

FOREIGN AID TO NEPAL: A COMPARATIVE STUDY OF JAPANESE AND US AID

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LETTER OF RECOMMENDATION

This thesis entitled “**FOREIGN AID TO NEPAL: A COMPARATIVE STUDY OF JAPANESE AND US AID**” has been prepared by Mr. Kapil Dev Pant under my supervision. I hereby recommend this thesis for examination by the thesis committee as a partial fulfillment of the requirement for Degree of **MASTERS OF ARTS IN ECONOMICS**.

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LETTER OF APPROVAL

This thesis entitled “**FOREIGN AID TO NEPAL : A COMPARATIVE STUDY OF JAPANESE AND US AID**” submitted by Mr. Kapil Dev Pant to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University in partial fulfillment of the requirements for the degree of **MASTER OF ARTS in ECONOMICS** has been found satisfactory in scope and quality. Therefore we accept this thesis as a part of the said degree.

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I am responsible for all errors

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ABBREVIATIONS

ADB	Asian Development Bank
AID	Agency for International Development
BoP	Balance of Payment
CBS	Central Bureau of Statistics
CEDECON	Central Department of Economics
CIA	Central Intelligence Agency
DAC	Development Assistance Committee
EEC	European Economic Cooperation
EIBJ	Export Import Bank of Japan
FACD	Foreign Aid Coordination Division
FY	Fiscal Year
GDP	Gross Domestic Product
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GNP	Gross National Product
HDR	Human Development Report
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association of World Bank
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JOCV	Japan Overseas Cooperation Volunteers
JODC	Japan Overseas Development Cooperation
JOTCA	Japan Overseas Technical Cooperation Agency
LDCs	Least Developed Countries
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
NBER	National Bureau of Economic Research, Cambridge
NDF	Nepal Development Forum

NPC	National Planning Commission
NRB	Nepal Rastra Bank
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of the Petroleum Exporting Countries
OUP	Oxford University Press
SWATEE	South Asia Watch on Trade, Economics and Environment
TU	Tribhuvan University
UK	United Kingdom
US	United States of America
USAID	United States Agency for International Development
UN	United Nation
UNCATAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNICEF	United Nations International Children's Emergency Fund
WB	World Bank
WHO	World Health Organization
WDR	World Development Report
\$	US Dollar

CHAPTER ONE

INTRODUCTION

1.1 General Background

Foreign aid can be defined as economic assistance from one country to another, the recipient typically being a less developed country (LDC). Aid is usually intended either to provide humanitarian relief in emergencies, to promote economic development, or to finance military expenditure. Aid may take the form of outright gifts of money, which may be tied to purchases from the donor, or untied and available for expenditure anywhere. It may take the form of soft loans, on terms easier than those available to the borrower in world capital markets. Aid may also be given in kind, including food, plant and equipment, military supplies or technical assistance (Dictionary of Economics, Oxford University Press 2002).

Official Development Assistance (ODA) is defined as government aid designed to promote the economic development and welfare of developing countries. Loans and credits for military purposes are excluded. Aid may be provided bilaterally, from donor to recipient, or channeled through a multilateral development agency such as the United Nations or the World Bank. Aid includes grants, "soft" loans and the provision of technical assistance. Soft loans are those where the grant element is at least 25% of the total. (OECD, 2010). The broader definition of Foreign aid subsumes all money classified as official development assistance and further incorporates military assistance, political development programs, export promotion, debt forgiveness and non-concessional lending by all bilateral and multilateral organizations. Foreign aid itself can be distinguished into various categories based on its purpose and effects, intended upon the recipient country. Financial assistance could be disbursed for various reasons including strategic, political, economic or cultural reasons, which in turn is used as a basis to differentiate various types of donors.

Foreign aid is a policy of giving financial and technical aid to other countries, such as policy may be undertaken for various reasons; emergency relief in time of war, famine, flood or other disaster, military aid for defense against a common enemy; enlightened self-interest, that is building up a poor country in order to improve one's own commerce or to help world trade in general. Aid make take a variety for forms; direst gift of money and equipment, short term or long term loans, with or without specific conditions of use and or terms of repayment, technical assistance and training programs, aid for particular projects or for broad development programs; sales of surplus food and other goods at advantageous

prices (Dictionary of Business and Economics, Collier Macmillan Publishers 1997).

However this general concept of foreign aid is not sufficient in itself. Many writers and many national and international institutions have given various definition regarding the philosophy of foreign aid. Rosenstein Rodan said that, “Aid refers only to those parts of capital inflow which normal market incentive do not provide. It consists of long terms loans, grants, soft loans, sale of surplus products for currency payment and technical assistance”.

Whatever way foreign aid is defined, it does not make any difference because its main theme is economic aid or external assistance or economic assistance. It is generally intended either to provide humanitarian relief for the country or for accelerating economic growth or development mainly in developing the LDCs, where the development process is not moving smoothly. This sort of assistance consists of grants, loans, technical assistance etc. and can be provided either multilaterally or bilaterally. Where bilateral aid is offered directly on government to government basis and multilateral aid is channeled through international aid providing agencies such as IBRD, IDA and OPEC etc. In bilateral aid assistance will be receive from the individual donors, where as in the case of multilateral aid or assistance will come from international agencies. Likewise aid extended by non-governmental organization or individual is called private aid.

There are two components of foreign aid, viz; grants and loans. Grants component of aid are free resources for which no repayment is required. A loan with at least 25 percent of grant component is considered ad foreign aid. Grant components are measured in terms of interest rate, maturity and grace period (interval to first payment of capital) of a loan. It measures the concessionality of loan in the form of present value of an interest rate below the market rate over the life of loan.

Foreign aid is classified into various forms on the basis of its nature, terms, conditions and sources. From the point of view it is categorized as (a) Capital aid, (b) Commodity aid and (c) Technical aid

Capital aid: Capital aid refers to the provision of capital in cash or in kind for the implementation of projects as well as which supports balance of payment (BoP).

Commodity aid: Commodity aid usually takes the form of transfer of surplus product of the donor to recipient countries.

Technical aid: Technical aid involves the training of the recipients national and provision of skilled foreign personnel expert to carry out the required development tasks in the recipient country.

Financial aid: financial aid takes the form of either grants or loans. Grants are usually gifts. They do not have repayment liability so they should be used in the projects with long gestation period such as social services. Loans on the contrary have to repay. It generates the reserve flow from the recipient countries. Loans is of three types according to the period of maturity, they are; long terms, mid-term and short term. According to hardness loans are generally two type's therefore soft loan and tied loans are differed according to the interest rate charged per annum and provision of payback period.

Regarding tied and untied aid, tied aid is conditional aid and untied aid is unconditional or free from the tied strings. Regarding motives, it is provided for different purpose such as humanitarian, political, strategic and economic motives.

In initial stage of development, foreign aid is indispensable. It is an economic necessity. Even the highly developed countries of present took foreign aid in the initial stage of their development. They are the countries like UK, USA, USSR, Japan and European countries.

The final aim of foreign aid is to accelerate the development activities and try to make country self-standing. There is such condition that general expenditure is increasing and as result internal resources are not sufficient. That is why foreign aid is necessary for supporting developmental expenditure. Therefore in the present context there is lack of resources. There is compulsory and obligatory need of foreign aid for development of Nepal.

Developing countries like Nepal are characterized as capital poor or low investing economy. The appearance of inflationary pressure is the evitable in developing countries because of existence of disequilibrium between demand and supply of domestic products. Foreign aid is advantageous to minimize such inflationary pressure.

Nepal is one of the developing country with the population 28.8 million, growing at the rate of 1.60 percent yearly (<http://countrymeters.info/en/Nepal>). The per capita income is calculated as \$ 730 (World Bank 2014), this reflects equally unsatisfactory living standard. About 25.2 percent (The world fact book; CIA US, 2011) of the population are forced to live below the poverty line. The challenge of economic development has been further complicated by its limited or almost untapped natural resource endowment, the landlocked location and rugged terrain and social infrastructure. Its investment needs for infrastructure development, thus, are quite substantial. But at the same time public funds available for infrastructure investment are limited. The fiscal resources base of the country is small but unlikely to grow rapidly. This leaves government highly dependent on outside official development assistance. Fortunately, international

donors and development partners have been quite supportive of its development plans and programs.

In 1950 with the dawn of the democracy Nepal started building relationship with foreign countries. After signing the point four program with USA in January 23, 1951 the government of Nepal started receiving foreign aid. Nepal has been receiving foreign aid mostly form 'Nepal aid group', which includes nations like Australia, Belgium, Canada, Denmark, Finland, Norway, Germany, Kuwait, Netherlands, Switzerland, Sweden, UK, USA, Japan and multilateral donors as IDA, IMF, EEC, UNCATAD, ADB, UNDP, WB, WHO, UNICEF, OPEC.

It is found that foreign aid has been playing foremost role in the development of a developing country like Nepal. Democratic practice along with development and construction started in Nepal after the rise of democracy in 1950. Still and before in all development plans the foreign aid is playing a vital role in the development of field such as road, irrigation, communication, hydroelectricity, education, drinking water, agriculture and health. Foreign aid also helped to increase the productivity and production to expand the development works and to find out suitable technologies.

Nepal faces severe problems of deficiency in resource mobilization due to low saving and high consumption ratio. Above all there is serious resource gap (NRs. 539902.7 million; 1990/91-2012/13) problem in Nepal. Therefore, fiscal deficit is growing yearly. So, in this context huge amount of foreign aid in the form of capital as well as financial and technical assistance is needed to solve these problems. Without foreign aid development seems impossible.

Means and forms may differ but dependency upon it cannot be denied. A successful foreign aid policy of a country may be defined as its capability to interchange the amount of aid into a paying back investment. It is advocated as a road to development but not forever. It is generally defined as the nominal value of direct and indirect flow of finance and other resources from the government of rich countries to the poor countries.

Japan and USA are playing foremost role in the development of Nepal in the field of transportation, industry, education, agriculture, health, technological development etc. Japanese and US aid programs are found to cover almost all sectors of the Nepalese economy. There is no doubt that USA is the first formal and major donor country for Nepal. Since 1951, it has been providing aid for the development of different sector of the Nepalese economy.

The magnitude, concentration, pattern, trend, motives and share of foreign aid provided by both countries do not only have economic and development influences in Nepal but they also have political and strategic motives as well.

1.2 Statement of the Problem

Economic development of any country depends upon the utilization of available resources, the ability of the people to exploit the available natural resources and others. But it is unable to utilize this all to their full extent due to the lack of domestic sources of capital and technology. People are moving around the vicious circle of poverty, level of income, saving and investment is very low. To increase these all, aid stands as an inseparable actor in the developing countries like Nepal.

Foreign aid has been prominent role for the economic development of Nepal. There is hardly any sector which has not received some form of external assistance and in which many donors have been included. Nepal has to rely on foreign aid as it lacks of capital and technology. With its own sources Nepal unable/couldn't move ahead in the path of development.

Nepal is facing the problems of low level of living standards, low level of agricultural productivity, high rate of population, high rate of unemployment, low ability to pay for tax, high gap between revenue, high level of trade deficit etc. Therefore country needs foreign aid to overcome the problems.

To generate the employment, enhance the living standards and uplift of all domestic savings only needs huge amount of public expenditure, these makes the foreign aid as necessary thing in Nepal. As we belief foreign aid brings physical and financial as well as technical knowledge, skilled personal, organization expenditure, advanced production techniques for increasing productivity and market information. Have an objective to develop the under developed countries aid has been providing since long time. In the country like Nepal, we repeatedly hear the government being effortful to receive more foreign aid.

Rapid increment in foreign aid is observed every year but is has not been fully utilized. It may happen due to inefficient administration, low absorptive capacity, corruption, delay in implementation of projects from recipient side and vasted interest, directed aid programs, their strategic motives etc. form donor's side.

Japan and US are the most influencing countries. Huge chunks of aid from them come to Nepal in every year with various programs comparing every sector of the national economy. So the proper comparative and analytical study of different aspect of Japanese and US aid is necessary of the effectiveness of the aids and to review our foreign aid policy as well. In this regard, this research will be concerned with the problem related to composition, direction, contribution and motives behind the Japanese and US aid. The amount of Japanese and US aid to

Nepal from 1990-2013 is estimated 1808.63 million US \$ and 893.86 million US \$ respectively.

The research study has tried to find the probable answers to following questions.

- a. What is the trend and pattern of Japanese and US aid?
- b. What is the contribution of Japanese and US to Nepalese economy?
- c. In which sector the Japanese and US aid are concentrated?

1.3 Objective of the Study

In this study an attempt has been made to analyze the role of foreign aid in general and specifically the composition, effectiveness, trend and pattern of Japanese and US aid on the Nepalese economy.

The specific objectives of the study are as follows.

- a. To illustrate and analyze the overall foreign aid composition of Nepal.
- b. To assess the contribution of Japanese and US aid to the Nepalese economy.
- c. To compare the sectorial allocation of Japanese and US aid.

1.4 Justification of the Study

Foreign aid is widely accepted as a means of development in developing countries like Nepal. In developing countries domestic saving and taxation only cannot achieve the required investment for the meaningful economic growth. As we know that economic development depends upon many factors such as availability of resources and ability of peoples to exploit the available natural resources. Nepal faces huge problem of deficiency in resource mobilization due to low saving and high consumption. So, there is serious resource gap problem in Nepalese economy. Among that foreign aid holds critical importance in Nepal. Thus this study will focus on availability and impact of foreign aid in the economic development of Nepal with special reference to Japanese and US aid.

Countries like Nepal are unable to have viable economic growth because of their low saving ratio, stagnant export earnings and lack of technical knowledge. So it is quite difficult to have rapid development of those countries. The developed countries regard foreign aid program as an instrument that can put undeveloped countries on the road of self-sustaining growth. Nepal has a high degree of foreign aid as percentage of government expenditure. Except few years, trend of aid is inclining. Aid and GDP ratio is approximately 10 percent and in development finance aid ratio is still more than 60 percent.

Nepal has been continuously receiving foreign aid during the past six decades and Japan and US are one of the major donors. Japan and US have assisted in every field of Nepalese economy and massive economic assistance from both nation have helped to promote infrastructure for development.

In this regard this study will try to analyze the Japanese and US aid in past and in present. This study will further help to study the composition, direction, contribution, and motives of the Japanese and US aid to Nepal.

As most of the research studies are done under the aggregate foreign aid concerning to Nepal and very few studies have been made on the comparative study of Japanese and US aid. Hence, the study aims to analyze the trend and volume of aid being provided by Japan and US for economic development of Nepal in various fields. Updated information regarding trend, pattern and motives of Japanese and US aid will provide the basis to review the economic diplomacy with these countries.

1.5 Limitations of the Study

This study covers the period from FY 2002 to 2013 of Japanese and US aid. Private foreign investment and exchange gap have not taken into consideration. Similarly political as well as military aids have not taken into consideration. This study will be based mainly on the data and information derived from secondary sources and the focus of the study will be to analyze Japanese and US aid to the Nepal.

1.6 Organization of the Study

This thesis consists of eight chapters in total. There are several difficult conceptual problems in terms of aid: defining foreign assistance, distinguishing it from other kinds of international transfer, determining its effect on economic growth and deriving criteria for appraising Foreign Aid results. And there are parallel difficulties of data availability, measurement and statistical testing. Subject to the constraints as mentioned as above this study is organized as follow.

The first chapter: Introduction consists of general background, statement of the problem, objective of the study, justification of the study, limitations of the study and organization of the study.

The second chapter illustrates the thorough review of literatures related to Foreign Aid. As well as in this chapter several literatures are reviewed written on Foreign Aid of Nepal, Japanese and US Aid to Nepal.

The third chapter covers the research methodology. Fourth chapter includes general overview of Foreign Aid to Nepal. Several statistics related to aid are presented in this chapter and History of Foreign Aid as well.

The fifth chapter focuses on the Japanese aid and sixth chapter is concentrated on US aid to Nepal. Seventh chapter of this study is concentrated on the analysis and comparison of Japanese and US aid to Nepal. For this purpose, I have illustrated with the data provided by OECD, World Bank, IMF and Foreign Aid Coordination Division of MoF Nepal. And, eighth chapter summarizes the major findings of the study, concluding remarks and policy recommendations for the concerned authority for the effectiveness of foreign aid.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Review of Theoretical Literature

Foreign aid is normally associated with national governments and international organizations. Although there are certain private institutions or organizations which extend supports to needy countries, but they do not assume a much significant share in the total flow of aid. Traditionally foreign aid was provided to overcome the saving investment gap, technological shortages etc. in the recipient countries, which would ultimately uplift the developing economy and living standards of people. Therefore foreign aid is views as a concept which refers to the flow of capital and technical resources either directly from the government of donor country or through international channels.

The concept of foreign aid is not a recent phenomenon. It has been coming from early period of classical economists. But it is agreed that foreign aid is originated from the disruption of the world economy than followed by Second World War. Flow of aid becomes more rapid due to polarization, which creates the competing environment between USA and USSR to gain support from the other nations after the beginning of cold war; foreign aid became an integral part of foreign policy.

There are several publications in the field of foreign aid. Here, the review of related literature focuses on the definition of aid, its need for and against for the developments of developing countries like Nepal and its composition. For instance, different national, international published and web based literature (Books, Journals and Articles) have been reviewed related to this study.

2.1.1 Meaning and Definition

The explicit transfer of resources from developed countries to less developed/developing countries in occasional term is called foreign aid. Foreign aid means transfer of financial and other resources in the form of grants, loan, technical assistance etc. from economically better off nations to least developed countries. The main purpose of resources from developed countries to developing countries is to influence the recipient country through the moral principle of solidarity. Foreign aid also considered as a major means of building relationship with other countries. It is a means of fulfilling donor's and recipient's self-interest.

Britannica encyclopedia defines foreign aid as the international transfer of capital, goods or services from a country or international organization for the

benefit of the recipient country or its population. Aid can be economic, military or emergency humanitarian (e.g. Aid is given following natural disaster).

Mihaly (1965) describes foreign aid as a post war phenomena. He emphasized the importance of foreign aid is for the world's mutuality. In primary notion, he describes foreign aid as a basic "economic assistance" often regarded as a means of financing development rather than as a political tool.

He further says that "In the aftermath of Second World War, political necessities arising from changes in the world imposed a new dimension on diplomacy..... The great power had ambition in Asia and Africa that traditional diplomatic method couldn't serve".

Foreign aid consists of grants or loans that one government or multilateral organization avails to a developing country to promote economic development and welfare. In other words, any money that benefits a developing country in grant concessional loans or non-concessional from a bilateral or multilateral organization is considered as foreign aid. To be foreign aid, it should be undertaken by the official agencies bilateral or multilateral. It has to be taken with the main aim of economic development for the welfare of the recipient country and not for profit motive.

2.1.2 Foreign aid and Economic Development

Despite the several publication and empirical studies in the field of foreign assistance, there is still huge debate among the economists about the role of foreign aid in economic development. In the context of foreign aid several books, booklets, journals, magazines and article written by many Nepalese as well as foreign authors.

There is huge debate for and against of foreign aid. The economist like Rostow, Millikan, P. Hoftman and Rosenstein Rodan accorded a top priority to foreign aid in economic development. Rosenstein Rodan assumed that the internal economic aid would have two impacts, firstly mobilization of domestic saving, and secondly increasing rate of investment. According to him "Aid should be allocated where it will have a maximum catalytic effect of mobilizing additional efforts or preventing a fall in national efforts".

Higgins (1968) emphasized the importance of foreign aid by saying that, the availability or absence of foreign aid of the right kind and in the right amount might take the difference between success or failure of a country's own effort to lunch a process of sustained economic growth. The most obvious thing is that foreign aid can fill gap between capital requirements for take-off into sustained growth and domestic capital for saving and required investment. He has explained

the usefulness of foreign aid for the construction of roads, dams, electricity projects etc. So the capital requirements of LDCs are not as high as that of developed and fast growing economy. Because the development works on LDCs is equate with public utilities and often with basic necessities.

He further emphasize the importance of foreign aid due to low saving investment ratio in developing countries. Since it is unlikely that measures to increase voluntarily domestic saving along or even measure for voluntary and compulsory saving together could provide all the financial sources needed for development of underdeveloped countries. However foreign aid has been a fundamental aspect, without which development process get obstructed in long-run.

Miskell (1968) states that foreign aid is closely associated with economic performance in two basic ways. First various types of aid may provide a means of including policies and programs which lead to improved performance. Second, aid may facilitate the implementation of policy for promoting improved performance necessary to achieve development goals. The goals of concessionary aid is to help countries achieve a level of performance which will enable them to develop at a satisfactory pace through the efficient use of their own resources. Thus, the function of concessionary aid is not primary to supplement the resources of recipient but rather to help the recipient mobilize its own resources and perhaps to attract public and private non concessionary external capital for achieving its development goals. In the theoretical literature on foreign aid there is a tendency to identify self-help with actual performance in terms of certain quantitative indicators. Thus, an increase in the saving ratio constitutes an important indicator of self-help on the assumption that if a government adopt correct policies the saving ratio will rise, similarly an increase in the rate of growth in exports and in investment are regarded as indicator of self-help.

Bhatia (1981) has explained the primary rationale of foreign aid, viewed from the angel of economic growth lied in the belief that without it the economic growth of recipient country is either not possible or would be painful and slow. The overall performance of the aid recipient less developed countries had not been an encouraging one. Accordingly the contribution of foreign aid in the economic growth of a recipient country is also not a matter of only its quantum. Aid resources produce their own impact on the domestic economy and initiate and / or accelerate some of the process.

He further states, an important objective of world aid, namely narrowing the gap between the per capita income of poor and rich countries, is an elusive as ever. If anything the gap has widened further over time while the per capita income of the developed countries increased by \$ 2950 during the past three

decades, that of the LDCs went up by only \$ 125. The poorest countries recorded an average increase of only 1.1 percent per annum during 1970-80 while the sub-Saharan it was barely 0.2 percent for the same period. Though over a billion people have an annual income of less than \$ 200, half of them live in dire poverty, it is distributing to note that about one third of the population of the poorest third world countries have an annual per capita of less than \$ 50.

Meir (1984) said about public technical aid; that is, concessional finance or the 'grant equivalent' in the capital inflow has a twofold function. It supplements the LDCs low domestic savings and hence helps to fill the resource gap or saving gap and also provides additional foreign exchange and thereby helps to fill the foreign exchange gap.

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

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

Basil (2000) evaluate the development assistance from the practical as well as theoretical point of view. He elaborated the techniques and method of aid evaluating cost benefit analysis, Unintended Effect and Rating (Scoring system).

He discussed on a basic issue for the need of aid evaluation, why evaluate? For accountability or for lesson learning. On his book he explained a distinction between the accountability and lesson learning as the objective of aid evaluation. And he said that aid evaluation is vitally important for the lesson learning objective whose basic aim is to improve future performance.

Todaro and Smith (2003) explain that, in principle, all governmental resources transfers from one country to another should be included in the

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

Duc (2006) using cross-country data, investigated the relation between foreign aid and economic growth in developing countries over the period from 1975 to 2000. Overall foreign aid is found to be significantly and negatively correlated with growth. There is a number of underlying causes, such as the fungibility of aid, aid dependency, bad economic management, corruption and poor coordination and cooperation among aid agencies. However, foreign aid to inland countries as well as to South Asian countries during the period of 1992-2000 is found to have positive impact on growth. The results suggest that (1) there may be problems in the present aid providing system, where aid hinders growth of developing countries (2) the successful experience of some inland countries and South Asian nations during the period of 1992-2000 could be a good lesson for other developing countries.

He further states that One percent of GDP in assistance normally translates to a sustained increase in growth of 0.5% per capita. Some countries with sound policies received only small amount of aid yet still achieved 2.2% per capita growth. The good-management, high-aid groups grew much faster, at 3.7% per capita GDP.

Radelet (2006) concludes that aid can keep bad governments in power for too long, and can undermine incentives for saving, tax collection and private sector production. Aid relationships are made much more difficult by a complex chain of principal agent problems that weaken information flows, introduce myriad motivations for different actors and make monitoring and accountability more difficult.

He also argues that the aid growth relationship is conditional on the policy or institutional environment but many of those results have been fragile.

Shirazi, Mannap and Ali (2009) state that foreign aid has been contributory towards fostering broad based development and complementing national development initiatives in the recipient countries. Like many capital scarce nations, conspicuously relies on foreign aid to finance saving investment gap and

trade gap. The overarching aim of aid is to realize the national development strategy and prevail over the capacity gaps in effective public service delivery.

In the country issue paper of The Colombo Plan: Development perspectives: says that Nepal has to continue to rely on increasing external assistance for undertaking increasing development projects basically for two reasons. Firstly the amount of internal resources mobilization less than what is required. Secondly, increasing current account balance deficit along with negative trade balance are affecting the economy adversely. The paper outlines the task ahead for the Nepal as; Nepal is in her critical stage of development. Her low production base, increasing trade deficits, the adverse current account balance. In this context demand management alone is not sufficient for correction imbalances the economy. Therefore it is imperative to improve the supply situation. For all foreign aid is necessary.

2.2 Review of Empirical Literature

Various authors have made several theoretical and empirical studies about foreign assistance in the context of Nepal.

Poudyal (1983) found positive association between foreign aid and saving by using correlation and regression analysis. The study is based on the secondary data and materials and field observation. The main findings of the study are (a) foreign aid is being concentrated on infrastructure and neglected other sectors, (b) positive effect of foreign aid is more on saving than on consumption, (c) the GDP, domestic saving and consumption are highly stable function of foreign aid, (d) elasticity between GDP and domestic saving is higher than that of between GDP and foreign aid.

Further he concluded that if aid is utilized in road construction, maximum benefits from roads can be obtained only if in areas opened up by roads complementary development programs are launched simultaneously like agriculture and industry etc. The study shows that there is positive association between foreign aid and saving. Foreign aid is contributing to increase national efficiency through positive effect on income, saving and consumption. The level of GDP is also positively related to the inflow of foreign aid. The main objectives of this study were to examine whether the project is financed by foreign aid on GDP, saving and consumption.

Poudyal (1988) performed regression analysis by using data from 1964 to 1982, between foreign aid and economic growth and aid and domestic saving. He found that foreign aid had a significant positive effect on the level of GDP. The result shows a reasonably good overall fit. He has concluded that foreign aid in

Nepal positively contributed to the country's GDP growth but substituted domestic saving. He also estimated the model using five years lag of aid. For that one and two years lag, the coefficients were found smaller and negative. But for the four and five year lag, the coefficient were positive and larger. Thus, he claimed that the long running aid funded projects did not contribute to the economy in short run. The negative short run relationship between aid and growth was attributed to the use of domestic resources to support these long run running foreign financed projects.

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

Khadka (1991) said that Nepal relies heavily on foreign aid and donors coordinate development policy through the Nepal development forum; whose members include donor countries, international financial institutions and international governmental organizations. Its reliance on aid increased 45 percent development expenditure in 1975 to about 56 percent in 1986 and aid GDP ratio increased from 2.6 percent to 6.9 percent during the same period.

According to him, aid has not been effective in alleviation poverty in Nepal. On the contrary aid has created dualisms between urban and rural areas in terms of consumption, and it further widen gaps between haves and have not and social disparities is still growing. Aid neither helps to attain the goals nor to establish institutional political machineries. Hence aid failed to alleviate poverty of the country because it was unable to grasp the majority of population who live in rural areas. He has stated that the economic condition has not improved in Nepal despite the priority of aid because an increase in the basic needs to the poor and rural development. Further, he stated that aid has contributed to creation of physical capacity but this has failed to create the necessary condition for breaking the barriers of development. It is stated that as a matter of fact declined in real terms by the 1970s and aid endorsed by international organizations and bodies remained unfulfilled. Finally he added that learning from crisis is better than becoming chronically dependent on aid.

Acharya (1998) says that although foreign aid did not substantially contribute to the economic development of Nepal. But the importance of foreign aid cannot be denied, because the domestic resources mobilization of Nepal is still very low to fulfill the requirement. In this respect new visions and new ways of aid

utilization have to be launched from both donors and recipients to use these aids in the related or concerned sectors optimally not considering aid as a free gift.

Shrestha (2002) by analyzing sectorial distribution of Japanese aid found that Japanese grant assistance has highly concentrated in debt relief measures, transport, agriculture, power and water supply. Japanese grant assistance has been provide to the industrial sector also but in little amount. In the industrial sector loan has also been provided which is NRs. 4240.3 million in amount. Similarly in the power sector loan has been provided of NRs. 9993.4 million. In an aggregate NRs. 7631.4 million of Japanese assistance is in the form of grant assistance while NRs. 14233.7 million is in the form of loan assistance.

Katuwal (2003) by comparing Japanese and US aid to Nepal After Restoration of Democracy concluded that most of the assistance provided by Japan was disbursed in communication (17.15 percent), transport (15.50 percent), economic management (12.83 percent), disaster preparedness (12.71 percent) sectors and on the other hand most of the assistance provided by US was disbursed in health (34.80 percent), human resource development (16.04 percent), agriculture (20.21 percent) and economic management (7.87 percent) sectors for the period of 1990-1999. It shows that increment in Japanese assistance has been comparatively greater than that of US assistance and furthermore he states that percentage and amount of Japanese aid is significantly greater than US aid.

He found that for the period of 1990-1999 amount of total Japanese aid disbursed in Nepal is \$ 673.75 million and amount of total US aid disbursed in Nepal is \$ 190.43 million.

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

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

Bhattarai (2007) by employing co-integration test found that per capita development expenditure is positively associated with both per capita aid and per capita GDP in the long run. The long run aid coefficient is significant at the 5 percent level, but the elasticity of per capita development expenditure with respect to per capita aid is quite low (0.11). Further he states that the elasticity of per capita non-development expenditure with respect to per capita aid is found to be relatively larger (0.61) than that for development expenditure. In other words, a 1 percent increase in per capita aid leads to approximately 0.6 percent increase in the per capita non-development expenditure, whereas it leads to only a 0.11 percent increase in per capita development expenditure.

Ekanayake and Chatrna (2007) test the hypothesis that foreign aid can promote growth in developing countries using panel data series for foreign aid, while accounting for regional differences in Asian, African, Latin American and Caribbean countries and differences in income levels (low income, low-middle income, upper-middle income and all income levels). They derive their model from a production function in which foreign aid is introduced as an input along with labor and domestic capital. Using data on a group of 83 developing countries for the period 1980 to 2007, they find that foreign aid has mixed effects on economic growth in developing countries. Specifically, foreign aid was found to have a positive effect on economic growth only in African countries. When the different income groups were considered, the foreign aid variable had a negative sign for low-middle income countries and a positive sign for the other three.

Karna (2007) states that foreign aid holds critical importance in Nepal. Even though its economic importance lies in the fact that it provides resources not only for the national budget; rather it also helps bridge the gap between national saving and investment. It also helps to meet the cap between excess of import and exports of goods and services. The very critical issue about foreign aid is that it should be used properly at appropriate place. Nepal has been receiving foreign aid since early 1951 which seeks to meet the resource for annual budget, to help and provide resource for various periodic plans, to accelerate the pace of economic development in proper way, to utilize the untapped natural resources, to meet the millennium development goals, to escape from vicious circle of poverty, to modernize agriculture, to industrialize and for the proper and balanced sector wise development.

He further argues the fact that, the need to fill saving investment and export import gap aid is important source of development finance in the capital poor economies. It has helped considerably to finance the growing import needs required by the development process. The technical assistance has helped to bridge the technology gap constraining the planning and execution of development projects. It has significantly contributed in removing transport and communication

bottlenecks, industrial viciousness and agricultural backwardness. To become specific almost all the highways and communication networks, most public industrial enterprises, agricultural and rural development projects and development projects and development institutions are undertaking foreign aid. From the recipient point of view, the broad goal of seeking aid in Nepal is to promote economic development. He shows 49.9 percent foreign aid as development expenditure from first to ninth periodic plan, yet some of the sectors remain untouched by these assistance. This is due to miscalculation of actual problems. Despite of some critical lines, he establishes foreign aid as the crux of Nepalese economy and spender in its development efforts.

Pyakuryal, Adhikari and Dhakal (2008) found that the domestic saving and investment gap as the percent of GDP at producers' price averaged around 8 percent during the period of FY 1994/95 till 2003/04, whereas it has leveled around 11 percent during FY 2002/03. However, during FY 2004/05 the preliminary estimates shows the gross domestic savings at 14.4 percent and total investment at 28.9 percent revealing the gap of 14.5 percent of the GDP.

Gross domestic saving as percent of the GDP declined from a level of 16.2 percent in FY 1997/98 to 15.2 percent during FY 2003/04, whereas total investment during the same period grew from 24.8 percent of GDP to 26.4 percent. The resource gap has thus widened over the years due to increasing fiscal deficit. The fiscal deficit of NRs. 15.83 billion in 2003/04 increased by 14 percent and escalated to NRs. 18.05 in FY 2004/05 indicating the widening gap between government expenditure and revenue.

Foreign Aid Policy 2009 outlines key problems contributing to ineffective foreign aid management and poor development results seen both from the donor and country perspective. From donor's perspective lack of ownership, internalization and institutionalization, lack of leadership and direction, poorly functioning institutions, weak governance, fragile political environment, lack of political consensus on economic agenda and absence of policy coherence and consistency were pointed out. Looking through the national perspective, it can be argued that aid has achieved success in a number of areas such as building physical and social infrastructures like roads, health, drinking water and education, in sectors such as agriculture, forestry and irrigation and also in erecting and empowering institutions needed for advancing economic reforms. However, despite the volume and magnitude of aid mismatch of priorities between the recipient and donors. Absence of prioritization based on national needs, ignorance of sustainability, operation and maintenance aspects of the projects and slow disbursement as compared to commitment are the problems.

Sigdel (2010) by adopting non-linear regression model found that there is a significant relationship between resource gap and foreign aid. He found that one billion increment in resource gap is met by more than one billion increment in foreign aid during the period of FY 1981/82 to 2001/02. The flow of foreign aid is found to be faster than the increment in resource gap (1.023477, lag coefficient). The role of foreign aid to bridge the resource gap in Nepal has been crucial, which is estimated to be more than 60 percent of total resource gap. The remaining part is met by remittances and foreign currencies earned by the tourism sector. The magnitude of remittances including unrecorded flows increased to \$ 820 million, which is nearly 14 percent of GDP in FY 2003 from about \$ 750 million in FY 2002 and exceeded the size of exports equal to \$ 642.8 million.

He further states that foreign aid to Nepal commenced in 1950/51 with NRs. 1.01 million worth. Up to 1970, foreign aid flow to Nepal was confined to a diminutive size. During the period 1950-70 bilateral grants played a predominant role in the structure of foreign aid in Nepal. Foreign aid to Nepal increased substantially in each succeeding decade, which leveled NRs. 186,334.9 million in 2000/01, of which, grants went up to NRs. 63,680.5 million and the loan equal to NRs. 122,636.3 million. The ratio of ODA to GDP was 3.8 percent in Nepal during the period of the 1970s and 7.8 percent in 1980/81, which is much higher in comparison with other South Asian countries such as Bangladesh, Sri-Lanka and Pakistan. The higher level of DSA per capita exhibits that Bhutan, Sri-Lanka and Nepal are still more reliant economies and among the South Asian countries. Over the long span of last five decades, the magnitude of foreign aid to Nepal is 57.5 percent of total development expenditure. During the first plan (1956-1961), Nepal's development expenditure (NRs. 382.9 million) was fully funded by foreign aid. In subsequent plan periods from the second to the ninth plan (1962-2002) the extent of foreign aid was as high as 52 percent of development expenditure in Nepal. This is indicative of Nepal's heavy dependence on foreign aid, which ballooned to the level of NRs. 215,145.4 million during the ninth plan (1997-2002) from a diminutive sum of NRs. 382.9 million in the first plan. In the tenth plan Nepal received NRs. 134,620 million worth of foreign aid which is 57.5 percent of development expenditure. In addition, he concluded that foreign aid has become a foundation of North-South relations.

Acharya and Koirala (2011) stated that foreign aid has been unable to achieve its major objectives in Nepal by principle. Foreign aid helps to bridge the resource gap in the short term so that in the long term, the developing countries would be able to mobilize their own resources for sustainable development. But in reality, Nepal could never mobilize its internal resources to meet the financial requirements of its developing activities. Similarly, foreign aid was started in the country in the 1950s with the first and foremost objectives of economic and political

stability. But, despite a regular inflow of dollars for more than half a century, the maoist insurgency began and Nepal has now become the most unstable it has ever been politically as well as economically. The impact of foreign aid in Nepal is having paradoxical results.

They further raised the issue donor's investment in education. Benefitting recipient or donors themselves and said that, in principle education does not only increase the productivity of economy but also helps in invention and innovation. But our excellent education productions are working for the developed countries. The country is getting zero from such a huge investment in education while the donor countries investing less than 30 percent of total education budget of Nepal are being to get cream product of the education system. This bitter truth raises the question that whom the donor countries are investing in the education sector of poor countries for the recipient of donor's themselves benefits.

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

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

Jeffrey (2015) by employing OLS estimation found that bilateral and multilateral aid yields mixed and interesting results. For middle and low income countries, a 1 percentage point increase in inflation on average causes the effect of bilateral aid on growth decrease by 1.516 percentage points and increases the effect of bilateral aid on growth by 2.162 percentage points on average. Further he stated that for multilateral aid, the signs for these two interaction terms (Inflation and Polity2 scores) are opposite to what they are for the bilateral interaction terms. Multilateral aid interacted with inflation yields a positive value, meaning that as inflation increases one percentage point, multilateral aid's effect on growth increases 2.217 percentage points, polity2 (measure of a country's political

regime) scores interacted with multilateral aid are negative, meaning a point increase in a country's polity2 score results in a decline of 4.557 percentage points.

Galiani, Knack, Xu & Zou (2016) using the sample of 35 countries that crossed the IDA threshold from below between 1987 and 2010, found that a 1 percent increase in the aid to GNI ratio raises the annual real per capita short term GDP growth rate by 0.031 percentage point . The mean aid-to-GNI ratio at the crossing is 0.09, so a one percentage point increase in the aid-to-GNI ratio raises annual real per capita GDP growth by approximately 0.35 percentage points. They further said that increasing the aid to GNI ratio by one percentage point, increases the investment to GDP ratio by 0.54 percentage points, although this coefficient is generally not significant. The magnitude of the effects on growth and investment is consistent with the average capital stock to GDP ratio for the sample countries.

CHAPTER THREE

RESEARCH METHODOLOGY

Past studies of foreign aid in Nepal were mostly based on particular countries contribution. Only few studies were made in the comparative study of foreign aid to Nepal and rare studies were done by comparing the Japanese and US Aid to Nepal using time series data.

3.1 Research Design

This research work is designed to analyze the Japanese and US aid to Nepal. The study based on various research designs. It focuses on trend, magnitude, composition and concentration of Japanese and US aid. To indorse the significance of the study different statistical tools and tests were used.

3.2 Sources of Data

The methodology used in this study is descriptive as well as analytical in nature. The research work based on secondary data. All information including sources of data used in this study were published materials and records of various offices such as ministry of finance Nepal, Embassy of Japan, Embassy of United States, Ministry of foreign affairs Japan, USAID office, National planning commission, CBS, World bank, International monetary fund, OECD etc. In addition to those required data and information were collected from various books, magazines, and web based sources.

Data provided by the national sources differ significantly from those found in other sources such as the Embassies, OECD etc. This is particularly problematic in the case of aid data. It is generally believed that OECD aid data are more reliable as these are collected directly from the donors who have better recording system than Nepal. Similarly, IMF data on macroeconomic indicators and socio-economic data of the World Bank are considered more reliable. Although the data for the study were collected from national sources as well as international sources.

3.3 Data Analysis

After collecting the data from different sources, these are arranged in systematic way and tabulated according to the need of research content. The simple calculation like percentage, ratio, average value etc. be made and tables, graphs, pie charts were used to explain and compare the data series, computer software's like STATA, SPSS will be employed as per need to analyze the study.

3.3.1 Model Specification

The model specified for the comparative study is given below.

$$Y = a_1 + b_1 F_{J \text{ Aid}} \dots\dots\dots(1)$$

$$Y = a_2 + b_2 F_{U \text{ Aid}} \dots\dots\dots(2)$$

$$Y = a_3 + b_3 F_{T \text{ Aid}} \dots\dots\dots(3)$$

Where

$$Y = \text{GDP}$$

$$F_{J \text{ Aid}} = \text{Japanese Aid}$$

$$F_{U \text{ Aid}} = \text{US Aid}$$

$$F_{T \text{ Aid}} = \text{Total Aid}$$

3.3.2 Statistical test of significance

Standard errors of estimates (SEE) like standard deviation measures the reliability of the estimating equation and estimating coefficient. The larger SEE, the greater happens to the dispersion. For this study, the SEE, for regression coefficient will be calculated by using computer software.

3.3.3 Statistical test of goodness of fit (R^2)

After estimating the regression parameters R^2 judges the explanatory power. The formula to derive R^2 is mentioned below;

$$R^2 = \frac{b_1 \sum x_1 y + b_2 \sum x_2 y + \dots\dots\dots + b_k \sum x_k y}{\sum y^2}$$

$$\text{Where } y = Y - \bar{Y}$$

$$x = X - \bar{X}$$

3.3.4 t-Test

T-test is carried out in order to identify the statistical significance of an observed sample regression coefficient and the formula for calculating value is

$$t = \frac{\hat{a}_i}{SE(\hat{a}_i)}$$

Where \hat{a}_i = Estimated value of a_i

$SE(\hat{a}_i)$ = Standard error of a_i

$$SE(\hat{a}_i) = \sqrt{\text{var } a_i}$$

3.3.5 F-test

F test is used to examine the overall significance of the model.

The formula for the calculation is

$$F = \frac{R^2/K - 1}{(1 - R^2)/(N - K)}$$

Where R^2 = coefficient of determinant

K = number of Explanatory variable

N = number of observation in the sample

CHAPTER FOUR

FOREIGN AID IN NEPAL

4.1 Introduction

Nepal relies heavily on foreign aid and donors coordinate development aid policy through the Nepal development forum, whose members include donor countries, international financial institutions and inter-governmental organizations. Japan is Nepal's largest bilateral aid donor and the World Bank and Asian development bank are the largest multilateral donors. Donors have been reported as losing confidence in Nepal as a result of political interference and corruption in poverty relief efforts as well as the country's apparently poor capability to utilize aid.

Nepal has been a recipient of foreign assistance since 1952 when it joined the Colombo plan for cooperative, economic and social development in Asia and the Pacific. The plan was established, under a slight different name by the Commonwealth of Nations in 1951. During the 1950's many Nepalese received scholarships through the Colombo plan to go to different countries for studies in technical and professional areas.

During 1950s all other aid was in the form of grants. India and US each were responsible for more than one-third of all grants. Both countries established aid missions to Nepal and directed aid to special projects. Other major donors during 1950s were Peoples Republic of China, Soviet Union, Britain, Switzerland, Australia, Japan, and New Zealand also involved in lesser assistance programs. The UN provided some technical assistance.

Nepal is sandwiched south Asian country, lying between the two giants India and China. Per capita income of \$ 730 (World Bank (Online) 2014) make it one of the poorest country in the world. National population and housing census 2011 shows that, Nepal's total population has reached 26494504 with the annual growth rate 1.35 percent. Agriculture is the main source of income; it provides a livelihood for over about 76 percent of the total population and accounts for 36.9 percent of national GDP.

Calcuta (India) is the nearest port from Kathmandu, the capital city. The port is about 600 miles far. About two third of total area of Nepal is surrounded by hills and mountains. The highest peak in the world, Mt. Everest and other world famous peaks are situated in the Himalayan range of Nepal. Administratively Nepal is divided in 5 development regions, 14 zones, 75 districts, 3276 VDCs and 133 municipalities.

4.2 Need for Foreign Aid

Natural resources are the most important factor for economic development of any country. Higher the natural resources the higher will be the rate of economic development but in most of LDCs domestic resources to finance, the development program are not sufficient to increase the capital formation and to bring any reasonable growth in productive capacity, domestic saving should be supplemented by foreign aid.

In an initial stage of development, foreign aid is indispensable. It is an economic necessity of development process. Even the highly development countries of today took foreign aid in the initial stage of their development. They are the countries like Japan and European countries. In the forum of aid a donor country gives training to the people of recipient country in various subjects or gives idea to solve the problems arising in the country and also handed over capital in cash to the developing country for the construction of projects and much more things according to the need of the country. Besides these sometimes a foreign country aids other countries in the form of foreign investment. Foreign investment helps sufficiently to the recipient country in utilizing her sleeping human power physically as well as mentally and other natural resources, which are not utilized or under-utilized or miss utilized in the economic development of the country.

Furthermore the need of foreign aid can be explained with the help of following theories. The early development thinking reflects a combination of the growth objective of the classical economics with the macro economic framework of a post Keynesian type, which was very much influenced by the Harrod-Domar growth model.

According to Harrod-Domar (1939) growth model a country which does not have sufficient saving in order to attain a particular level of investment should either borrow external capital or receive in the form of external aid.

Rodan (1968) says that in the view of saving gap, foreign aid assumes much importance as a means to break the vicious circle of poverty and to accelerate the path of growth.

Meier (1978) states that capital accumulation is regarded as a process by which all other aspects of growth are possible. Capital is increased by investment and investment needs more saving or foreign assistance.

Hence all these theories support the need of foreign aid for a developing country. In Nepal, the per capital income of the people is very low as compared to the other advanced countries of the world. So this low per capita income reduces

the size of saving of the people and this low saving results low investment in the country which acts as an impediment for the growth of the economy. However saving is not only the condition for capital formation, other important factor is the entrepreneurial ability and capability. Because of the low investment, the government have to accept foreign assistance.

4.3 History of Foreign Aid (World)

The earliest form of foreign aid was military assistance designed to help warring parties that were in some way considered strategically important. Its use in modern era began in the 18th century, when Purssia subsidized some of its allies. European powers in the 19th and 20th centuries provided large amount of money to their colonies, typically to improve infrastructure with the ultimate goal of increasing the colony's economic output. The structure and scope of foreign aid today can be traced to two major development following Second World War: (1) the implementation of the Marshall plan, a U. S. sponsored package to rehabilitate the economies of 17 western and southern European countries and (2) the founding of significant international organizations, including the United Nations, IMF, and world bank. These international organizations have played a major role in allocating international funds, determining the qualifications for the recipient of aid, and assessing the impact of foreign aid. Contemporary foreign aid is distinguished not only because it is sometimes humanitarian but also by its size, amounting to trillions of dollars since the end of Second World War, by large number of government providing it and by the transparent nature of the transfers.

The postwar programs of the UK, France and other European former colonial powers grew out of the assistance they had provided to their colonial possessions. More importantly, however, the USA and Soviet Union and their allies during the cold war used foreign aid as a diplomatic tools to foster political alliances and strategic advantages; it was withheld to punish states that seemed too close to the other side. In addition to the Marshall Plan, in 1947 the United States provided assistance to Greece and Turkey to help those countries resist the spread of communism, and following death of soviet leader Joseph Stalin in 1953, communist bloc countries donated increasing amount of foreign aid to less developed countries and to close allies as a means of gaining influence as well as promoting economic development.

Several non-European governments also implemented their own aid programs after Second World War. Japan developed an extensive foreign aid program an outgrowth of its reparations payments made following the war that provided assistance primarily to Asian countries. Much of Japan's aid came through procurement from Japanese companies, which helped fuel economic development in Japan. By the late 20th century Japan become one of the world's

leading donor country and its aid program had extended to non-Asian countries, though much of the country's assistance was still directed towards Asia.

In the decade of the 20th century, private capital flows and remittances from migrant workers become the two largest source of aid from wealthy countries to poor ones, surpassing the amount of ODA provided by those countries. However, this form of aid is heavily stratified; most direct foreign investment has gone to developing countries pursuing policies of trade and economic liberalization and those with large markets.

Internal assistance existed even before the war but was not popular directly. After the destruction of world war most of the developed countries began to think about the economic balance. This was reinforced further by existing cold war, the evolution of new international economic development program for the reconstruction of war torn countries. Realizing the facts the effort of economic resources began after the Second World War and became more rapid from the late 1950s.

Foreign aid in managed way as a policy began in the postwar European reconstruction under the Marshall Plan in 1948, the establishment of the World Bank, the point four program announced by American president Herald Trueman in 1949, Colombo plan for development of south and south east Asian countries in 1950s, the public loan program by US in 1954, substantial assistance by France to its former American colonies, Soviet aid to LDCs after 1955 etc. (Britannica Encyclopedia). UN charter and the establishment on IBRD marked the starting point in the scope of international cooperation. Marshall Plan which was designed to put the war scattered European economy on their feet. But the Colombo plan 1950s was the first concrete effort to help to raise the living standard of south Asia and this for the first time proved that foreign aid can play a vital role in developing underdeveloped economy.

4.4 History of Foreign Aid in Nepal

Nepal has been receiving foreign aid since World War II after establishment of diplomatic relationship with the United States in 1947. On January 23, 1951, the United States and Nepal signed an agreement that began a relationship of trust, mutual respect and commitment for the people of Nepal. With the signing, the US became the first bilateral donor to Nepal and in this time, the US has provided more than \$ 1.2 billion in development assistance to Nepal. The newly built relationship with US assertively brought the country into the theater of global politics. At the same time, the communist revolution in neighboring china in 1949 increased strategic interest in Nepal. During the 1950s other major donors were the People's Republic of China, Soviet Union, Switzerland, Australia, Japan

and New Zealand also assisted different assistance program in lesser extent and United Nations provided technical assistance. Until the mid-1960s, Nepal mostly dependent on foreign grants for all its development projects, when the multilateral assistance programs began in the 1970s, by the end of the 1980s, the huge amount of foreign aid was in the form of multilateral assistance program directed through the international development association of World Bank and the Asian Development Bank characterized as soft loan.

Joining to the Colombo Plan in 1952 was another pioneering effort for the growth of foreign aid through bilateral sources in Nepal. During the 1950s many Nepalese received scholarships through the Colombo Plan to go to different countries for studies in technical and professional areas. Nepal got considerable amount of aid for various projects from the USSR, China, UK, and France etc. after joining the Colombo Plan. Until the mid-1960s, Nepal depended mostly on foreign grants for all its development projects. In 1970s multilateral assistance program started to play an important role in development planning and accounted for more than 70 percent of funding for development planning.

Channeling Bodies of Foreign Aid in Nepal

(1) Nepal Development Forum (NDF)

The Nepal aid group presently known as Nepal Development Forum started in 1976. The meetings of Nepal Development forum aim to enhance mutual understanding among development partners, government and civil society through increased dialogues, interactions, and effective communication. The NDF includes donor countries, international financial institutions and intergovernmental organizations.

(2) The Foreign Aid Coordination Division (FACD)

The foreign aid coordination division (FACD) of the ministry of finance is mandated not only to oversee the government's activities in the area of aid coordination, harmonization and alignment, but also has been assigned to be acting as the secretariat to the high level committee on foreign aid coordination and mobilization. The FACD also provides technical input to the committee in implementation of foreign aid policy.

4.5 Trend and Pattern of Foreign Aid in Nepal

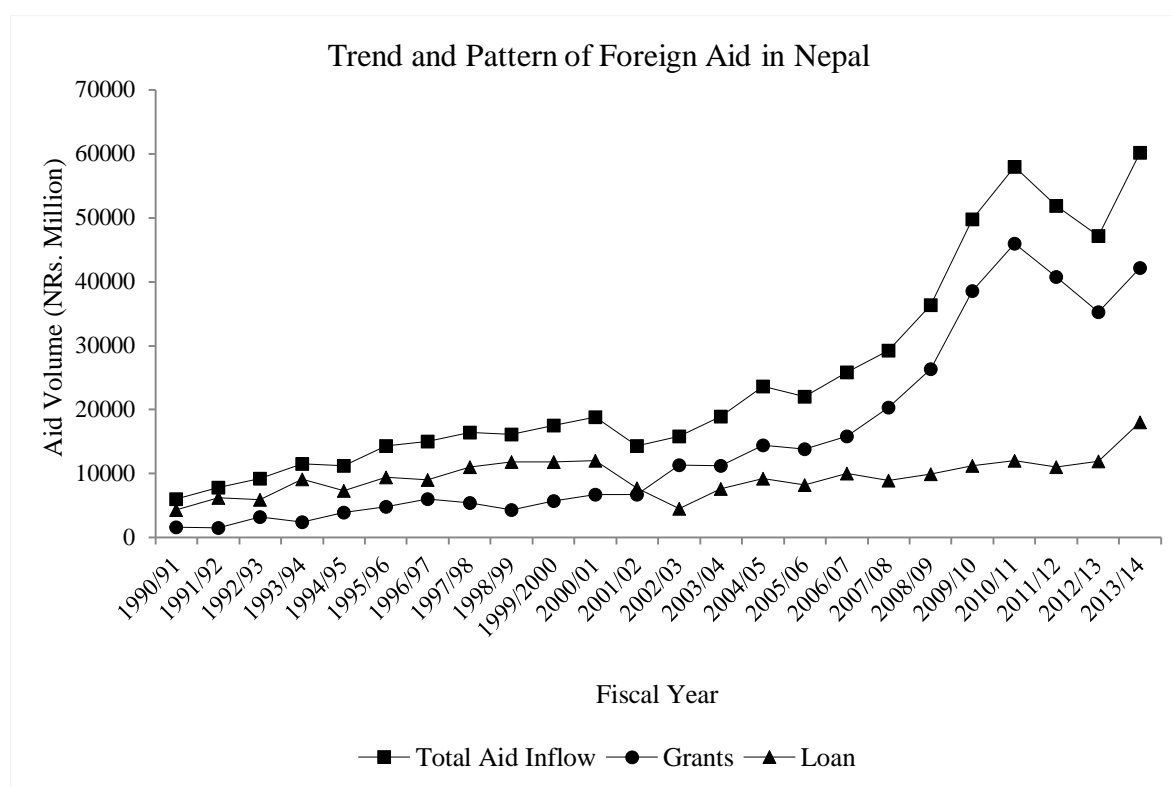
The formal economic assistance is found to be provided after political revolution of 1950s. The point four program agreement signed between Nepal and US on January 23, 1950, US government provided NRs. 22,000.00. It was then followed by China (1956) and USSR (1958). However, the trend of foreign aid

inflow began to increase continuously after 1956. Until 1963/64 most of foreign assistance was provided in the form of grants. Afterwards, the trend of foreign assistance changed with the inclusion of loan. The loan amount exceeded the grants gradually up to now.

For instance we can see the Annex I, the historical trend and pattern of foreign aid volume received by Nepal in different fiscal years. In the Annex we have also presented the percentage share of grants and loans in total aid.

In the Annex I, we see that the total volume of aid from FY 1990/91 to 2013/14 was NRs. 597573.8million, which is the combination of NRs.368529.2million from grants and NRs.229044.6million from the loan. The average share or percentage of grants is 49.05 percent and that of loan is 50.95 percent. For the further analysis we have presented a trend line which shows the trend and pattern of foreign aid to Nepal in figure.

Figure No.: 4.5 Trend and Pattern of Foreign Aid in Nepal



By observing the above figure we see that aid was increasing since FY 1990/91 to 2013/14. But in FY 1994/95, 1998/99, 2001/02 and 2005/06 there was fall in the total aid disbursement. In terms of composition of aid the foreign aid received in Nepal are either in grants or in loans. The line with (●) shows the trend line of grants, the line with (▲) shows trend line of loans and line with (■) shows the trend line of total aid inflow in Nepal.

4.6 Resource Gap Problem and Contribution of Foreign aid in Nepalese Economy

The resource gap is defined as total budgetary expenditure less the resource mobilized internally. When a country is spending more on investment and government expenditure than it's earning from the resource through private saving and taxation, there will be revenue gap within the economy.

The resource gap creates the problem of balance of payment and foreign exchange gap. Nepal has been experiencing a deficit budget system and this has supported the growing resource gap. Due to unavailability of skilled manpower, capital and technology, the present level of capital formation is too low and substantial increase in saving is not possible due to high consumption. On the other hand there is low per capita income, underdeveloped money and capital markets. Deficit financing prevails due to inflationary efforts in the economy. To get rid of such problems foreign aid is the good remedy.

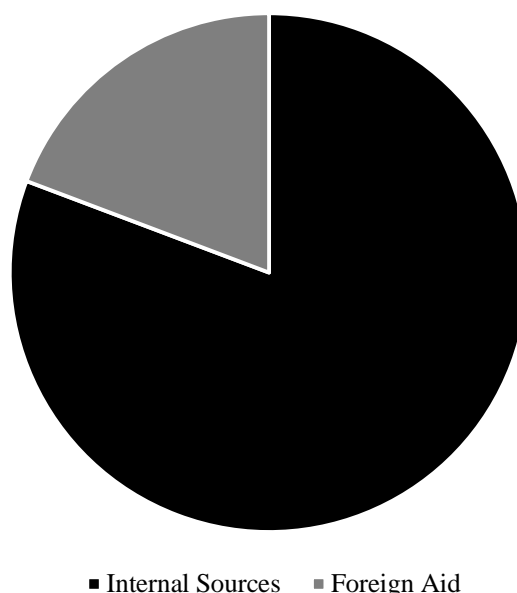
Nepal has been experiencing serious and increasing resource gap in regular as well as development expenditure/finance. The following table reflects the serious position growing financial crisis in Nepal. Each year it has been growing in negative way. The table of Annex II shows not only the resource gap problem which also shows the contribution of foreign aid to fulfill the gap.

The data listed in the Annex II shows that the revenue gap in each year from FY 1990/91 is increasing gradually. It means that Nepal has been relying on the deficit financing to fulfill its budgetary requirement of development as well as regular expenditure.

The data on Annex II shows that, in FY 1990/91 the resource gap was 10655.1 million. So in order to fulfill such revenue gap the government relied heavily on foreign aid. On that, there was grant as well as loan. In order to finance the government expenditure of that FY 1990/91, the Nepalese government got a NRs. 8421.5 million in terms of foreign aid which was the combination of NRs. 2164.8 million from grants and NRs. 6256.7 million from loans. Overall contribution of foreign aid on total expenditure in the FY 1990/91 was 35.76 percent. It shows the heavy dependency of Nepalese economy towards the foreign aid. In the following fiscal year in 1991/92 and onwards, there was increasing resource gap and higher the share of government expenditure was financed by external sources. For further illustration we have presented a pie chart which shows the average share of internal and external sources in the total government expenditure from FY 1990/91 to 2013/14.

Figure No. 4.6 Resource Gap Problem and Contribution of Foreign aid in Nepalese Economy

Share of Foreign Aid and Internal Sources in Total Government Expenditure (1990/91-2013/14)



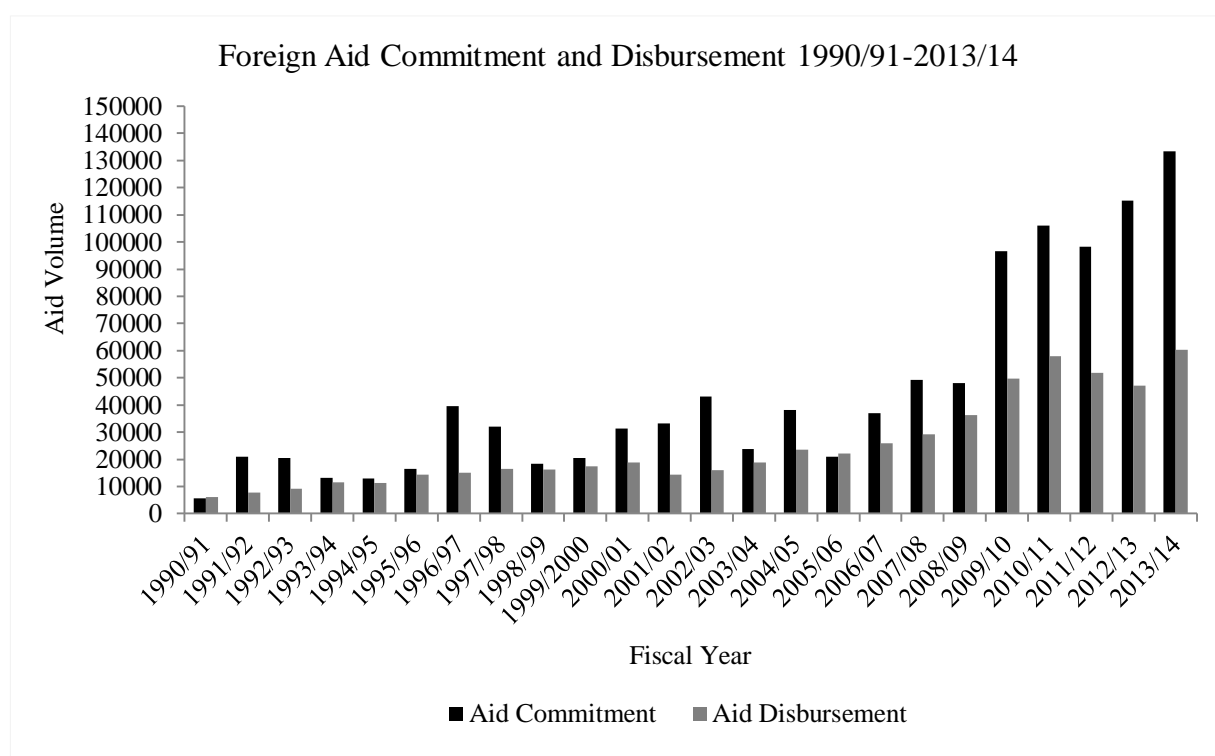
4.7 Foreign Aid Commitment and Disbursement

According to Development Cooperation Report 2000, the key definition of commitment is a firm obligation expressed in an agreement and supported by the availability of public funds. Undertaken by the donor, to furnish assistance of a specified amount under agreed financial terms and conditions and for specific purpose for the benefit of the recipient country. Whereas disbursement represents actual international transfer of financial resources. In other words aid commitment shows the expression of the donors to provide financial support of specific amount under agreed terms and condition for specific purpose to the recipient country. Therefore disbursement is the actual transfer of financial resources from donor to the recipient country. Due to delay in timely implementation of the projects, there has been inefficiency in the disbursement of the committed amount of foreign aid. There has been a high increase in non-disbursed amount although there has been substantial increase in foreign aid commitments. The main cause for the shortfalls in disbursement is the time lag because aid for the many projects is committed in one year and committed aid is being disburse in subsequent years.

Form the table of Annex III we can conclude that between FY 1990/91 and 2013/14, aid commitment have always exceeded disbursement, except in FY 1990/91 and FY 2005/06 where the amount disbursed is quite high than the amount committed. After restoration of democracy in 1950/51, the donor countries

disbursed the foreign aid according to their commitment. There has been an improvement, however, between 1993/94 to 1995/96 and between 1998/99 to 1999/2000 when the ratio of disbursement over commitments has become averaged 87.7 percent in each of those year. The absorptive capacity of Nepal is found to be quite erratic. For example the total disbursement of aid exceeded the level of commitment which was as high as 105.72 percent in 1990/91 and 105.34 percent in 2005/06, while it was just 36.77 percent in 2002/03. The priorities of donor countries including the level of interest and complexities of their bureaucracy also limit the absorptive capacity of recipient country.

Figure No. 4.7 Foreign Aid Commitment and Disbursement



4.8 Sectorial Distribution of Foreign Aid

Foreign aid is involved almost all sectors of the Nepalese economy. i. e. Transport, Power and Communication, Industry and Commerce, Social Sectors and Agriculture, Irrigation and Forestry sectors etc. Nepal has completed various types of development plans with the help of large amount of foreign economic assistance. The sectorial distribution or allocation of foreign aid has a fluctuating trend.

The sectorial distribution of foreign aid shows that distribution of foreign aid in different economic sectors. Therefore, foreign aid is one of the strong weapon for better utilization of internal resources for economic development.

Foreign aid disbursement by sectors from FY 1990/91 to 2013/14 is illustrated in Annex IV, the trend analysis of foreign aid disbursement between 1990/91 and 2013/14 shows that the social service sector is the major recipient of foreign aid. There has been a substantial increase in the amount of aid provided to this sector. The amount of total foreign aid channeled into this sector increased from NRs. 667.9 million in 1990/91 to NRs. 22989.5 in 2013/14. In other words the amount of total foreign aid channeled into this sector increased from 11.5 percent in 1990/91 to 38.19 percent in 2013/14. The share received by the agriculture, irrigation and forestry sector is quite erratic, and this sector has been receiving less donor attention in recent years. In 1993/94 share of foreign aid in this sector was NRs. 5519.1 million while after that year the amount of foreign aid to this sector increased to NRs. 6371.3 million in 2013/14. Between 1990/91 to 2013/14 the social service sector has received a large amount of total foreign aid. The industry and commerce and other sector (Statistics, Administrative reform planning and Contingencies) has received very little foreign aid in recent years, probable as a result of privatization policy adopted by the government and political instability. There are no clearly established trends in sectorial aid and large amount of fluctuation can be seen in the allocations.

4.9 Overview of Foreign Aid in Nepal

4.9.1 Volume of Foreign Aid Disbursement for FY 2013/14

Foreign aid to Nepal is provided by a diverse group of donors, including OECD-DAC donors. International financial institutions (IFIS), United Nations agencies global vertical funds and providers of south-south cooperation. The total ODA disbursement in FY 2013/14 was US\$ 1.112 billion, of which 51.6 percent was provided by multilateral donors, while 39.8 percent came from OECD-DAC bilateral donors and the remaining 8.6 percent was provided by bilateral south-south cooperation partners. In FY 2013/14, the disbursement were made through 443 projects implemented in country.

From the perspective of disbursement, the top five multilateral development partners were World Bank Group, Asian Development Bank, European Union, UN Country Team and Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM). The top five multilateral development partners contributed approximately 51.6 percent of total disbursement.

Likewise, the top 5 bilateral donors for the same fiscal year were the United Kingdom, India, USAID, China and Japan. The following table provides the top 5 multilateral and bilateral donor's disbursement in FY 2013/14.

Table No. 4.9.1 (a) Top 5 Multilateral Donors According to Disbursement

(FY 2014/15)

Multilateral Donors	Disbursement (In US \$)
World Bank Group	188,122,967
Asian Development Bank	147,894,405
United Nations Country Team	44,236,346
European Union	31,378,363
GFATM	22,059,056

Source: Development Cooperation Report 2014/15, MoF, Nepal

Table No. 4.9.1 (b) Top 5 Bilateral Donors According to Disbursement

(FY 2014/15)

Bilateral Donors	Disbursement (In US \$)
United Kingdom	168,073,845
USAID	132,370,217
Japan	39,867,923
China	37,948,751
Switzerland	32,467,406

Source: Development Cooperation Report 2014/15, MoF, Nepal

If we examine sectorial disbursement of foreign aid for FY 2013/14 we found that three sectors have received over 100 million in disbursement. These are Education, Local Development, Health, Energy and Road Transportation. The following table provides the top 5 sectors disbursement in FY 2013/14.

Table No. 4.9.1 (c) Top 5 Sectors According to Disbursement

(FY 2014/15)

Sectors	Disbursement (In US \$)
Health	177,747,406
Local Development	124,903,019
Education	113,684,124
Road Transportation	86,571,257
Energy	78,550,256

Source: Development Cooperation Report 2014/15, MoF, Nepal

4.9.2 Foreign Aid Disbursement by Type of Assistance (FY 2014/15)

Nepal's aid portfolio is of 3 types, namely grants, loan and technical assistance. The following table presents the foreign aid disbursement by type of assistance. In terms of grants Nepal received US \$ 688.5 million, which funded 264 projects. In the same way US \$ 185.7 million came in terms of loan, which funded 41 projects. And US \$ 162.31 million disbursed in terms of technical assistance, which funded 156 projects in the same fiscal year.

Table No. 4.9.2 Foreign Aid Disbursement by Type of Assistance

(FY 2014/15)

Type	No. of Projects	Amount (US \$ million)	Percent
Grants	234	587.9	57.60
Loan	43	247.9	24.29
Technical Assistance	165	184.8	18.11

Source: Development Cooperation Report 2014/15, MoF, Nepal

In overall foreign aid disbursement grants holds the greatest portion which is 66.42 percent, where loan and technical assistance holds 17.92 and 15.66 percent respectively in the following year.

CHAPTER FIVE

JAPANESE AID TO NEPAL

5.1 Introduction

The history of Nepal-Japan economic cooperation is based on friendship and amity. Nepal-Japan economic cooperation can be traced back to 1954 when Nepalese trainees were accepted under Colombo Plan. The relationship between Nepal and Japan is very much interlinked, Grants and Loan aid started after the opening of Japanese embassy in Kathmandu in 1968. At present Japan is one of the top donors to Nepal and involved in every important sector of the Nepalese economy.

The cultural ties between Nepal and Japan dated back to much earlier days before direct people to people contact started in 1899, when Reverend Ekai Kawaguchi; a Japanese zen Buddhist pundit/monk visited Nepal on his way to Tibet. It is certain that ancient Japanese intellectual who read a travelogue written by Xuan Jiang; a famous Chinese monk and philosopher of the Tang Dynasty 1300 years ago, should have come across an account of old Kathmandu valley during the reign of kind Amsuarma of the Lichchhabhi dynasty.

Japan and Nepal share a lot of similarities in terms of culture, religious and even in terms of sentiment. The traditional culture of Nepal and Japan are closely linked together through the underground stream of history, which permeates both cultures.

In April 1902 three years after Kawaguchi's visit, Prime Minister Chandra Samsheer sent eight Nepalese students to Japan. They were the first Nepalese to go overseas for study under government scholarship. In 1905 during his second visit to Nepal, Kawaguchi wrote a long letter to Prime Minister Chandra Samsheer Rana. The letter was full of patriotic feelings recommending to the Prime Minister of Nepal for the promotion of education vocational schools, exploration of mines, production of electricity, construction of roads, trade, banks and modernization of administration. This was the beginning of personal exchange between the two countries. Based upon these direct encounters a century ago, the countries now enjoying wide ranging bilateral relations conducted in a lasting spirit of friendship and cooperation.

Japan has given priority to human resource development, social development, agriculture development, environment conservation etc. Though Japan began to have economic cooperation with Nepal by providing loan

assistance, now days bilateral grant assistance is more significant than loan assistance.

After establishment of Japan-Nepal relationship in 1956 Japan begun to provide technical assistance through Overseas Technical Cooperation Agency (OTCA). From 1970, Japans economic cooperation to Nepal has not concentrated only on technical assistance but also grant and loan assistance. In 1974 OCTA was merged into a newly created statutory organization the Japanese International Cooperation Agency (JICA). Since then the technical assistance from Japan gradually coming through JICA and its branch agency Japan Overseas Cooperation Volunteers (JOCV) in Nepal. In the later part of 1970s Japanese Official Development Assistance (ODA) to Nepal increase rapidly.

5.2 Diplomatic Relations

Diplomatic relations were established on September 1, 1956, ensured by the opening of the Royal Embassy in Tokyo in 1956 and Japanese embassy in Kathmandu in 1968. Another chapter of cordial relationship was opened by the exchange of Royal visits and high level official interactions of both countries. Their majesties king Mahendra and queen Ratna visited Japan in 1960. In the same year, crown prince of Japan Akhito and Princess Michiko visited Nepal. The exchange of visits made between the prime ministers of both countries, namely G. P. Koirala and Mori was another milestone in the history of friendly relations between two countries.

In the second half of 20th century, the relationship between Japan and Nepal strengthened through the efforts of mountaineers. In 1920, Mr. Eizabouro Nishibori visited Nepal to obtain a permit to climb Mt. Manaslu. The member of Japan's Manaslu expedition successfully made the first ascent of the peak in May 1956. Since that time, the Nepal Himalayas have continued to enchant the Japanese people.

The year 2002 marked the completion of a hundred years of Nepalese students in Japan, which was one of the most memorable events in Nepal-Japan relations. Although Japan and Nepal are geographically miles apart by virtue of being Asian and having a similar cultural heritage, a strong spiritual link exists between the people. These common spiritual religious and traditional and traditional values are the foundations of friendly and cordial relations between the people of Japan and Nepal.

Exchange at people to people level is also one of the driving forces to further strengthening friendly relations. Taking into account, the government of Japan and Japan foundation provide an opportunity to a wide range of Nepalese

nationals such as social studies teacher of secondary schools, young students, scholars, and journalists to visit Japan. Through these visits they can exchange ideas, views, with their Japanese counterparts, become acquainted with contemporary Japanese society, culture economy, politics etc. allowing them to broader mutual understanding between the people of both countries.

5.3 Organizations and Agencies for Cooperation

There are many organizations and agencies through which Japan has been assisting Nepal. Some of them are described below.

(a) Japan International Cooperation Agency (JICA)

Japan International Cooperation Agency (JICA), an agency for the implementation of government based technical assistance, is established in August 1974 through a special act of government of Japan. In Nepal JICA was established in 1978. The agent for technical cooperation, Japan Overseas Cooperation Technical Agency (JOCTA), which was instituted in 1962, was further transformed into JICA.

JICA is the sole executor of grant and technical assistance to developing countries, whether it is a technically non-governmental entity. However it is under the direct supervision of foreign affairs ministry of Japan. In order to contribute to the social and economic development of developing world, the JICA extends international cooperation mainly in the field of technical cooperation to developing countries on the basis of agreement concluded between the Japanese government and government of recipient countries. JICA also extends capital grant assistance to the developing countries in building schools, hospitals and other facilities related to technical cooperation. Besides in under certain conditions JICA provides financial assistance to Japanese private enterprises to help them in their development cooperation.

Keeping economic cooperation as the mainstay of international cooperation, JICA has pursued economic and social infrastructure development as its policy or activities. To encourage developing countries from aid dependency and impede the self-help efforts of such countries. JICA has always been supporting them by providing guidance and advice to the counterparts from the behind. Technical assistance to Nepal through JICA can be seen from the table below.

Table No. 5.3 Share of Japanese Technical Assistance in Total Technical Assistance Received by Nepal

Year	Total Technical Aid	Japanese Technical Aid
1990	69.57	12.86
1991	78.51	15.52
1992	89.72	24.79
1993	109.38	35.28
1994	114.08	31.18
1995	114.57	29.42
1996	117.14	30.21
1997	117.89	23.00
1998	120.78	21.49
1999	88.80	22.88
2000	91.10	25.50
2001	102.61	19.57
2002	113.15	21.01
2003	132.71	18.31
2004	108.16	19.27
2005	110.37	18.00
2006	118.39	14.20
2007	90.42	14.30
2008	95.73	16.47
2009	112.81	20.46
2010	120.68	24.28
2011	139.71	23.26
2012	140.79	29.73
2013	127.34	24.48
Total	2624.41	535.47

Source: OECD, Paris 2016 (Online Database).

From the above table it is clearly shows that Japanese technical assistance is increasing in recent years. Japanese technical assistance from 12.86 million US \$ to 1990 to 35.28 million US \$ in 1993 but the trend and pattern of Japanese technical assistance is fluctuating i. e. 35.28 million US \$ in 1993 to 24.48 million US \$ in 2013. During this period of 1990-2013 Japanese technical assistance is totaled to 535.47 million US \$. Japan is cooperating to Nepal through technical assistance annually by supporting the ideas, machinery and money value. In Japanese technical assistance, Japan's training program, experts dispatch program (number of Japanese experts), survey mission, equipment supply and Japan overseas cooperation volunteers are elucidated in money value.

JICA extends technical cooperation and facilitated grant aid with the objective of supporting self-reliant and sustainable development in developing countries in line with the ODA chapter. JICA is focusing on human development and the establishment of economic and social infrastructure. About 1700 Nepalese have been trained in Japan and about 1400 Japanese experts and nearly 600 JOCV members have been sent to Nepal from 1971-1995 under the Japanese technical cooperation through JICA.

(b) Japan Overseas Cooperation Volunteers (JOCV)

In 1970 JOCV was established in Nepal under the direct supervision of ministry of foreign affairs of Japan. In the year 1965 JOCV was created further Japan's technical cooperation with the developing world. The secretariat was set up under the organizational framework of overseas technical cooperation agency (OTCA). The office of the JICA and JOCV in Nepal were merged into one roof in 1983. Since then the JOCV became one of the JICA's program principal activities. During its long history of operation the JOCV has dispatched over 5000 volunteers to 33 developing countries primarily in Asia, Africa and middle east, Latin America and Oceania. By 1993 Japan has spent 23,045 expert, 55,328 investigators and 4501 members of JOCV to this regions.

(c) Overseas Economic Cooperation Fund (OECF)

The OECF was established in 1961 is responsible for yen loans in public cooperation. The objective of OECF is to contribute to industrial development and economic stability of the developing countries. The fund is considered with the bilateral loan on the government level. Although OECF loans makes up about half of ODA, the decision to make a direct government loans involves a consensus among four ministries; the economic planning agency (EPA), foreign affairs and international trade and industry.

(d) Export-Import Bank of Japan (EIBJ)

EIBJ was established in 1951, which is a public cooperation oriented by its nature. The bank extends loans with a grant element of less than 25 percent of foreign government. The main objective of the bank is to promote economic exchange between Japan and other countries. The EIBJ generally stands on the basis on the business field for the expansion of its economic cooperation.

(e) Other Organizations

Besides JICA, OECF, EIBJ, JOCV, there are also other organizations with economic as well as technical cooperation from Japan to the developing countries. Other technical cooperation's of Japan are Overseas Fisheries Cooperation

foundation (OFCE), Japan Overseas Development cooperation (JODC) and Metal Mining Agency of Japan (MMA).

The private organizations which are helping developing countries, with the economic cooperation. These are the Association for Promotion of Industrial Cooperation (APIC), International Development Center of Japan (IDEJ), Association for Overseas Technical Scholarship (AOTS), the International Management Association of Japan (IMAJ), the OISCA International Development Body etc.

5.4 Trend and Pattern of Japanese Aid Inflow in Nepal

From 1951, Nepal has been receiving foreign aid from various countries as well as agencies. The trend and pattern of foreign aid varies from projects to projects and donor to donor. Japan has also been providing assistance to Nepal in the form of grants, and loan assistance. During the year 1990 to 2013 out of total Japanese aid disbursement 1808.63 million US \$, 1895.1million US \$ was grant and -86.39million US \$ was in the form of loan assistance.

Grant assistance has covered almost all sector of Nepalese economy, loan aid was provided to energy and industrial sector whereas technical assistance was provided to disaster relief, education, health and other sectors. During the period of 24 years (from 1990 to 2013) loan aid provided in recent years from 2005 is almost negative (Negative number of ODA loan represent debt relief). This shows that Japan has emphasized in grant assistance. The table of Annex V shows the trend and pattern of Japanese aid in Nepal since 1990 to 2013.

The table of Annex V shows that the Japanese aid disbursement to Nepal has increased but in fluctuating rate e. g. from 1990 to 1995 reached its maximum and then decreased in following year. The total share of Japanese grant aid to Nepal has been significantly higher than that of loan aid. Form the year 1990 to 2013 the total aid inflow to Nepal was 7911.49 million US \$ in which Japan shared 1808.63 million US \$.

5.5 Analysis of Japanese Aid

Japan began providing assistance to Nepal in 1959 with commodity loan and technical cooperation. After establishment of diplomatic relation in 1956, starting with food aid in 1970 grant aid began and was followed by aid for basic human needs, i.e. health and education, transportation and power facilities. Japanese assistance to Nepal has been mainly directed to communication, transport, economic management, agriculture, energy etc. In 2010 Nepal ranked eighteenth out of 166 Japanese recipient countries and regions. It was fourth in ranking in south Asia whereas India at the first place, Pakistan at the fifth place,

and Sri Lanka of the six place. To analysis/evaluate the impact of Japanese assistance to economic development of Nepal, it will be convenient to study the impact in different sectors separately.

5.5.1 Agriculture

Japan has been providing assistance in the field of agriculture such as high value agricultural goods, huge supply of chemical fertilizers and the development and diffusion of agricultural productive technologies. Since 1977, knowing the fact that without development of agriculture sector it is impossible to develop the Nepalese economy Japan has been providing assistance to agricultural development of Nepal. The assistance has contributed significantly to increase employment and uplift income level of farmers. Starting with the cooperation in Janakpur Agricultural Development Project, Japan has been continuously assisting the development of agriculture sector of Nepalese economy. It has provided new ideas of farming, storing and selling. Japan also provided agricultural experimental farming in Rapti Zone by way of providing equipment and experts under the Colombo plan.

Nepalese agriculture sector is highly dependent on weather and given the low productivity compared to population growth. Japanese technical assistance in the agricultural sector has influenced the farmers to cultivate by modern improved forming techniques.

5.5.2 Human Resource Development

Human resource is regarded as one of the most important and principle factor for the economic development of any country. For a developing country like Nepal, it is important to strengthen the human resource so that they can be mobilized to the nation building efforts. Realizing the fact that, the government of Japan has been providing technical assistance to Nepal in implementing and managing technical cooperation projects. Japan has been providing both financial as well as human for human resource development of Nepal. Japanese training facilities has been advantageous in building human capital formation.

5.5.3 Economic and Social Infrastructure

Improvement of technology, good network of transport system and setting up of basic and key industries are necessary in the process of development. There should be direct effect to infrastructure development in order to attain the faster rate of economic growth. Japan is playing a vital role in building infrastructure for the creation of economic and social development of Nepal. For the development of socio-economic infrastructure Japan has been provided machinery and equipment's for the construction of Sindhuli road, Kulekhani (I and II)

hydropower station, Kali Gandaki A hydropower station, Udayapur cement industry, Melamchi water supply project and assistance for Kathmandu Bhaktapur road project. In transportation improvement projects, Japan has been providing buses, trucks and repair shops which has been very useful for the social life of Nepalese people.

5.5.4 Health and Education

To improve the health condition of Nepalese people, Japan has provided a significant amount of assistance to Nepal. By viewing the fact that Nepal has a high incidence of diarrhea caused by unclean water which is also one of the causes of the country's high infant mortality rate, Japan has been providing aid for safe drinking water supply, maternity health care, providing polio vaccine and other medical care programs for the last few years. Construction of Tribhuvan University teaching hospital (TUTH), National Tuberculosis center and assistance to Kanti Children's hospital are the main projects that have been successfully implemented under Japan's ODA. Recognizing the vital importance of providing educational opportunity for children as the backbone to socio-economic development of the country, the government of Japan has been providing assistance since the beginning of the bilateral relationship between both governments.

5.5.5 Natural Resource Management and Environment Conservation

Proper exploitation of natural resources is one of the important factor for the economic development of a nation. Towards this end Japan has been providing assistance for the implementation of disaster mitigation support projects. Japan has extended assistance for projects in the areas of forest, watershed conservation, studies of Fewa Lake in Pokhara as well as community development.

5.5.6 Culture

As one of the international exchanges in the field of culture Japan has been assisting aid to Nepal with the aim of promoting cultural, educational and research activities, including the preservation of cultural assets and the holding of cultural performances and exhibition since 1977. The aid in this scheme are micrographic equipment to Nepal national library, dubbing equipment and educational programs to Nepal television, display equipment to Buddhist art gallery at national museum.

CHAPTER SIX

US AID TO NEPAL

6.1 Introduction

USAID's economic growth activities aim to improve the income generating potential of the poorest of the poor, expand young people's access to jobs, increase farmer's income and food security, help the government of Nepal address macroeconomic and agricultural sector policies and improve Nepal's business environment for private sector led growth. Economic growth efforts also encourage competitiveness and export, improve trade and fiscal policies and practices and strengthen microfinance policies and institutions by working with the government of Nepal, the private sector, think tanks and civil society.

The diplomatic relation between Nepal and US was established in the year of 1947. During the revolution for freedom in 1951, Rana government negotiated a point four program with US. Under the point four program American government provided financial assistance of NRs. 22,000.00 on January 23, 1951. It offered to provide technical assistance to fight over malaria and to conduct geological survey for mineral resources. American aid under the point four program was made available first to establish a village training center in Kathmandu in 1952. The point four program began to take shape in the first half of 1952. The main motives of the program was framed to meet some of the urgent needs of Nepal. Under this program the notable activities were national health program, increase food supply and introduction of new varieties of crops, improvement in the hard tools and machinery and improvement of land, largely through irrigation.

Since 1990 to 2013 the US has provided about 893.86 million as a bilateral economic assistance to Nepal. US aid supported the first telecommunication and other infrastructure and helped to combat malaria. In the initial stage of US aid concentrate on road expansion by which economic development would be facilitated. During its more than five decades of assistance to Nepal's development, US aid has made significant contribution in women's empowerment, strengthening democracy, agriculture, forestry, rural development, health, family planning, education and training, transportation and communication, private sector, good governance and conflict mitigation. In the recent years US aid has been focused on peace and security, governing justly and democratically, investing in people's health and economic growth of Nepal.

6.2 Objectives of US aid to Nepal

The objectives of aid may vary from donor to donor and from time to time since the donors started to assist the developing countries, they have been provided assistance for the various objectives. Generally, foreign aid enters with three objectives; humanitarian, political strategic and economic objectives. More often the motives of aid are shadowed by other things. They are narrowing strategic broadly political, basically humanitarian and certainly economic.

From the Americas points of view, US aid playing a crucial role in supporting the transition of peace, building strong and representative government, establishing the rule of law, ending human rights abuse, strengthening equitable social service delivery and addressing poverty in Nepal.

The ultimate goal of US aid was to development to the point where Nepal could meet the needs of its people on a sustainable basis with its own resources. Increasing economic growth and productivity where crucial to this approach, as well as the development of human and institutional resources. US has assisted in various field of Nepalese economy.

In 1990s the following strategic objectives were adopted by US aid Nepal.

- a) Strengthening the development of sound economic policies which rely on competitive markets operating with the minimum of government regulations.
- b) Accelerating the process of endowing private groups and users with control over and capacity to manage Nepal's economically important renewable national resources.
- c) Expanding access of farmers, rural groups and agro enterprises to market opportunities in order to increase their economic options and incomes.

After 1995, the following strategic objectives were approved by US aid Nepal.

- a) Increase production and sales of forest and high value agricultural products.
- b) Reduce fertility and improved maternal and child health.
- c) Increase women's empowerment.
- d) Increase private sector investment in environmentally and socially sustainable hydropower development.
- e) Strengthen governance of natural and selected institutions.

6.3 Trend and Pattern of US Aid Inflow in Nepal

USA was the first country to provide assistance for economic development of Nepal. The pattern and trend of foreign aid may varies from projects to projects. Some aid are tied up to projects, while other in the form of commodity assistance

and some of the assistance are simply in the form of technical assistance. But broadly these various forms can be grouped into three headings; grant assistance, loan assistance and technical assistance. Agriculture, health, human resource development and economic management are the major sectors prioritized by US aid. The table on Annex VI shows the total amount of US aid from fiscal year 1990 to fiscal year 2013.

The table of Annex VI shows that the trend and pattern of US aid to Nepal since last twenty three years. As shown in Annex VI except some years, the US has provided more than 25 million US \$ as an aid to Nepal every year. The aid inflow has been fluctuating pattern over year by year. The aid provided by US is divided into three categories; grant, loan and technical assistance/cooperation. Technical assistance provided by US plays a foremost role up to 2006, other than the grant assistance increases gradually for economic development of Nepal. After than the amount of grant assistance increases higher than that of technical assistance. When we review year to year aid inflow, the trend and pattern is quite fluctuating up to 2013. From the fiscal year 1990 to 2013, the highest share of US aid inflow is found in FY 2008, which is 77.65 million US \$ and the lest share of US aid found in FY 1991 accounted as 14.00 million US \$.

The table of Annex VI clearly shows that there has been sharp decline in the inflow of aid from 17.00 million US \$ in 1990 to 14.00 million US \$ in 1991, than gradually increase up to 1994 with 20.00 million US \$ then again decreased to 15.00 million US \$ in FY1996. From the FY 2000, it increased from 15.95 million US \$ to 37.80 million US \$ in 2003 and decreased to 35.37 million US \$ in 2004. Furthermore, it has increased from 52.05 million US \$ in 2005 to 61.53 million US \$ in 2006 and decreased to 54.03 million US \$ in 2007. Similarly it has decreased from 77.65 million US \$ in 2008 to 65.89 million US \$ in 2012 than it increases up to 72.34 million US \$ in 2013.

6.4 Analysis of US Aid in Nepal

Analysis and evaluation of impact of foreign aid on the process of economic development of a country is difficult because it consists of short term as well as long term effects, visible and invisible effects. In certain areas i. e. infrastructure, the contribution of foreign aid does not give immediate results. Foreign aid may change socio-economic environment of the country and improvement in health of the public. However, the impact in this case are invisible. Thus we cannot analysis the impact of foreign aid quantitatively.

The ultimate goal of US aid is to reinforce recent gains in peace and security, stabilize the transitional government, strengthen the delivery of essential social services, expand proven health institutions and address the global

challenges of food insecurity and climate change. In other words the ultimate goal of US aid was to develop to the point, where Nepal could meet the needs of its people on a sustainable basis with its own resources. Increasing economic growth and productivity were crucial to this approach, as was the development of human and institutional resources. US has assisted various fields of Nepalese economy.

6.4.1 Agricultural Development

The main objectives of US aid was to increase rural household incomes through sustainable private sector agriculture. More than 70 percent of Nepal's population works in agriculture sector, accounting for 33.7 percent of National GDP. Since 2008 USAID is working in eight flood prone terai districts to increase/uplift agricultural productivity and the living standard of farmers by improving farmer's skill and promoting new technologies. An increasing number of families struggle to produce sufficient food on smaller and more marginal land holding.

Despite many difficulties, there are many opportunities to help an adequate food supply for all Nepalese. Nepal continuously receiving US aid support for scaling up programs that sustainably increase agricultural productivity and facilitate access to markets. US aid also support improved nutrition by increasing the production and consumption of nutritious food products and improving hygiene and access to safe water.

- a) USAID supported over 85,000 smallholder farmers in 26 remote conflict affected districts to adopt improved farming techniques. USAID's work has increased the income of 430,000 rural farmers by over 50 percent.
- b) USAID trained over 49,000 households on improved maize production technologies in 20 remote hill districts. USAID's work resulted in the production of more than 1,000 kg of improved maize seeds covering over 50,000 hectares of land, thereby increasing income and food security for poor, disadvantaged farmers. Similarly USAID supported the government of Nepal in increasing four new drought tolerant maize varieties, which have lowered crop loss and contributed to higher maize yields.
- c) USAID helped flood affected communities to improve productivity and incomes, rehabilitate essential infrastructure such as irrigation and system and bridges and build resilience against future natural disaster. (USAID online database 2015).

Increasing agricultural yield and rural income are critical to achieving economic growth, food security and poverty reduction in Nepal. The sustainable income and rural enterprise was established with the huge assistance of USAID.

Its main objective was to increase rural household income through sustainable private sector agriculture and forestry enterprise.

6.4.2 Health and Family Planning

Nepal has some of the worst health indicators, both regionally and globally. A majority of Nepal's population, especially in remote parts of the nation, still use traditional remedies for any kind of health problems. Maternal and child mortality rates are highest in the world. Average life expectancy is 68 years (World Bank, online database 2013), with half the population comprised of children and adolescents. Fertility rates remain high. Women, on average give birth to four children. Furthermore, while the HIV prevalence rate is believed to be about 0.3 percent in 2011. According to the recent estimates approximately 50,200 people living with HIV and four out of every five infections in Nepal have occurred through sexual transmission.

Largely due to the implementation of evidence based, targeted prevention interventions among key population groups, new infections have significantly decreased in the past five years. However, it is critical to improve coverage in order for HIV/AIDS program to reach the national target of halving new HIV infections by 2015.

USAID efforts to reduce HIV in Nepal began in 1993 and have since contributed extensively to the government of Nepal's national HIV response. USAID's efforts have improved access to sexually transmitted infections management and HIV related prevention, care, support and treatment services in Nepal. Likewise, in the areas of child health, USAID supports the more than 50,000 strong national female community health volunteer program in providing vitamin A supplementation, immunizations, family planning counselling, safe motherhood interventions, community based integrated management of childhood illness, particularly the detection and treatment of pneumonia and diarrhea – the two causes of child deaths in Nepal and community based newborn care package.

- a) USAID supported the government of Nepal in reducing of children under 5 by 54 percent between 1996 and 2011; in the same period Nepal achieved an increase in the use of modern contraceptive methods from 26 percent to 43 percent.
- b) USAID's health program reach 3.6 million children, more than 90 percent of Nepalese children, with lifesaving vitamin A, averting approximately 15,000 deaths among children under the age of 5 annually.

6.4.3 Education

USAID has supported many initiatives to develop and improve the education sectors of Nepal since 1960, USAID program is designed to strengthen government ownership and credibility increase community awareness of and demand for early childhood education development services, and improve the government's ability to monitor and evaluate the national networks of ECED centers. USAID together with other donors is providing direct support to the ministry of education through the ECED program to prepare Nepali children for basic education and build the future workforce of Nepal.

6.4.4 Energy

USAID's earliest involvement in energy sector was with small rural projects. Private rural electrification projects a micro hydro project with ran for 1990 to 1994 was USAID's first experimental exploration in community self-reliance, self-financing and local management of private and community owned electricity system with USAID's funding of 3.9 million. In 2005 USAID provide training for improvement of private sector participation and investment in hydropower, promote structural and regulatory reform in the energy sector, assist in the establishment and private sector development fund and promote government and private sector capacities to assess the environment and social impact of hydropower (<http://un.org.np/usaid>).

As USAID gained experience from small rural energy projects, the program focus shifted to policy/regulatory reform and institution building, and larger projects were supported. The private rural electrification project a micro hydropower project which ran from September 1990 through September 1994, was USAID Nepal's first experimental exploration community self-reliance, self-financing and local management of private and community owned electricity system.

The Private Electricity Project (PEP) ran from October 1995 through August 1998, with \$ 3.16 million of funding by USAID. The purpose of PEP was to promote private investment in and management of the hydropower sector. The project comprised two elements, one focused on expanding the capabilities of the Electricity Development Center (EDC) of ministry of water resources, while the other assisted the Andhikhola hydel and rural electrification project to extend electrification beyond the original project area.

6.4.5 Economic Growth and Trade

Nepal is the poorest country in south Asia and the 17th poorest in the world. About 25.5 percent of Nepalese people living below the poverty line. An

unemployment rate of 42 percent has created a sense of vulnerability and hopelessness in parts of rural areas of Nepal. The aim of USAID in Nepal is to improve the income generating potential of the poorest of poor, expand young people's access to job, increase farmer's income level and food security, help the government of Nepal address macroeconomic and agricultural sector policies, and improve Nepal's business environment for private sector led growth.

USAID is encouraging socially and environmentally sustainable hydropower development in Nepal by creating enabling conditions for policy reform, transparency, good governance and private sector investment.

6.4.6 Democracy, Human Rights and Governance

USAID is acting as one of the shoulder of responsibility to the establishment of representative democracy and restoration of public faith in political institutions. USAID helps communities to participate in development decision making and foster linkage between public peoples and their local government entities. USAID's democracy and governance program also strengthen government response and non-governmental organization services for one of Nepal's most valuable populations, i. e. human trafficking. USAID provided \$ 123,000 for a voter education program, which was undertaken by the non-parties NGO during the national election 1991. Likewise, USAID supports on informal forum that created a space for confidential dialogues, helping political parties to build trust and confidence.

USAID provided support to the ministry of women, children and social welfare in developing key policy documents, such as national minimum standards for victim protection and standard operating procedure for shelter homes for human trafficking survivors. USAID is supporting the conflict ridden communities and tries to mitigate the effect of natural disasters on rural households.

6.4.7 Natural Resource Management

USAID's support for natural resource management has proven to be one of the most long-lasting and successful development assistance programs in Nepal. It promotes accountable, transparent and efforts to reduce adverse impact for hydropower projects. Increasing the technical and managerial capabilities of community forestry and buffer zone user groups for sustainable forest management, assisting water associations to increase the distribution and flow of irrigation water and to improve their fiscal management and collection of user's fees to maintain canal systems.

CHAPTER SEVEN

COMPARATIVE STUDY OF JAPANESE AND US AID TO NEPAL (2002-2013)

7.1 Background

Japan and US are two major donor countries assisting Nepal. Both the countries have been assisting Nepal since 1950s in almost all the major sectors of the Nepalese economy for her effort towards economic development. Japan has been given priority to assist in the areas like transport and storage, Education, Agriculture, forestry and Fishing. Similarly priority sector for US assistance have been the areas like humanitarian sector, Conflict, Peace and Security, health and agriculture, forestry and fishing.

7.2 Trend and Pattern of Japanese and US Aid in Nepal (2002-2013)

Japanese and US aid has been continuously increasing in various sector of Nepalese economy. Annex VII shows year wise disbursement of Japanese and US aid in various sector of Nepalese economy.

Annex VII-1 shows that the priority sectors for the Japanese aid in the initial years were transport and storage, health, education, agriculture, energy etc. Japan has been assisting Nepal continuously in the economic sector of agriculture, transport and storage, energy, education, disaster preparedness etc. from the initial year of the decade. Japan has been assisting Nepal in the development administration, energy, health, education and other sector from the initial years from when Japan give assistance to Nepal. No significant amount has been disbursed in tourism and banking & financial service sectors. Highest amount (66.37 million US \$) of Japanese aid was disbursed in 2010. From the year 2002 to 2013 highest amount of assistance was provided for Transport & storage and Education sector respectively.

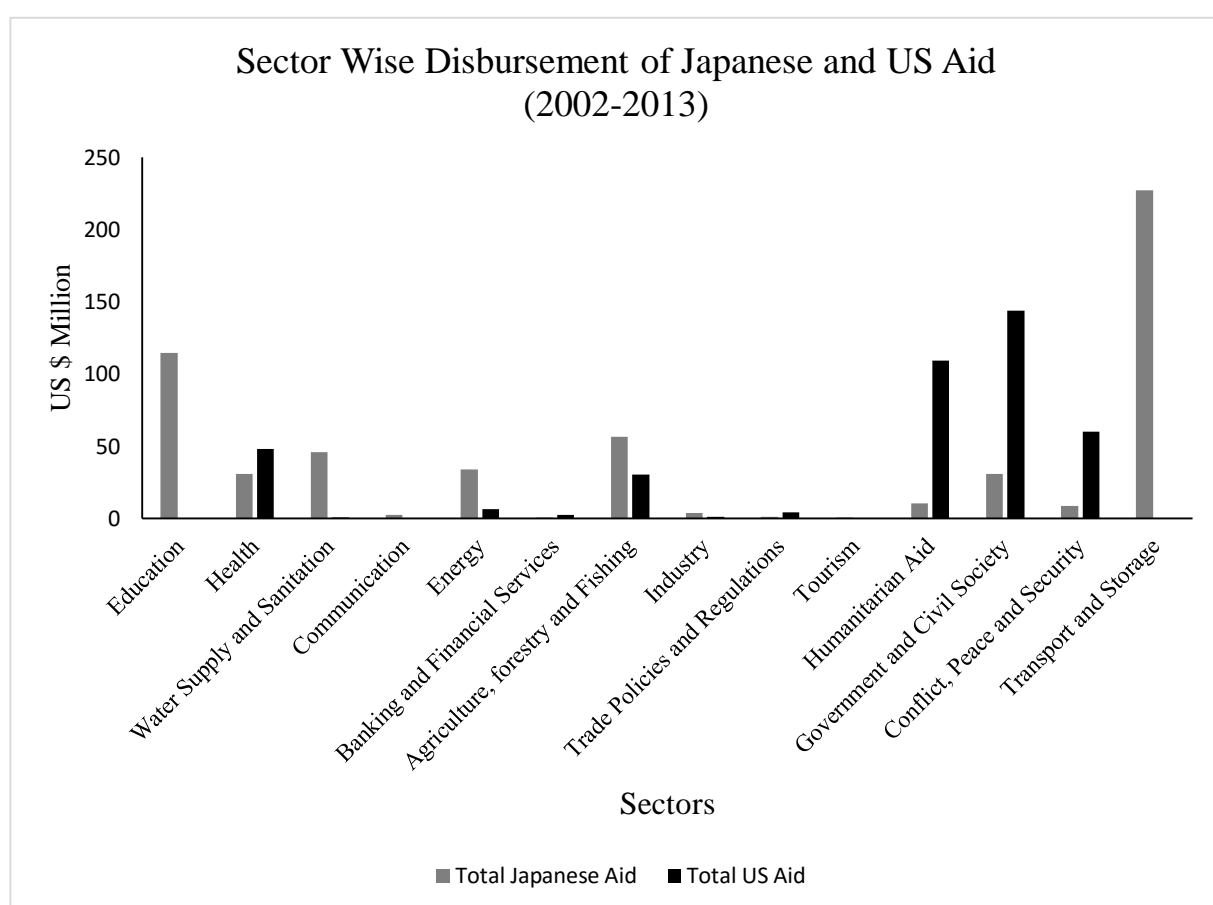
Priority sector for US aid in initial years of the decade were health, energy, humanitarian sector etc. Whereas in later years priority was given to agriculture, health, humanitarian, government and civil society sector etc. US has been assisting Nepal for agriculture, trade policies and regulations, health, transport and storage, conflict, peace and security and government and civil society sector. Throughout the year 2002-2013 aid has been continuously increasing. No US aid has been disbursed in tourism and communication sector from 2002-2013. The Annex VII-2 shows that maximum amount of US aid has been disbursed for Humanitarian relief and then followed by health sector.

7.3 Sector Wise Distribution of Japanese and US Aid (2002-2013)

Over the period of last three decades, the volume of Japanese and US aid to Nepal has increased and it covers almost all the major sectors of Nepalese economy. Major beneficiaries of Japanese and US official development assistance are communication, transport and storage, agriculture, economic development, disaster preparedness, energy etc.

Annex VIII shows the sector wise disbursement of Japanese and US aid in Nepal (2002-2013)

Figure No. 7.3 Sector Wise Distribution of Japanese and US Aid



From the above figure we can see that the Japanese aid disbursement is comparatively higher than that of US. Furthermore there is more fluctuation in the Japanese aid disbursement. It shows the low disbursement to the sector industry and tourism sector and higher in transport and storage and education sector.

7.4 Empirical analysis of Japanese and US Aid

Foreign Aid is said to have effects on economic growth and overall welfare of the economy. Larger amount of Foreign Aid is necessary for the further growth

of the economy. But there is also a question like whether foreign assistance has proved beneficial for Nepal. Has foreign assistance shown positive effects on the economic growth and overall welfare of the country? If the answer to these queries is found positive then to some extent it can be argued that foreign aid has played positive role in the Nepalese Economy and is necessary for the further growth of economy.

This chapter intends to analyze the impact of total Foreign Aid to the total gross domestic product (GDP) of Nepal. As well as we analyze the impact of Japanese and US aid to the GDP. All the data in the analysis are taken from various economic surveys, data reserved in AMP (Aid Management Platform) software in Foreign Aid Coordination Division, of Nepal. All regression lines in this chapter are conducted by using MS-Excel 2013.

Table No. 7.4 Analyzing the Impact of Total Aid inflow on Total GDP

Dependent Variable: Total GDP						
Sample: 1990 to 2013						
R Square:0.8914						
P Value of F Statistics: 2.4285						
	Coefficients	Standard Error	t-Statistics	P-Value	Lower 95%	Upper 95%
Intercepts	-4946.76	2251.21	-2.20	0.04	-9642.70	-250.82
Total ODA	52.94	9.89	5.35	3.08	32.31	73.59
Total Japanese Aid	-32.01	20.31	-1.58	0.13	-74.40	10.36
Total US Aid	-47.87	54.94	-0.87	0.39	-162.47	66.72

Since $R^2 = 0.9037$ implying that only 90.37 percent variation in total GDP is explained by the Variation in total, Japanese and US aid and rest is due to error. t-Static has P value which is quite low at the level of significance; the model is not good statistically insignificant. Since the intercept term is -4946.76 indicates that total GDP is negative when independent variables are zero. The slope of total aid inflow is 9.89 which indicate that there is positive relation between GDP and total aid inflow in GDP implying when total aid inflow increases by 1 unit, GDP increases by 9.89 units. The slope of Japanese aid inflow in Nepal is 20.31 which indicate that there is positive relation between total GDP and Japanese aid implying when 1 unit change in Japanese aid increases total GDP by 20.31 units. Likewise the slope of US aid inflow in Nepal is 54.94 which indicate that there is also positive relation between total GDP and US aid implying that 1 unit change in US aid total GDP increases by 54.94 units.

CHAPTER EIGHT

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8.1 Summary and Major Findings

It is now time to look over the contents covered by this research study, to highlight its basic findings and to reflect the implementation of Nepali's experience on foreign aid especially in terms of Japanese and US aid.

In the developing countries like Nepal, due to the insufficiency of financial capital, the adequate mobilization of international resources could not have been made without foreign aid in order to accelerate the rate of economic development and growth. If the utilization of aid is effective, foreign aid plays a vital role in developing towards the modernization of under developing countries.

Foreign aid has been a dominant feature of the relationship between developed and developing countries since 1960s; aid recipients have been a major source of external finance for the majority of countries in Africa and Asia.

The impact of foreign aid on economic growth remains a subject of considerable debate. Its performance varies across countries due to geographical location, policy environments and socio-economic conditions.

The history of foreign aid is not very old for Nepal. Before Second World War, Nepal was not familiar with the concept of aid, whatever before this period aid is concerned with war and military assistance, it was not for any clear cut purpose of economic development.

The Foreign aid has been and remains an important source of financing the needs of developing countries in their quest for economic progress. This is no different for Nepal. About half of Nepal's development expenditure remains financed by foreign aid. Yet Nepal remains one of the poorest countries of the world with nearly 25 percent of its population living in absolute poverty (CIA, US 2011). However, there has been no comprehensive macroeconomic study of foreign aid effectiveness in Nepal. This thesis aims to fill this gap.

A substantial portion of aid may be used to finance projects with low rates of return, and in some cases, aid promotes consumption rather than investment. In particular, aid can contribute to the increase in a government's recurrent expenditure and reduced revenue effort. In other words, aid can make a government lazy. Critics have also pointed out that aid facilitates corruption.

Furthermore, while bilateral aid is mainly based on a donor's political and commercial motives, multilateral aid is often attached with conditions, which may not necessarily, coincide with the recipient's own preferences or needs. More importantly, aid is only one factor contributing to economic growth; its effectiveness depends on many other factors such as absorptive capacity, quality of institutions, resource endowment and policy environment.

In this study, we compared Japanese and US aid to Nepal. We defined Foreign Aid as any international transfer made on concessional terms for promoting economic development. Nepal is one of the developing countries that heavily rely on external sources of financing for the development. The main focus of our study was to investigate and compare Japanese and US aid to Nepal.

There is fluctuation trend of Japanese and US aid inflow to Nepal in almost all sectors of Nepalese economy since 2002 to 2013. Large amount of Japanese aid was concerned on transport and storage, education, agriculture, forestry and fishing, water supply and sanitation, energy, government and civil society, health, humanitarian support, conflict, peace and security, industry, communication, trade, policy and regulations, tourism and banking and financial services. Where banking and financial service sector got last priority in terms of inflow of Japanese aid to Nepal.

Likewise the quantum of US aid inflow to Nepal is concerned on government and civil society, humanitarian support, conflict, peace and security, water supply and sanitation, agriculture, forestry and fishing, energy, trade policies and regulations, banking and financial services, industry, education and transport and storage. Where communication and tourism sector have no investment by US aid.

Based on our empirical findings we can conclude that the overall contribution of foreign aid in Nepal has been positive. Foreign aid fully financed the development expenditure of the First Five-Year Plan and still contributes over 50 per cent to the development expenditure.

Before 1950 when the country was ruled by the Rana Regime, Nepal did not have any link with the rest of the world except with the then British India and Tibet. The movement of goods and people from one part of the country to another usually required passage through India. Travel time to the capital Kathmandu from some parts of the country could take a minimum of 15 to 30 days. There were a few all-weather roads in Kathmandu only – none in other parts of the country. This lack of infrastructure made it almost impossible for Nepal to expand trade and economic activity. There were no educational institutions in the country except for the Tri-Chandra Campus and Darbar High School in Kathmandu and

some Sanskrit Schools (for the priests). Traditional (herbal and spiritual) medicine provided the only available health service for the majority of the population. Thus, life expectancy at birth was too low, while child mortality rate was very high. The situation has improved markedly since then.

8.2 Conclusions

Developing countries like Nepal are facing deficiency of capital. There exists high resource gap between revenue and expenditure due to deficiency of capital, adequate mobilization of internal resources could not have been made without foreign aid to accelerate the required growth rate of the economic growth and development. Foreign aid to be meant for development of various economic sectors of developing countries if utilized. Foreign Aid is a means from where a self-sustaining required economic growth rate can be achieved. The function of foreign aid is to enable the developing countries to make the transition from economic stagnation to self-sustaining economic growth.

In Nepal foreign aid has definitely brought a significant change in a socio-economic status of Nepalese people. More people have access on education, health and communication from when foreign countries assisted Nepal. The number of schools, hospitals, communications and social services facilities has increased significantly. The road network has also significantly expanded enabling a large number of towns and villages in peripheral areas to expand the local people's economic status as well as social life.

Therefore, foreign aid plays a foremost role in Nepal, has been effective in bringing the desired level of benefits to the people. Among the various projects under foreign aid, few of them are successful to fulfill their indicated aim but in aggregate they has been less effective in bringing effective level of economic growth. Moreover, it has led us to greater aid dependency. While looking at the recent trend of foreign aid in Nepal especially after 1950, one can see that the country's dependency on foreign aid is increasing day by day.

From the early 1950s to till now foreign aid has been assisting Nepal in the field of development activities. Credit goes to foreign aid for the achievement in the field of road, irrigation, education, health, population, family planning, civil aviation, administration and human resources.

US was the first country to assist and Japan is largest donor for Nepal, so they should get the credit for their effort in opening door of assistance. Since 1990 to 2013, amount of Japanese aid disbursed by Nepal is US \$ 1808.63 million and amount of US aid disbursed at same period is US \$ 893.86 million.

Since 1990 the amount of Japanese aid in Nepal has significantly greater than that of US Aid.

Most of aid provided by Japan and US both was in the form of grant assistance as compared loan. As calculated increment of Japanese aid has been comparatively greater than that of US assistance.

Most of assistance provided by Japan was disbursed in transport and storage (227.153 million US \$), Education (114.812million US \$), Agriculture, forestry and Fishing (56.784 million US \$). Likewise most of US aid was disbursed in humanitarian sector (109.101 million US \$), Conflict, Peace and Security (60.263 million US \$), health (48.381) and agriculture, forestry and fishing (30.451 million US \$).

8.2 Recommendations

Although foreign aid did not substantially contribute to the economic development of Nepal, but the importance of foreign aid cannot be denied. The domestic resources mobilization of Nepal is still very low to fulfill the investment requirement. In this respect, new visions and ways of aid utilization have to be thought from both donors and recipient countries. Especially, recipient countries have to revitalize foreign aid resources by considering aid as a 'free lunch'.

However, Nepal's sectoral distribution of aid indicates that more amount of aid has been directed to the building of capital infrastructure across the country rather than to the development of the agricultural sector. Nepal therefore needs to channel more foreign aid to the agricultural sector, and it needs to do so effectively. Aid has a direct impact on the productivity growth of the agricultural sector. Aid brings new technology, which plays a key role in modernizing the sector. Aid can finance improvements as well as the building of new irrigation facilities across the country.

Some weaknesses still can be noted in receiving and utilizing foreign aid to Nepal. On basis of this study, following recommendations are suggested.

- I. According to the need of the country priority list should be made for the proper utilization of foreign aid.
- II. Since most of the Japanese aid disbursed in transport and storage a significant amount should be used for socio-economic upliftment of Nepalese people by providing directly to poor people. i. e. emphasis should be given to economic sector i. e. agricultural sector.
- III. US aid is highly concentrated in some particular sectors. Hence US assistance should be provided to other major sectors as well.

- IV. Both of the countries should provide assistance for new and emerging technologies as information technologies.
- V. Since there is no sufficient utilization of foreign aid. So, developing transparency and dedication should be maintained.
- VI. In order to enhance the foreign aid utilization without loss of time a substantial amount of foreign aid should be channeled towards the activities contributing to the increase in production. i. e. by providing assistance to farmers, entrepreneurs etc.
- VII. Aid should be used to finance to projects that promote the base to further production rather than in immediate consumption.

Annex I

Foreign aid inflow in Nepal

In NRs. Million

FY	Total Aid Inflow	Grants	% of Grants in TA	Loan	% of Loan in TA
1990/91	5990.0	1630.0	27.21	4360.0	72.79
1991/92	7800.4	1531.0	19.63	6269.4	80.37
1992/93	9235.6	3273.9	35.45	5961.7	64.55
1993/94	11557.2	2393.6	20.71	9163.6	79.29
1994/95	11249.4	3937.1	35.00	7312.3	65.00
1995/96	14289.0	4825.1	33.77	9463.9	66.23
1996/97	15031.9	5988.3	39.84	9043.6	60.16
1997/98	16457.1	5402.6	32.83	11054.5	67.17
1998/99	16189.0	4336.6	26.79	11852.4	73.21
1999/2000	17523.9	5711.7	32.59	11812.2	67.41
2000/01	18797.4	6753.4	35.93	12044.0	64.07
2001/02	14384.8	6686.2	46.48	7698.6	53.52
2002/03	15885.5	11339.1	71.38	4546.4	28.62
2003/04	18912.4	11283.4	59.66	7629.0	40.34
2004/05	23657.3	14391.2	60.83	9266.1	39.17
2005/06	22041.8	13827.5	62.73	8214.3	37.27
2006/07	25854.4	15800.9	61.11	10053.5	38.89
2007/08	29300.6	20320.7	69.35	8979.9	30.65
2008/09	36351.7	26382.8	72.58	9968.9	27.42
2009/10	49769.4	38546.0	77.45	11223.4	22.55
2010/11	57997.8	45922.2	79.18	12075.6	20.82
2011/12	51893.4	40810.3	78.64	11083.1	21.63
2012/13	47199.2	35229.8	74.64	11969.4	25.36
2013/14	60204.6	42205.8	70.11	17998.8	29.89
Total	597573.8	368529.2	61.67	229044.6	38.83
Average	24898.9	15355.4		9543.53	

Source: Economic Survey, 2011/12 20012/13 and 2014/15, MoF, Nepal

Annex II

Resource Gap Problem and Contribution of Foreign Aid in Nepal

In NRs. Million

FY	Total Expenditure	Total Revenue	Resource Gap	Internal Source		Foreign Aid			Contribution of FA in TE as %
				Revenue	Internal Loan	Grant	Loan	Sum Total	
1990/91	23549.8	12894.7	10655.1	10709.9	4552.7	2164.8	6256.7	8421.5	35.76
1991/92	26418.2	15156.5	11261.7	13512.7	20788.8	1643.8	6816.9	8460.7	32.03
1992/93	30897.7	18941.7	11956.0	15148.4	1620.0	3793.3	6920.9	10714.2	34.68
1993/94	33597.4	21974.4	11623.0	19580.8	1820.0	2393.6	9163.6	11557.2	34.40
1994/95	29060.0	28512.3	10547.7	24575.2	1900.0	3937.1	7312.3	11249.4	28.80
1995/96	46542.4	32718.2	13824.2	27893.1	2200.0	4825.1	9463.9	14289	30.70
1996/97	50723.7	36361.8	14361.9	30373.5	3000.0	5988.3	9043.6	15031.9	29.63
1997/98	56118.3	38340.5	17777.8	32937.9	3400.0	5402.6	11054.5	16457.1	32.84
1998/99	59579.0	41587.6	17991.4	37251.0	4710.0	4336.6	11852.4	16189	27.17
1999/2000	66272.5	48605.5	14667.0	42893.8	5500.0	5711.7	11812.2	17523.9	26.44
2000/01	79835.1	55640.7	24188.1	48893.6	7000.0	6753.4	12044.0	18797.4	23.55
2001/02	80072.2	57131.6	22940.6	50445.5	8000.0	6686.1	7698.7	14384.8	17.96
2002/03	84006.1	67568.9	16437.2	56229.8	8880.0	11339.1	4546.4	15885.5	18.90
2003/04	89442.6	73614.4	15828.2	62301.0	5607.8	11283.4	7629.0	18912.4	21.44
2004/05	102560.4	84513.9	18046.5	70122.7	8938.1	14391.2	9266.1	23657.3	23.07
2005/06	110889.2	86109.6	24779.6	72282.1	11834.2	13827.5	8214.3	22041.8	19.88
2006/07	133604.6	103512.9	33091.7	87712.1	17892.3	15800.8	10053.5	25854.3	19.35

2007/08	161349.9	127943.2	33406.7	107622.5	20496.4	20320.7	8979.9	29300.6	18.16
2008/09	219662.0	169857.3	49804.7	143474.5	18417.1	26382.8	9968.9	36351.7	16.55
2009/10	259689.1	218491.7	41197.4	177991.8	29914.0	38545.9	11223.4	49769.3	19.16
2010/11	295363.4	245741.2	49622.2	198376.3	42515.8	45922.2	12075.6	57997.8	19.64
2011/12	339167.0	287984.0	51183.0	244374.1	36419.0	40810.3	11083.1	51893.4	15.30
2012/13	358638.0	333927.0	24711.0	296021.2	19043.0	35229.8	11969.4	47199.2	13.16
2013/14	370226.5	356620.8	13605.7	356620.8	12927.9	42205.8	17998.8	60204.6	16.26
Total	3107265.1	2563750.4	553508.4	2227344.3	297377.1	369695.9	232448.1	602144.0	--

Source: Economic Survey, 2011/12, 2012/13 and 2014/15, MoF, Nepal

Annex III

Foreign Aid Commitment and Disbursement

In NRs. Million

FY	Aid Commitment	Aid Disbursement	Disbursement as % of Commitment
1990/91	5665.4	5990.0	105.72
1991/92	21054.1	7800.4	36.99
1992/93	20524.1	9235.6	44.99
1993/94	13172.2	11557.2	87.73
1994/95	12876.9	11249.4	87.36
1995/96	16537.3	14289.0	86.40
1996/97	39643.0	15031.9	37.92
1997/98	32022.1	16457.1	51.39
1998/99	18352.5	16189.0	88.21
1999/2000	20448.0	17523.9	85.69
2000/01	31287.0	18797.4	60.08
2001/02	33227.7	14384.8	43.29
2002/03	43202.7	15885.5	36.77
2003/04	23738.0	18912.4	79.67
2004/05	38152.3	23657.3	62.01
2005/06	20924.2	22041.8	105.34
2006/07	37022.9	25854.4	69.83
2007/08	49186.2	29300.6	59.57
2008/09	47975.2	36351.7	75.77
2009/10	96609.0	49769.4	51.51
2010/11	106096.7	57997.8	54.66
2011/12	98178.7	51893.4	52.86
2012/13	115156.8	47199.2	40.98
2013/14	133445.0	60204.6	45.12
Total	1074498.0	597573.8	(Average) 55.61

Source: Economic Survey, 2011/12, 2012/13 and 2014/15, MoF, Nepal

Annex IV

Foreign Aid Disbursement by Sectors

In NRs. Million

FY	Total Aid	Agri.,Irri. And Forestry	T. P. and C.	Industry and Commerce	Social Sector	Others
1990/91	5990.0	1253.2	2575.6	1390.9	667.9	102.4
1991/92	7800.4	1945.4	2485.1	2174.3	1191.6	4.0
1992/93	9235.6	1927.4	3939.6	696.9	2667.6	4.1
1993/94	11557.2	5519.1	4169.4	389.9	1468.6	10.2
1994/95	11249.4	3462.4	4574.9	480.3	2680.1	51.7
1995/96	14289.0	3399.6	8052.7	15.9	2636.2	184.6
1996/97	15031.9	2827.5	8504.5	23.4	3665.0	11.5
1997/98	16457.1	2852.1	8989.6	198.1	4417.3	0
1998/99	16189.0	3383.9	7892.2	404.7	4446.4	61.8
1999/2000	17523.9	3209.8	8159.3	298.5	5794.0	62.3
2000/01	18797.4	3774.8	9235.1	19.9	5759.5	8.1
2001/02	14384.8	3285.8	5905.7	368.7	4685.8	138.8
2002/03	15885.5	2177.9	7774.1	401.2	5321.0	211.3
2003/04	18912.4	2429.6	7570.8	146.8	8730.1	35.1
2004/05	23657.3	2595.7	9860.0	123.9	10746.8	330.9
2005/06	22041.8	2396.3	7142.5	105.3	11162.2	1235.5
2006/07	25854.4	3721.5	6661.9	116.8	15181.0	173.2

2007/08	29300.6	3859.2	6709.5	78.7	18193.1	460.1
2008/09	36351.7	2291.2	6297.7	160.7	24695.7	2906.4
2009/10	49769.4	3080.9	11793.2	380.0	33025.3	1490.0
2010/11	57997.8	2941.7	14832.3	-	36402.8	3821.0
2011/12	51893.4	3545.4	12313.4	3206.9	26017.8	6809.9
2012/13	47199.2	3472.0	11537.9	4536.1	24491.1	3162.1
2013/14	60204.6	6371.3	16687.3	4345.8	22989.5	9810.7
Total	597573.8	75723.7	193664.3	20063.7	277036.4	31085.7

Source: Economic Survey, 2011/12, 2012/13 and 2014/15, MoF, Nepal

Agri = Agriculture

Irr. = Irrigation

T. = Transport

P. = Power

C. = Communication

Annex V

Trend and Pattern of Japanese Aid Inflow in Nepal

In US \$ million

FY	Total GDP	Total ODA	Japanese Aid Inflow		
			Grant	loan	Total
1990	3627.56	238.97	47.13	8.04	55.17
1991	3921.48	290.68	59.85	67.69	127.55
1992	3401.21	275.68	77.16	29.51	106.67
1993	3660.04	246.84	103.39	7.50	110.89
1994	4066.78	269.92	115.14	3.61	118.75
1995	4401.10	266.87	124.80	2.80	127.60
1996	4521.58	237.30	94.57	-5.78	88.79
1997	4918.69	234.48	82.10	4.04	86.15
1998	4856.26	216.27	57.29	-0.40	56.88
1999	5033.64	210.27	64.50	1.09	65.59
2000	5494.25	233.58	72.19	27.74	99.93
2001	6007.06	271.88	69.28	15.10	84.39
2002	6050.88	281.54	100.88	-3.43	97.45
2003	6330.48	321.92	56.79	3.82	60.61
2004	7273.93	320.18	56.13	0.30	56.43
2005	8130.26	347.28	93.53	-30.15	63.28
2006	9043.72	335.61	72.70	-31.04	41.66
2007	10325.62	385.61	64.26	-15.62	48.64
2008	12545.44	436.14	154.96	-121.03	33.93
2009	12854.99	504.88	54.82	-9.54	45.28
2010	16002.66	475.88	91.25	-10.04	81.21
2011	18913.57	489.72	74.71	-11.24	63.47
2012	18851.51	521.06	58.83	-11.29	47.54
2013	19244.25	498.93	48.84	-8.07	40.77
Total	199476.96	7911.49	1895.1	-86.39	1808.63

Source: White book, (2000-2014) MoFA Japan (Online database),

OECD, Paris, 2016 (Online Database)

World Bank, 2016 (Online Database).

Note: Negative number for ODA loan represent debt relief.

Annex VI

Trend and Pattern of US Aid Inflow in Nepal

In US \$ million

FY	Total GDP	Total ODA	US Aid Inflow			
			Grant	Loan	Technical Aid	Total
1990	3627.56	238.97	2.00	-	15.00	17.00
1991	3921.48	290.68	2.00	-	12.00	14.00
1992	3401.21	275.68	4.00	-	14.00	18.00
1993	3660.04	246.84	4.00	-	16.00	20.00
1994	4066.78	269.92	2.00	-	18.00	20.00
1995	4401.10	266.87	-	-	19.00	19.00
1996	4521.58	237.30	1.00	-	14.00	15.00
1997	4918.69	234.48	-	-	21.00	21.00
1998	4856.26	216.27	0.02	-0.02	16.91	16.91
1999	5033.64	210.27	0.16	0.01	16.49	16.65
2000	5494.25	233.58	0.01	-0.01	15.96	15.95
2001	6007.06	271.88	2.09	-0.01	18.15	20.23
2002	6050.88	281.54	5.60	-0.01	27.01	32.60
2003	6330.48	321.92	4.69	-0.02	33.13	37.80
2004	7273.93	320.18	3.60	-0.01	31.78	35.37
2005	8130.26	347.28	6.53	-0.02	45.54	52.05
2006	9043.72	335.61	9.06	-0.01	52.48	61.53
2007	10325.62	385.61	52.96	-	1.07	54.03
2008	12545.44	436.14	76.58	-	1.07	77.65
2009	12854.99	504.88	72.42	-	1.08	73.50
2010	16002.66	475.88	50.53	-	1.38	51.91
2011	18913.57	489.72	63.98	-	1.47	65.45
2012	18851.51	521.06	63.93	-	1.96	65.89
2013	19244.25	498.93	68.79	-	3.55	72.34
Total	199476.96	7911.49	495.95	-0.1	398.03	893.86

Source: OECD, Paris, 2016 (Online Database)

World Bank, 2016 (Online Database)

Note: Negative number for ODA loan represent debt relief.

Annex VII

Trend of Japanese and US Aid in Nepal (2002-2013)

In US \$ million

Sectors	Year Wise Japanese Aid Disbursement												Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Education	6.366	5.688	13.137	9.633	13.683	5.409	6.610	16.520	9.491	6.844	17.185	4.244	114.812
Health	7.468	3.857	3.154	1.879	0.661	2.867	2.138	1.823	0.901	2.549	2.251	1.238	30.786
Water Supply and Sanitation	3.522	11.900	5.832	2.462	5.609	6.649	0.342	0.453	1.319	1.199	3.083	3.619	45.989
Communication	-	0.358	0.312	0.664	0.232	0.110	0.060	0.175	0.141	0.167	0.129	0.108	2.456
Energy	-	0.994	3.575	7.759	1.180	1.150	5.951	2.312	7.919	0.344	1.035	1.751	33.97
Banking and Financial Services	-	0.058	0.041	0.040	0.175	0.102	0.036	0.048	0.073	0.020	0.018	0.010	0.621
Agriculture, forestry and Fishing	12.276	3.654	8.645	5.545	1.635	3.911	2.259	3.315	2.726	3.117	6.711	2.990	56.784
Industry	-	0.664	0.524	0.319	0.276	0.240	0.347	0.449	0.556	0.244	0.203	0.085	3.907
Trade Policies and Regulations	-	0.055	0.001	0.059	-	0.030	0.067	0.039	0.046	0.666	0.0889	0.017	1.069
Tourism	-	0.108	0.154	0.207	0.090	0.034	-	-	0.025	0.060	0.023	-	0.701
Humanitarian Aid	-	-	-	-	1.917	2.000	1.739	1.927	0.826	1.164	1.0333	0.065	10.671
Government and Civil Society	-	0.7000	0.623	0.336	0.342	12.731	0.874	1.395	2.351	2.780	4.033	4.868	31.033
Conflict, Peace and Security	-	-	-	-	-	2.804	-	0.331	1.228	1.054	2.242	1.253	8.912
Transport and Storage	24.513	18.196	11.927	11.185	9.323	9.344	13.670	15.094	38.768	37.347	13.445	24.341	227.153
Total	54.145	46.232	47.925	40.088	35.123	47.381	34.093	43.881	66.37	57.555	51.480	44.589	568.832

Source: OECD, Paris 2016 (Online Database)

Table: VII-1

In US \$ million

Sectors	Year Wise US Aid Disbursement												Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
Education	-	-	-	-	-	-	-	-	-	-	-	0.434	0.434
Health	2.525	7.581	2.497	3.507	0.307	3.185	3.100	2.534	4.927	2.274	3.556	12.388	48.381
Water Supply and Sanitation	0.003	-	-	-	-	-	-	-	-	0.116	0.168	0.495	0.782
Communication	-	-	-	-	-	-	-	-	-	-	-	-	0
Energy	1.302	1.777	1.679	-	-	-	-	1.549	0.237	0.237	-	0.002	6.783
Banking and Financial Services	-	-	-	0.116	0.008	-	-	-	-	2.295	0.025	0.016	2.46
Agriculture, forestry and Fishing	-	-	1.847	1.451	2.933	0.504	2.199	1.409	0.316	3.514	12.349	3.929	30.451
Industry	-	0.992	-	0.156	0.06	-	-	-	-	-	-	-	1.208
Trade Policies and Regulations	-	-	-	-	-	-	-	0.006	0.045	1.059	1.568	1.479	4.157
Tourism	-	-	-	-	-	-	-	-	-	-	-	-	0
Humanitarian Aid	2.760	1.685	3.590	4.226	4.427	11.396	26.203	21.986	5.123	16.796	8.110	2.799	109.101
Government and Civil Society	0.425	2.216	2.666	6.530	10.821	16.263	25.862	19.482	16.783	15.698	9.926	17.028	143.7
Conflict, Peace and Security	0.295	0.012	2.627	0.027	2.093	9.312	11.188	10.837	12.748	5.153	0.602	5.369	60.263
Transport and Storage	-	-	-	-	-	0.003	0.301	0.014	0.035	0.064	0.002	0.005	0.424
Total	7.31	14.263	14.906	16.013	20.649	40.663	68.853	57.817	40.214	47.206	36.306	43.944	408.144

Source: OECD, Paris 2016 (Online Database)

Table: VII-2

Annex VIII

Sector Wise Disbursement of Japanese and US Aid (2002-2013)

In US \$ million

Sectors	Total Japanese Aid	Total US Aid
Education	114.812	0.434
Health	30.786	48.381
Water Supply and Sanitation	45.989	0.782
Communication	2.456	0
Energy	33.97	6.783
Banking and Financial Services	0.621	2.46
Agriculture, forestry and Fishing	56.784	30.451
Industry	3.907	1.208
Trade Policies and Regulations	1.069	4.157
Tourism	0.701	0
Humanitarian Aid	10.671	109.101
Government and Civil Society	31.033	143.7
Conflict, Peace and Security	8.912	60.263
Transport and Storage	227.153	0.424

Source: Annex VII (Table: VII-1 and Table: VII-2)

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