistance to Nepal since 1954, prior to other kinds of assistance through different sources. But after the establishment of JICA in 1970 Japan is mainly providing technical assistance to Nepal through its executing organ and effective organization. JICA and Japanese volunteers are sent through JOCV. The Japanese Technical Assistance to Nepal is present in annex IX

JICA is running several types of technical program in Nepal under Japanese technical assistance. After the establishment of its office in Kathmandu, JICA is providing following technical assistance programs:

1. Agriculture Training and Extension Improvement Project
2. Community-Based Alternative Schooling Project

3. Strengthening the Monitoring and Evaluation System in Nepal
4. Promotion of Quality Cocoon Production and Processing Project
5. Support for improvement of Primary School Management
6. Various training Scheme in Japan

4.7 Major Findings

Foreign aid plays an important role in economic development of an underdeveloped country. Capital is considered a crucial factor in economic development. This is brought out by various growth models, which have been put forward by economists since Adam Smith as well as the actual experiences of economic development. But precisely this capital is scarce in underdeveloped countries. Foreign aid helps development by meeting this requirement. It also helps the underdeveloped countries in their Endeavour for development by providing the necessary modern technology.

In the context of the Nepalese economy, which is characterized by structural bottlenecks, large fiscal and external deficits and significant imbalances between savings and investment ratios, the role of foreign aid is particularly significant. The major findings arrived at from the analysis of the available data are listed below:

1. Sectoral disbursements of assistance from 1975/76 to 2012/13

a) Road Transportation sector	34.19 percent
b) Agriculture sector	19.24 percent
c) Drinking Water sector	6.03 percent
d) External loan	4.40 percent
e) Education sector	3.90 percent
f) Planning and Statistics	3.63 percent
g) Alternative energy	2.56 percent
h) Local Development sector	2.45 percent
i) forest/Environment	2.09 percent
j) Health sector	2.77 percent
k) Peace and Reconstruction sector	0.89 percent
l) Others-Social sector	17.85 percent

2. Total inflow from 1975-2012 is 646466.70 out of this total grant is Rs 361919.70 55.98% and total loan is Rs 284547.00 44.02% percent

3. The resource gap is Rs 786918.35 in total expenditure is Rs 2899204.05 and total revenue is 2112285.70.
4. Trends indicate that bilateral aid has declined from 65.4 percent to total aid in 1975/76 to 42.4 percent in 1985/86 and 28.1 percent in 1999/2000. It has been decreased to 30 percent in 2010/11.
5. Multilateral aid increased from 34.6 percent of total aid in 1975/76 to 57.6 percent in 1985/86; it has reached its peak in 2000/01 (85.3 %) and remain 50.40 percent in 2012/13.
6. Similarly commitment and disbursement is total commitment is Rs 969962.50 out of which Rs 646466.70 only 66.64 percent received total commitment. to use foreign aid utilization is the process of reducing gap between the commitment and disbursement. Mainly, disbursement depends on the absorptive and competitive power of the receiving country. Absorptive capacity depends on incentive, human resource, systematic and procedure of the aid giving and receiving.
7. Total foreign aid is Rs. 646466.70 million Out of this Japanese aid is Rs 98132.47 million 15.17 percent total aid. It shows that Japanese aid covered the top positions among the donor countries
8. Aid disbursements have been much lower that the commitments by huge proportion except for 1990/91 when disbursement is higher than commitment.
9. Japanese aid to Nepal is in the form of grant, loan and technical assistance. Technical assistance is being provided in the form of equipment supply, training to Nepalese personnel and dispatch of Japanese experts to Nepal.
10. The total amount of Japanese aid given to Nepal is increasing with the passage of time. The Japan grant assistance is 51769.71 million 52.75 percent of Japanese aid and 14.30 percent of total foreign grant. And loan assistance is Rs. 46362.76 million 47.25 percent of Japanese aid and 16.29 percent of total foreign loan. However, the proportion of Japanese loan assistance to Nepal is more than that of the grant assistance in total foreign aid.
11. In Nepal, Japan has extended its assistance to grass root projects in various sectors.
12. Japanese aid has covered various sectors of Nepalese economy and health education, agriculture, hydropower, and industry appear as the major sectors of Nepalese economy consuming Japanese aid.

CHAPTER V

SUMMARY, CONCLUSION AND SUGGESTIONS

5.1 Summary

Nepal is one of the poor countries in the world, which is in the pre-condition for take of the stage of the Rostows Growth Modal on lack for behind after developing countries. Nepal has need for foreign assistance to develop country. Being a poor country Nepal is trapped in a vicious circle of poverty it has low level annual income, low level of living standard, low level of productivity, high rate of unemployment, low ability to pay tax, high gap between revenue and expenditure, high dependency on agriculture sector, political instability, unstable government, lack of proper policy ,lack of skill man power, lack of public participation, widespread poverty, weak institutional system, leak/corruption and so on. It is widely accepted that the foreign aid has played a crucial role in the development of developing countries. Nepal has been victim of vicious circle of poverty. To breakdown this type of vicious circle of poverty, country needs to be raise the income level of people engaged in agriculture, which requires capital and technical investment. Given the country's economic crisis, the Japanese official development assistance is important for Nepal. The problem is whether the Japanese official development assistance (ODA) has been provided according to the needs and the priorities of Nepal and the Nepali people. Can a nation overcome to breakdown the vicious circle of poverty by the help of foreign aid? Another question is whether it has increased dependency or not.

Japan has been providing different aids since 1956 now day's Japanese aid covered the top position among the donor countries. The trend of Japanese aid inflow to Nepal in terms of its volume and coverage sector of Nepalese economy is since 1956, Japan has been involved as a development partner for the social and economic development program of Nepal. Loan assistance and Grant assistance were started from 1969 and 1970 respectively. From, 1970, Japan has started to provide Technical Cooperation with the dispatch of Japan Overseas Cooperation Volunteers (JOCVs) by JICA.

The flow of Japanese assistance in Nepal is significant in comparison with the total aid inflow i.e. Japanese assistance is increasing gradually year by year and the amount of Japanese assistance in the development expenditure of Nepal is quite discernible. Utilization of aid depends upon the behavior of policy makers given their own type (e.g. whether they are developmentalist or not) and determines how much from the aid from various sources goes to either development or non development expenditures.

Nepal received total foreign aid during 1975 to 2012 is Rs 646466.70 million, out of which Rs 361919.70 million 55.98 percent is of grant and Rs 284547.00 million 44.02 percent consists of total loan aid. In the initial period, most of the aid was in the form of grant but later on the share of loan has been increasing. Similarly commitment and disbursement is total commitment is Rs 969962.50 out of which Rs 646466.70 only 66.64 percent received total commitment. To use foreign aid utilization is the process of reducing gap between the commitment and disbursement. Mainly, disbursement depends on the absorptive and competitive power of the receiving country. Absorptive capacity depends on incentive, human resource, systematic and procedure of the aid giving and receiving. Foreign aid is used for to fulfill the gap between the total expenditure and total revenue gap. During the 1975 to 2012 total expenditure is Rs 2899204.05 million and total revenue is Rs 2112285.70 million this shows that resource gap is Rs 786918.35 .

Japanese assistance to Nepal has been mainly directed to agriculture, irrigation, alternate energy, health, road and transportation, education, communication, peace and reconstruction, planning and statistics, civil aviation, women, children and social welfare, labor, external loan payment local development and so forth. Hence Japanese assistance has occupied large field of Nepal's development.

5.2 Conclusions

Current study shows that foreign aid is neither necessary nor sufficient. Foreign aid itself neither good nor bad its degree of measurement of goodness and naughtiness depend in priorities and achievement. Foreign aid is productive and support in the early stage of development. Aid is like a pain killer and antibiotic which gives short terms relief. During the 1975-2012, total foreign aid is Rs 646466.70 million out of which is Rs 361919.70 million 55.98 percent grant and Rs 284547.00 million 44.02

percent loan. Foreign aid is used to fulfill the resource gap Rs 786918.35 million which is the gap of total expenditure Rs 2899204.05 million and total revenue Rs2112285.70 million.

The difference between commitment and disbursement is mainly due to poor absorptive as well as non-performance on the side of Nepalese counterpart. Every donor wants to provide the assistance in own priority on installment basis and they also observe the first performance in implementing the projects in different sectors. If they do not find good performance of utilizing the assistance they will not disburse the wholly committed aid. Some projects often show the negative impact in society and they even stop to provide the aid in such cases. Japan has provided Rs 98132.47 million during the review period study as aid which consists of Rs 51769.71 million 52.75 percent grant and Rs 46362.76 million 47.25 percent loans. The sectoral allocation, in the beginning Japan give the priorities in agriculture 18.73%, education 8.66%, food aid 5.30%, alternative energy 7.59%, Irrigation.0.64, Civil aviation 7.40 and communications 7.40 but present Japan give priorities in road transportation 34.19%, Drinking Water 6.03%, External loan payment 4.40%, local development 2.45, Planning and Statistics 3.63%, Women, Children and Social Welfare 2.29 and Peace and Reconstruction 0.89% etc.

Total foreign aid is Rs. 646466.70 million Out of this Japanese aid is Rs. 98132.47 million 15.17 percent total aid. It shows that Japanese aid covered the top positions among the donor countries.

5.3 Suggestions

On the basis of research the following corrective measures are recommended for the better priority selection and utilization of Japanese aid for effective as well as expected achievement.

1. We have to receive the assistance from Japan to improve the agricultural sector as per the objectives and goals of Agricultural Perspective plan (APP).
2. Foreign aid should be used as generator of the economic motivator for poor catalyst of accelerator and multiplier of growth.
3. Japanese assistance has been mainly allocated to road and transportations and hydroelectricity. It should be diversified to other sectors too for the balanced growth.

4. Some vested interests of Nepalese government officials should not be reflected in the document. It will demoralize Nepalese aspirations.
5. Parliament should make priorities list of projects with specific terms and conditions.
6. GON should accept and request foreign aid based on priority list.
7. Priorities should be given to local and national technician rather than foreign technician.
8. Every year GON present report of priorities its utilization and effective achievement in parliament and it should be published.
9. Nepal government should be aware of corruption, foreign interference, wastage of resource, cultural interference, saving biodiversity of Nepal etc.
10. Nepal government should do sufficient homework before accepting foreign.
11. Nepal has to set such objectives that focus on long-run capacity building rather than achieving short-term performance improvements.
12. Foreign aid should encourage private public partnership.
13. Government should not accept whatever donor offers. More research and assessments should be revised time and again.
14. Government should not take receiving aid as the greatest achievements.
15. Japan has to avoid aid conditionality and the flow of aid should be spontaneous.
16. While seeking aid for economic infrastructure. Nepal should not sacrifice its right to choose its development strategy in favor of the strategy suggested by the donor.
17. We have to define objectives in terms of outcomes that are going to be achieved not in terms of inputs that are going to be provided.
18. We have to put forward out strong economic interest in front of the circle of donor.
19. We should not take foreign aid in sensitive area like defense and judiciary.
20. We should not take foreign aid to external loan payment.
21. We should evaluate the donors' priorities and achievement for further priorities and achievement.
22. Nepal should have up to date information on her own development situation in various sectors of the economy.
23. Foreign aid is used for only to fulfill the resource gap.

Appendix I
Component of aid inflow in Nepal 1975-2012

(Rs. in millions)

Fiscal Year	grant	Percent in total	loan	Percent in total	Total aid inflow
1975/76	359.7	71.14	145.9	28.86	505.6
1976/77	392.5	70.48	164.4	29.52	556.9
1977/78	466.6	55.00	381.8	45.00	484.4
1978/79	599.3	60.57	390.1	39.43	989.4
1979/80	805.6	60.10	534.9	39.90	1340.5
1980/81	868.9	57.61	639.3	42.39	1562.2
1981/82	992.5	57.60	730.7	42.40	1723.2
1982/83	1090.1	52.51	985.8	47.49	2075.9
1983/84	876.6	34.41	1670.9	65.59	2547.5
1984/85	923.4	34.50	1753.0	65.50	2376.4
1985/86	1120.6	32.10	2370.9	67.90	3491.5
1986/87	1078.3	32.53	2236.1	67.47	3314.4
1987/88	1984.0	39.07	3094.3	60.93	5078.5
1988/89	1478.2	26.08	4188.7	73.92	5666.9
1989/90	1798.8	26.74	4928.3	73.26	6427.1
1990/91	1630.0	27.21	4360.0	72.79	5990.0
1991/92	1531	19.63	6269.4	80.37	7800.4
1992/93	3273.9	35.45	5961.7	64.55	9235.6
1993/94	2393.6	20.71	9163.6	79.29	11557.2
1994/95	3937.1	35.00	7312.3	65.00	11249.4
1995/96	4825.1	33.77	9463.9	66.23	14289.0
1996/97	5988.3	39.84	9043.6	60.16	15031.9
1997/98	5408.0	32.85	11054.5	67.15	16457.1
1998/99	4336.6	26.79	11852.4	73.21	16189.0
1999/00	5711.7	42.68	11812.2	57.32	17523.9
2000/01	6753.4	35.93	12044.0	64.07	18797.4
2001/02	6686.2	46.48	7698.6	53.52	14384.4
2002/03	11339.1	71.38	4546.4	28.62	15885.5
2003/04	11284.4	59.66	7629.0	40.34	18912.4
2004/05	13391.2	59.10	9266.1	40.90	23657.3
2005/06	13827.5	62.73	8214.3	37.27	22041.8
2006/07	15800.8	61.11	10053.5	38.89	25854.4
2007/08	20320.7	69.35	8979.9	30.65	29300.6
2008/09	26382.8	72.58	9968.9	27.42	36351.7
2009/10	38546.0	77.45	11223.4	22.55	49769.4
2010/11	45922.2	79.18	12075.6	20.82	57997.80
2011/2012	40810.3	78.64	11083.1	21.36	51893.40
2012-2013	53900.98	46.81	61255.50	53.19	115156.48
	361919.70	55.98	284547.00	44.02	646466.70

Source: Various Issue of Economic Survey

Appendix II
Resource gap in Nepalese Economy

(Rs. in millions)

Fiscal Year	Total expenditure	Total revenue	Resource gap
1980/81	4092.3	2418.2	1674.1
1981/82	5361.3	2679.5	2681.8
1982/83	6979.3	2842.6	4137.7
1983/84	7437.4	3409.3	4028.1
1984/85	8394.9	3916.6	4478.3
1985/86	10097.1	4644.5	5452.6
1986/87	11513.1	5975.1	5538.0
1987/88	14104.9	5350.9	8754.0
1988/89	18005.0	776.9	10228.1
1989/90	19669.3	9287.5	10381.8
1990/91	23549.8	10729.9	12819.9
1991/92	26419.2	13512.7	12905.5
1992/93	30897.7	15148.4	15749.3
1993/94	33597.4	19580.8	16166.6
1994/95	39060.0	24575.2	14484.8
1995/96	46542.4	27893.1	18649.3
1996/97	50723.7	30373.5	20350.2
1997/98	56118.3	32937.9	23180.4
1998/99	59878.8	37251.0	22328.0
1999/00	66272.5	42893.8	23378.7
2000/01	79835.1	48893.6	30941.5
2001/02	80072.2	50445.5	29626.7
2002/03	84006.0	56229.8	17776.3
2003/04	89442.6	62331.0	27111.6
2004/05	102560.4	70122.7	32437.7
2005/06	110889.2	72282.1	38607.1
2006/07	133604.5	87712.2	45892.3
2007/08	161350.0	107620.5	53729.5
2008/09	219661.9	169857.3	49804.7
2009/10	259689.1	218491.8	41197.3
2010/11	29536.34	245741.2	49622.2
2011/2012	33916.75	285371.4	53796.1
2012-2013	40482.47	340989.2	63835.5
	2899204.05	2112285.70	786918.35

Source: Various Issue of Economic Survey

Appendix III

Foreign Aid from Bilateral and Multilateral Sources

(Rs. in millions)

Fiscal Year	Bilateral	Multilateral	Total	Percent of Bilateral Aid in Total	Percent of Multilateral Aid in Total
1975/76	330.70	174.90	505.60	65.40	34.60
1976/77	370.90	186.00	556.90	66.60	33.40
1977/78	456.70	391.70	848.40	53.80	46.20
1978/79	538.80	450.60	989.40	54.50	45.50
1979/80	846.40	494.10	1340.50	63.10	36.90
1980/81	858.10	704.10	1508.20	54.90	45.10
1981/82	909.50	813.70	1723.20	52.80	37.20
1982/83	947.20	1128.70	2075.90	45.60	74.40
1983/84	983.20	1564.30	2547.50	38.60	61.40
1984/85	1156.30	1520.10	2676.40	43.20	56.80
1985/86	1481.10	2010.40	3491.40	42.40	57.60
1986/87	1078.40	2236.10	3314.50	32.50	67.50
1987/88	2251.60	2826.90	5078.30	44.30	55.70
1988/89	1707.70	3959.20	5666.90	30.10	69.90
1989/90	2544.90	3882.20	6727.10	39.60	60.40
1990/91	2939.90	3050.10	5990.00	49.10	50.90
1991/92	3597.30	4203.10	7800.40	46.10	53.90
1992/93	3638.50	5597.10	9235.60	39.40	60.60
1993/94	2627.10	8930.10	11557.20	22.70	77.70
1994/95	3988.70	7260.70	11249.40	35.50	64.50
1995/96	3533.30	10755.70	14289.00	24.70	75.30
1996/97	6012.70	9019.20	15031.90	40.00	60.00
1997/98	6297.70	10159.40	16462.50	38.30	61.70
1998/99	4167.60	12021.40	16189.00	25.70	74.30
1999/00	4929.10	12594.80	20607.62	28.10	71.90
2000/01	2771.20	16026.20	18797.40	14.70	85.30
2001/02	4675.30	9709.50	14384.80	32.50	67.50
2002/03	10044.40	5841.10	15885.50	63.20	36.80
2003/04	9013.20	9899.20	18913.40	47.65	52.35
2004/05	9230.80	14426.50	22657.30	39.01	60.90
2005/06	14755.50	6168.70	22041.80	70.52	29.48
2006/07	17706.10	19316.80	25854.30	47.82	52.18
2007/08	13106.40	36079.80	29300.60	26.65	73.35
2008/09	27196.50	20778.80	36351.70	56.69	43.31
2009/10	36900.00	59709.00	49769.40	38.20	61.80
2010/11	31820.00	74276.70	57997.80	30.00	70.00
2011/2012	52913.00	45265.70	51893.40	53.90	46.10
2012-2013	31620.00	32138.50	115156.48	49.60	50.40
	319945.80	326520.90	646466.70	49.49	50.51

Source: Various Issue of Economic Survey

Appendix IV
Foreign Aid Commitment and Disbursement

(Rs. in millions)

FY	Total Commitment	Total Disbursement	Disbursement as % of Commitment
1975/76	1415.7	505.60	35.71
1976/77	1911.2	556.90	29.14
1977/78	1956.2	848.40	43.37
1978/79	2417.3	989.40	40.93
1979/80	1911.6	1340.50	70.12
1980/81	4012.6	1508.20	37.59
1981/82	2886.1	1723.20	59.71
1982/83	2959.2	2075.90	70.15
1983/84	3099.6	2547.50	82.19
1984/85	5991.4	2676.40	44.67
1985/86	9504.2	3491.50	36.74
1986/87	8727.5	3314.40	37.98
1987/88	6449.6	5078.30	78.74
1988/89	10403.0	5666.90	54.47
1989/90	15830.0	6727.10	42.50
1990/91	5665.4	5990.00	105.73
1991/92	21084.1	7800.40	37.0
1992/93	20526.7	9235.60	44.9
1993/94	13172.2	11557.20	87.74
1994/95	12876.9	11249.40	87.36
1995/96	16537.3	14289.00	86.40
1996/97	39643.0	15031.90	37.92
1997/98	32022.1	16462.50	51.41
1998/99	18352.5	16189.00	88.21
1999/00	20448.0	20607.62	100.78
2000/01	31287.0	18797.40	60.08
2001/02	33227.7	14384.80	43.29
2002/03	43202.7	15885.50	36.77
2003/04	23738.0	18913.40	79.68
2004/05	38952.3	22657.30	58.17
2005/06	20924.2	22041.80	105.34
2006/07	37022.9	25854.30	69.83
2007/08	49186.2	29300.60	59.57
2008/09	47975.20	36351.70	75.77
2009/10	96609.00	49769.40	51.52
2010/11	106096.70	57997.80	54.67
2011/12	98178.70	51893.40	52.86
2012/13	237585.5	115156.48	48.47
	969962.50	646466.70	66.64

Source: Various Issue of Economic Survey

Appendix V
Inflow of Total and Japanese Aid in Nepal

(Rs. in millions)

Fiscal Year	Total Foreign Aid	Total Japanese Aid (grant + loan)	% of Japanese Aid to total
1975-80	4240.8	109.5	2.58
1981-85	10531.20	1060.9	10.07
1985-90	24278.2	4660.2	19.19
1990/91	5990.00	1781.9	29.75
1991/92	7800.40	1757.4	22.53
1992/93	9235.60	3501.4	37.91
1993/94	11557.20	1571.9	13.60
1994/95	11249.40	6928.3	61.59
1995/96	14289.00	5295.5	37.06
1996/97	15031.90	4994.4	33.23
1997/98	16462.50	1746.6	10.61
1998/99	16189.00	2894.5	17.88
1999/2000	20607.62	8394.1	40.73
2000/01	18797.40	7090.3	37.72
2001/02	14384.80	5326.2	37.03
2002/03	15885.50	2802.2	17.64
2003/04	18913.40	1494.6	7.90
2004/05	22657.30	2225.2	9.82
2005/06	22041.80	2783.1	12.63
2006/07	25854.30	3142.7	12.16
2007/08	29300.60	4235.8	14.46
2008/09	36351.70	2662	7.32
2009/10	49769.40	4979.20	10.00
2010-11	57997.80	5869.1	10.12
2011-12	51893.40	4409.01	8.50
2012-13	115156.48	6575.96	5.71
	646466.70	98132.47	2.58

Source: 1) Economic Survey: Various Issues and Development cooperation report

Appendix VI
Share of Japanese Grant to Total Grant

(Rs in million)

Fiscal Year	Total Foreign Grant aid	Total Japanese grant Aid	% of Japanese grant in Total Grant Aid
1975-80	2623.7	109.5	4.17
1980-85	4751.5	532.9	11.22
1985-90	7459.9	2275.4	30.50
1990/91	1630.00	296.9	18.21
1991/92	1531.00	110.7	7.23
1992/93	3273.90	78.6	2.40
1993/94	2393.60	170.6	7.13
1994/95	3937.10	555.8	14.12
1995/96	4825.10	145.5	3.02
1996/97	5988.30	531.9	8.88
1997/98	5408.00	1746.6	32.30
1998/99	4336.60	2894.5	66.75
1999/00	8795.42	1029.8	11.71
2000/01	6753.40	3793.8	56.18
2001/02	6686.20	2029.7	79.66
2002/03	11339.10	1101.1	24.71
2003/04	11284.40	1305.6	13.24
2004/05	13391.20	1939.7	16.62
2005/06	13827.50	2453.3	20.13
2006/07	15800.80	2812.7	19.89
2007/08	20320.70	4235.8	20.84
2008/09	26382.80	1805	6.84
2009/10	38546.00	3278.1	8.50
2010/11	45922.20	3579.4	7.79
2011/12	40810.30	2884.5	7.07
2012-13	53900.98	3940.5	7.31
	361919.70	51769.71(52.75)	14.30

Source: i) Economic Survey

Appendix VII
Share of Japanese Loan to Total Loan

(Rs. in millions)

Fiscal Year	Total Foreign Loan	Total Japanese Loan	% of Japanese Loan to Total Loan
1975-80	1617.10	0	0.00
1980-85	5779.7	528	9.14
1985-90	16818.3	2384.8	14.18
1990/91	4360.00	1485	34.06
1991/92	6269.40	1646.7	26.27
1992/93	5961.70	3422.8	57.41
1993/94	9163.60	1401.3	15.29
1994/95	7312.30	6372.5	87.15
1995/96	9463.90	5150	54.42
1996/97	9043.60	4462.5	49.34
1997/98	11054.50	0	0.00
1998/99	11852.40	0	0.00
1999/00	11812.20	7364.3	62.34
2000/01	12044.00	3296.4	27.37
2001/02	7698.60	0	0.00
2002/03	4546.40	0	0.00
2003/04	7629.00	0	0.00
2004/05	9266.10	0	0.00
2005/06	8214.30	0	0.00
2006/07	10053.50	0	0.00
2007/08	8979.90	0	0.00
2008/09	9968.90	857	8.60
2009/10	11223.40	1701	15.16
2010/11	12075.60	2289.7	18.96
2011/12	11083.10	1524.51	13.76
2012/13	61255.50	2635.46	4.30
	284547.00	46362.76 (47.25)	16.29

Source: I. Economic Survey of various years

Appendix VIII
Sector Fragmentation of Japan

Sector/Donors	1970-2010	2011/12	2012/13	Average
Agriculture	18.73	15.0	4.11	12.61
Irrigation	0.64			0.21
Alternate Energy	7.59	0.1		2.56
Communications	7.40	1.9	1.36	3.55
Drinking Water	0.02	13.0	5.06	6.03
Disaster mitigation	3.77			1.26
Education	8.66	1.2	1.85	3.90
External loan payment	0	0	13.2	4.40
Forest/ environment	0.67	1.9	3.69	2.09
Health	2.51	2.9	2.90	2.77
Food aid	5.30			1.77
Labor	0	0	0.27	0.09
Local Development	0	3.3	4.05	2.45
Other –Social	1.20	1.1	0.64	0.98
Other infra public facility	4.32			1.44
Civil aviation	7.40			2.47
Peace and Reconstruction	0	2.0	0.67	0.89
Planning and Statistics	2.35	6.9	1.65	3.63
Road Transportation	15.16	53.5	39.9	34.19
Supply other age	0.78	0.1	19	6.63
Women, Children and Social Welfare	0	3.1	1.65	2.29
Drf	10.41	0	0	3.47
Other	0.96	0	0	0.32
Total grant	100	100	100	100

Source embassy of Japan and Development cooperation report

Appendix IX

Some Major projects implemented under Japan's ODA in Nepal in various fields

Social Sector

S.N	Project	Grant Assistance		Technical Assistance(Year)
		Year	Amount	
1	Establishment and Expansion of TU Teaching Hospital	1981-1982 1990-1992	J¥ 5,942 million	1980-1994
2	Construction of Primary Schools under BPEP and EFA	1994-1997 1999-2001 2003-2005	J¥ 6,271 million	-
3	Construction of the National Tuberculosis Center	1987	J¥ 1,431 million	1987- 2005
4	Expansion of Kanti Children's Hospital	1984, 1993-1994	J¥ 2,065 million	-
5	Improvement of Storage Facilities of Iodized Salt	2000- 2001	J¥ 1,453 million	-
6	Community Based Alternative schooling project	2004-2010		
7	Support for Improvement of primary school	2008-2011		
8	School Health and Nutrition Project	2008-2012		

1. Agriculture:

S.N	Project	Grant Assistance		Technical Assistance(Year)
		Year	Amount	
1	Expansion of Horticulture Center	1985	J¥847million	1985-1990 1992-1999
2	Terai Ground Water Development Project	1989	J¥452million	1991-1994
3	Janakpur Agriculture Development Project	1975, 1976	J¥240million	1974-1984
4	Center for Quality Improvement Center (Irrigation)	1984-1985	J¥750million	1995-1998
5	Natural Water Fisheries Project	1990-1991	J¥499million	1991-1998
6	Sericulture Promotion	-	-	1995-2002 2006-
7	Himalayan Tea Technology Outreach and Extension Project	-	-	2004-2007
8	Food Aid k r	2003-2010	J¥3000million	
9	Community Development and forest/Watershed Conservation project –I & II	1995-2006		
10	Agricultural Training and Extension Improvement Project	2004-2010		

2. Economic Infrastructure:

S.N	Project	Loan Assistance		Grant Assistance		Technical Assistance (Year)
		Year	Amount	Year	Amount	
1	Kulekhani Hydroelectric Project	1975, 1978	J¥ 4,005 million	-	-	-
2	Kulekhani No. 2 Hydro Power Station Project	1981, 1983	J¥ 12,150 million	-	-	-
3	Udayapur Cement Plant Project	1987	J¥ 18,770 million	-	-	-
4	Kulekhani Disaster Prevention Project	1990, 1996	J¥ 6,194 million	-	-	-
5	Kaligandaki "A" Hydroelectric Project	1996	J¥ 16,916 million	-	-	-
6	Improvement and Development of Power Transmission and Distribution System in Kathmandu Valley	-	-	1980 1982 1985 1986 1992- 1995 2002 2003	J¥ 11,233	-
7	Expansion and Development of the Medium-Wave Radio Broadcasting Network	-	-	1988- 1989	J¥ 2,871 million	-
8	Reconstruction of Bridges in Kathmandu	-	-	1990- 1992	J¥ 1,849 million	-
9	Improvement of Kathmandu Water Supply Facilities	-	-	1992- 1993 2001- 2003	J¥ 5,616 million	-
10	Construction of Water Induce Disaster Prevention Technical Center	-	-	1993	J¥ 842 million	1991-2006
11	Construction of New Bagmati Bridge at Thapathali	-	-	1993- 1994	J¥ 1,292 million	-
12	Modernization of Tribhuvan International Airport	-	-	1993- 1994 1999	J¥ 4,831 million	-
13	Improvement of Intersections in Kathmandu City	-	-	2000- 2001	J¥ 1,062 million	-
14	Improvement of Water Supply Facilities in Urban and Semi-urban Centers	-	-	2005	J¥ 1,124 million	-
15	Construction of Banepa-Sindhuli Road section I IV, V			1996- 2008	J¥ 3996 million	
16	Construction of Kawasoti Sub-Station			2007- 2008/	J¥ 847 million	
17	Project for the Improvement of Kathmandu-Bhaktapur Road	2008- 2012	J¥ 2689 million			
18	Introduction of Clean Energy by solar Electricity Generation system	2010- 2012	J¥ 660 million			

3. Environment:

S.N	Project	Loan		Grant Assistance		Technical Assistance
		Year	Amount	year	Amount	
1	Community Development and Forestry / Watershed Conservation Project	-	-	-	-	1994-2005
2	The Study on the Solid Waste Management in Kathmandu Valley	-	-	-	-	2003-2007
3	Phewa Lake Environment Awareness and Capacity Building	-	-	-	-	2004-2007

4. Human Resource Development: (As of JFY 1982 to JFY 2012):

S.N	Area	Number of Participants
1	Acceptance of Trainees	4697person
2	Dispatch of JICA Experts	1746 person
3	Dispatch of Mission Members	3314 person
4	Dispatch of JOCV Volunteers	996 person
5	Dispatch of Senior Volunteers	108 person
6	Project type Technical Cooperation	115
7	Development Studies	
8	Provision of Equipment	7112.04 in Million yen
9	Total Technical Cooperation	58272 Million yen

Source embassy of Japan

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